

WHY DO WE PAY TAX? IS IT BECAUSE WE ARE GOOD CITIZENS?
HOW TAX FITS WITH MODERN CONCEPTUALISATIONS OF CITIZENSHIP

by

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Abstract

Why *do* we pay tax? If an individual is acting in self-interest, it makes sense to avoid, or evade, as much tax as possible.

Rather than exploring why people do not pay tax, this research looks at the reasons why people *do* pay tax, and asks whether a socio-contractual rights and responsibilities model of citizenship can help explain the tax compliance decision. Through qualitative interviews with the very wealthy, as well as focus group data, this research finds that people do accept an obligation to pay tax as part of the contribution condition of citizenship, but that paying tax is not an essential part of being a good citizen. What is crucial is making a contribution either evidenced by tax, or by alternative means.

Participants did not feel low earners were necessarily not fulfilling their civic duties, although it was important that they were not making a negative contribution.

Attitudes towards tax avoidance and tax evasion were also explored. When presented with 'real-life' scenarios, most people were more forgiving of some evasion, dependent on the evader's personal circumstances. Evading tax did not necessarily affect that person's 'good citizen' status, reinforcing the idea that paying tax, while an element of citizenship, is not definitive.

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Chapter 1: Introduction

In the UK, the gap between rich and poor is wide. In 2015 the OECD report on income inequality found that, when examining its 34 member states, on average the richest 10% of the population earned 9.6 times the income of the poorest 10%. In the UK, this figure was over ten times (Keeley, 2015). While the UK was not highest on the scale, that dubious honour going to Chile, it was the 6th most unequal OECD nation in terms of income inequality. Wealth inequality in the UK is even higher, where the top 10% own around 47% of all net wealth, while the top 10% of income earners collect a mere 28% of income (Keeley, 2015). Even the financial crisis has not dented this inequality, and has actually exacerbated the problem. While net wealth decreased on average, following the 2007 crash, those in the top percentiles of wealth have actually seen a net increase in wealth (Keeley, 2015).

However, for the purposes of this research, why does such a disparity matter in terms of tax? In recent years HM Revenue and Customs (HMRC) has been drawing a sharper and sharper focus on tax avoidance and tax evasion. At the same time, the department has sought to work smarter, targeting those with the greatest to gain, or the largest potential loss to the Treasury, by establishing dedicated High Net Worth units and targeted amnesties and disclosure facilities aimed at recovering as much of the identified 'tax gap' as possible (National Audit Office, 2016).

HMRC defines the tax gap as "the difference between the amount of tax that should, in theory, be collected by HMRC, against what is actually collected" (HMRC 2016a, p.5). Latest figures estimate the current UK tax gap at 6.5% of liabilities, which equates to £36 billion (HMRC,

2016a). The figures suggest that there has been an overall downward trend from 8.3% in 2005/06 to 6.5% in 2014/15, and has reduced from 6.9% of liabilities in 2013/14 (HMRC, 2016a)

However, HMRC also clarifies that the calculated “tax gap covers a range of behaviours which include: the tax that is lost through non-payment, use of avoidance schemes, interpretation of the tax effects of complex transactions, error, failure to take reasonable care, evasion, the hidden economy and criminal attack on the tax system” (HMRC 2016a, p.11). From 2013/14 figures, HMRC estimates that 14% of the tax gap is attributable to tax evasion, 6% to tax avoidance and 15% to legal interpretation (HMRC, 2016a). These latter two terms are further defined as:

Avoidance is exploiting the tax rules to gain a tax advantage that Parliament never intended. It often involves contrived, artificial transactions that serve little or no commercial purpose other than to produce a tax advantage. It involves operating within the letter but not the spirit of the law...

Tax avoidance is not the same as tax planning. Tax planning involves using tax reliefs for the purpose for which they were intended. For example, claiming tax relief on capital investment, saving in a tax-exempt ISA or saving for retirement by making contributions to a pension scheme are all forms of tax planning.

Legal interpretation losses arise where the customer’s and HMRC’s interpretation of the law and how it applies to the facts in a particular case, result in a different tax outcome. Examples include the correct categorisation of an asset for allowances, the

allocation of profits within a group of companies, or VAT liability of a particular supply.
(HMRC 2016a, p. 20)

Given that avoidance is the smallest identified percentage of the tax gap, why then is HMRC prioritising work in this area? Quite simply, the wide wealth gap means that, at the top of the scale, there are relatively few individuals whose tax avoidance activity can actually represent a large proportion of overall tax take.

The National Audit Office (NAO) produced a report in 2016 looking at HMRC's approach to collecting tax from high net worth individuals, and found that "assessing the correct amount of tax owed by high net worth individuals is a challenge for all tax authorities. The tax affairs of the wealthiest in society are complex, making it harder for tax authorities to ensure that they are paying the right amount of tax" (National Audit Office 2016, p.10).

The NAO also found that the amount of tax at stake, when looking at the affairs of these individuals, is "significant" (National Audit Office 2016, p.7). The report calculates that in 2014-15, high net worth individuals paid more than £4.3 billion in tax, including £3.5 billion in income tax and national insurance, which was 1.3% of the total revenue for those taxes. This group also paid £880 million in capital gains tax, which accounted for 15% of all capital gains tax in that year (National Audit Office 2016, p.7). Given that HMRC defined high net worth individuals for the purposes of this report as those with wealth over £20m, this equates to an impressive amount of tax being paid by just 6,500 people.

These 6,500 people are described as "the very wealthiest people in the UK, and account for roughly 0.02% of all taxpayers" (National Audit Office 2016, p.7) and in 2015/16 HMRC

recorded increased tax take of £416 million from the work of the High Net Worth Unit (National Audit Office 2016, p.9). HMRC have now extended the remit of the High Net Worth Unit to include those with wealth over £10m, such that there are now approximately 9,500 individuals under HMRC's special care.

HMRC told the National Audit Office that "the risks from high net worth individuals are primarily due to tax avoidance and the way tax law is interpreted" (National Audit Office 2016, p.17). As well as tax avoidance, therefore, HMRC are also targeting legal interpretation elements of the tax gap by focussing on this group of taxpayers, such cases often arise "on how the law applies to a specific, and often complex, transaction. High net worth individuals will typically have taken professional advice before entering into these transactions (National Audit Office 2016, p.17).

Given HMRC's focus on such a small group of people, far less than 1% of the taxpaying population, research that could target these people and ask them about their understanding and experience of issues around tax avoidance would, presumably, be very valuable. This would further tie in with HMRC's policy objectives of targeting the very wealthy, given the greater scope for large returns in terms of tax.

Additionally, research that sought to understand the reasons for tax compliance, as opposed to tax avoidance (or evasion), the benefits of which seem evident, would add further to the discussion. HMRC has already used behavioural information in drafting communications with taxpayers, and the insights sought by this research could also impact on this policy going forwards.

While HMRC's approach towards tax avoidance might have been predicted, the prominence to which citizenship has now risen could not have been predicted. At the time of writing a new Prime Minister, rising from the ashes of an unexpected Brexit result, has headed a Conservative Party conference that has been received as so far right that the Home Secretary's speech has been likened to Hitler's *Mein Kampf* (The Independent, 2016a). Businesses are to be required to detail all non-UK staff, with claims this will 'name and shame' those who do not employ what is perceived to be 'enough' British workers (The Independent, 2016b). Being British has never, in recent times, been more important.

The political mood in the UK is currently unsettled. In-fighting in the Labour party offers an unenticing opposition to the Tory incumbents and the fall-out from the June 2016 EU referendum has been harsh and far-reaching. Given the closeness of the result (48%:52% Remain:Leave) it was inevitable that many in the UK would be feeling some dissonance with their own country, and with their fellow countrymen, while simultaneously being encouraged to form a tighter national community group charged with explicitly excluding those who are not British. Even within the golden circle of Britishness, however, there is still discord. Scottish people voted overwhelmingly to remain in the EU, with Scottish MEP Alyn Davis receiving a standing ovation in the EU Parliament after pleading with his European counterparts not to let Scotland down following the UK result (Reuters, 2016).

The Brexit campaign was led by the far right, with the likes of Nigel Farage and his UKIP party capitalising on a growing sense of dissociation within the UK. The campaign became an 'us and them' contest, with leave voters cast as those wanting to preserve the benefits of living in the

UK for UK people; the leave camp promised that £350m in EU subsidy money would be redirected into the NHS, a claim subsequently disowned as “a mistake” (Morgan, 2016).

However, ill-advised promises aside, the result of the EU referendum was a symptom of a growing far-right leaning to the world. Donald Trump, who promises to ban Muslims from the USA is the Republican presidential candidate, leaving many Americans feeling they face Hobson’s choice between a racist bigot and Hillary Clinton. In Europe, Marine le Pen’s National Front is still gaining ground in France and parties like *Alternative for Germany* and the Dutch *Party for Freedom* are gaining up to a reported 25% of the vote (The New York Times, 2016). EU officials are described as nervous that the UK Brexit vote will trigger similar requests to leave the political alliance from other countries.

Why are people becoming more insular and exclusive? The whole point of the EU is to allow freedom across borders within the EU area. However, while we are perhaps content to take advantage of free trade, the migrant crisis coupled with enforced EU freedom of movement, as well as some horrific acts of terrorism, particularly in France and Belgium, have caused a paradigm shift in the way in which we interact with other people. Racist attacks on UK soil, against those perceived as immigrants, were widely reported in the immediate aftermath of the Brexit vote, and while initially non-committal, it seems the current thinking from within the Tory leadership is leaning towards ‘hard Brexit’, with fully-controlled migration a key issue.

Recently appointed Home Secretary Amber Rudd MP does not want to be called a racist following her inaugural speech in that role to the Conservative Party Conference in Birmingham during October 2016 (The Independent, 2016b). Nevertheless, her speech was

clear in its intent - British people are the priority and 'others' must not interfere with this superiority:

"However we still need to do more ... so all British people get the opportunities they need to get on in life."

"... ensure people coming here are filling gaps in the labour market, not taking jobs British people could do."

"... allowing some firms to get away with not training local people. We won't win in the world if we don't do more to upskill our own workforce."

"... I want us to look again at whether our immigration system provides the right incentives for businesses to invest in British workers."¹

This means that citizenship is an even more important concept than ever. While formal British citizenship might offer some protection from what some suggest will constitute a second-class of 'foreign' person in the UK, for many people substantive citizenship, that is, acting as a citizen should, rather than just owning the label, is at least equally important. Is everyone who holds a British passport the same citizen? Does no one without a British passport contribute as a citizen?

The concept of contribution is where tax comes in and tax compliance, or more specifically tax avoidance, has also gained far greater prominence in recent years. Triggered by the financial crisis, between broadly 2007 and 2011, the idea of a social obligation through taxation and contribution became more important as people saw, and experienced first-hand, the financial consequences of people not taking their financial responsibilities seriously. Big businesses were specifically targeted for investigation by the Public Accounts Committee, with the worst offenders named and shamed. Corporate Social Responsibility became increasingly popular,

¹ Amber Rudd's speech is reproduced in full at <http://blogs.spectator.co.uk/2016/10/full-text-amber-rudds-conference-speech/>

as companies like Amazon and Starbucks realised that public perception (and the avoidance of boycotts) was important to their UK operations. The UK was not isolated in this issue, and similar stories of national tax administrations chasing companies for 'lost' profits can be found in a number of multi-national jurisdictions.

However, while Corporate Social Responsibility is one issue, individual responsibility is perhaps more relevant to people's individual experiences. In addition to reports of high profile MPs and businessmen 'salting' money away offshore, a number of household celebrities was caught up in 'dodgy' tax avoidance schemes, triggering newspaper headlines lamenting the lack of morals shown by these individuals. In tax law, greater emphasis has been placed on not only catching tax 'dodgers', but also in changing historic concepts in order to minimise opportunities for avoidance.

However, is tax a moral or a legal issue or is it part of something else entirely? This research aims to explore how the payment of tax by individual citizens is considered - and whether the social obligation and exchange premise conceptualised in modern understandings of social citizenship could help in understanding the tax compliance decision. However, and as discussed in Chapter Three, it is important to understand that liability to UK taxation does not depend on citizenship, and given the changing political environment, this is likely to have increasing significance over time.

This chapter will outline the specific areas of research being considered, and how the research questions were formulated, before detailing the contents of each chapter. The aims of the research are also discussed.

Note that the citizenship agenda has changed rapidly, even over the course of 2016, and while immigration is now one of the most important elements in UK politics, the data collected as part of this research study were gathered before the UK Brexit vote on June 23, and the responses should be viewed in that context.

1.1 Research Questions

Given the socio-political backdrop to this research, and focussing on individual, rather than corporate taxation obligations, the following research questions were developed to try to explore the interaction between the obligations of paying tax and those of citizenship.

Research question one (RQ1) asks whether there is a **social obligation associated with taxation**. In simple terms, aside from its legality, is the paying of tax a socially understood requirement within the context of the rights and responsibilities of social citizenship? Specifically, research question one will explore whether the obligation is purely social - whether tax is an obligation to society as a whole, for 'the greater good', with no anticipation of equivalent personal benefit, or whether tax is paid purely as an exchange to allow access to and enjoyment of public services. Finally, research question one asks whether the obligation to pay taxes is perceived to fall more heavily on different types of citizen, if there are such different classes and how these might be defined, as well as how citizens feel about this concept. It is also looking at whether this perception changes depending on whether the citizens in question are those expected to pay the most or those paying more than others.

Research question two (RQ2) looks more specifically at the obligations of citizenship and asks whether **citizenship can be implied by tax activity**. Starting with the traditional idea that tax

is a necessary part of a citizen's obligation, research question two explores whether payment of tax, specifically income taxes, is necessary to satisfy the obligations of citizenship.

Taking this concept a step further, research question two also asks whether those who do not pay income taxes are classed as lesser or somehow 'different' citizens, and whether this depends on their level of income or personal circumstances. Those who choose not to pay tax are examined more closely in research question three.

Research question three (RQ3) seeks to combine the ideas in RQ1 and RQ2 by wondering, if payment of tax is necessary, or one of the required elements of contribution, to satisfy the obligations of citizenship, whether there can be **acceptable levels of tax avoidance/ tax evasion behaviour**.

As part of this question, the concept of a 'full obligation' is explored, seeking to establish whether those who choose to avoid tax are not meeting their 'full obligation', and if so, whether this affects their class or status of citizen compared with those who do not take such actions. Furthermore, can a 'full obligation' be quantified in terms of tax paid, and after that point, is tax avoidance behaviour considered differently by citizens?

Finally, this research question wonders whether there are circumstances in which tax avoidance, and tax evasion, may be considered socially acceptable.

1.2 Outline of the thesis

Chapter Two looks at how we structure tax systems, before looking at how we define tax compliance, and tax avoidance, in its current myriad forms, with a specific UK focus. Rather

than focussing on the reasons why people do not pay tax - as economic theory proves there must be some reason other than pure reason for the decision - this chapter explores in greater depth the multiple and interdependent factors that might influence an individual's tax compliance decision. This discussion forms an important part of the theoretical framework for this research, identifying a need for further research to explore alternative paradigms, and introduces the more interdisciplinary elements discussed in the subsequent two chapters.

Chapter Three follows on from Chapter Two by focussing on the academic literature on civic duty and the role this may have to play in a tax compliance decision. Looking back on citizenship theory through history, and following the thread on financial contribution through the ages, this chapter explores the definition of social citizenship, first formalised in the middle of the twentieth century. Of course, citizenship theory has not remained static since then, and this chapter then goes on to explore critical appraisal of citizenship theory over the last 60 years, how definitions have changed, and been refined, and looks at the limited empirical work that has been done in this area. The chapter finishes by wondering, if payment of tax is a required element of being a citizen, what effect this has on the citizen status of non-taxpayers.

Chapter Three then considers the apparent anomaly that, while the literature has posited tax payment as an important, or even essential part of being a UK citizen, it is perfectly possible to be either a UK citizen and have no liability to UK tax, or not be a UK citizen and be liable for considerable UK taxes. This chapter therefore examines the basis of UK taxation and explores the components of the statutory residence test which is a recent development and now crucial in determining liability to UK income and capital gains tax.

The common law concept of domicile - and its origins in citizenship theory - are also discussed, along with the different bases of assessment for other UK taxes such as wealth and consumption taxes, which are never that of citizenship. The USA is the largest economy that does use citizenship as a base for taxation, although not on a stand-alone basis, and this is discussed briefly before examining the literature that focusses on tax and citizenship as a concept, detailing two specific studies undertaken by the Fabian Society that suggest that tax is an important part of individuals' relationship with taxation.

Chapter Four considers ontological and epistemological issues in determining the most appropriate research paradigm for this thesis. It then looks at the methods and methodology employed in this research study considered most appropriate in relation to the identified research questions.

Using a subjective, interpretivist approach this chapter outlines the research design of qualitative research instruments, used to collect largely inductive data in response to the research questions. Three focus groups, comprising 18 participants in total and 15 qualitative interviews were conducted. The data collected were transcribed and analysed using computerised analysis tools to aid in organising the data. The results are discussed in Chapter Six.

Chapter Five offers insight into the data collected. In response to the first research question, looking at whether citizens accept an obligation to pay tax, the data showed that there is an accepted obligation to pay tax - accepted as a principle fundamental to living in the UK and enjoying the rights and benefits of being a citizen.

The obligation is understood partly within the framework of an exchange for services, but that is not the sole conceptualisation of the obligation. The obligation to pay tax is accepted as part of a UK citizen's identity: it is the 'right thing to do'.

In response to RQ2, **Chapter Six** asks about the contribution made by citizens. The research subjects themselves considered other factors of equal importance to paying tax in terms of responsibility and in making the required contribution: tax was not considered an unavoidable requirement of being a full citizen. Nevertheless, while some form of contributory activity, either through working or paying tax is not considered necessary in order to make a contribution sufficient to fulfil a citizen's obligation, those who do not evidence activity must prove they are not making a 'negative contribution'.

Chapter Seven considers RQ3, looking at the acceptability of tax evasion and tax avoidance behaviours within the framework of meeting citizens' obligations. The data suggest that these behaviours are not considered in isolation, but are looked at as part of a whole 'good citizen' assessment.

Furthermore, while tax evasion is always illegal, it is sometimes deemed acceptable; undesirable behaviours do not necessarily negatively impact adversely on 'good citizen' status, but instead, things are taken 'in the round' and other factors can outweigh such 'misdemeanours'. Tax avoidance has little or no perceived effect on citizen status.

Finally, **Chapter Eight** draws together a summary of the framework used in analysing the data and the results and conclusions drawn therefrom. The limitations of the data are also discussed, as well as the contributions to knowledge arising from this research. This chapter

also discusses the scope for potential further work in this area to explore some of the issues more deeply and to observe the impact in a wider group of participants.

1.3 Aims of the research

Having outlined above the contents of each chapter, it is also necessary to look at this thesis from a strategic standpoint - what is this research trying to achieve?

From the start, it was clear that the research questions and theoretical framework indicated that valuable data could be collected by researching the very wealthy, defined in Chapter Four using Rowlingson and McKay's (2012) definition of *rich*, *richer* and *richest* as being in the top 1%. However, as identified by Barnard et al. (2007) and reiterated by Rowlingson and McKay, the very wealthy (and the super-wealthy) are described as a hidden population, and they concluded that quantitative work with this group would be extremely difficult, if not impossible, and that although qualitative work might be easier it would still be problematic, resource-intensive and expensive.

As a result, the qualitative work with the 15 very wealthy individuals selected as research participants for this study represents a significant contribution to knowledge in and of itself: no other work has been found that has achieved a valid data sample with this group of individuals. The data therefore form a rich dataset that, while limited in generalisability, offer a unique perspective from an under-researched and difficult to reach group.

Secondly, in 1991, work on citizenship was described as an "empirical void" (Conover et al., 1991, p. 801), and not much improved 12 years later (Lister et al., 2003). This means that any

empirical work on citizenship is likely to be significant given the scarcity of work in this area. In addition, citizenship is described as a contested concept (Lister, 2007), so empirical work looking at what citizenship means to individuals is again contributing towards attempting to define a nebulous concept.

As a specific focus of the research, in 2003, Lister et al. conceptualised five models to explain how people understood the concept of citizenship and in 2005, Sefton (cited by Park, 2005) categorised survey respondents to the 2004 British Social Attitudes survey into classifications according to their position (either express or implied) on taxation and on income redistribution. This research also aims to look at how well these models fit within the data collected here, and with the specific homogeneous groups of participants, and whether this new empirical data could be used to develop or refine these definitions further.

Finally, this thesis aims to explore in more detail the concept of contribution in the context of citizenship. While the idea of making a contribution has been a fundamental principle of social citizenship for many years, this research seeks to discover whether this contribution, as understood by citizens themselves, needs to be monetary (e.g., by paying taxes) or whether this can be met in other ways. The research explores these non-financial contributions but also looks at how the contribution requirement can be flexible depending on individuals' personal circumstances. However, the thesis also introduces the concept of a negative contribution, which may be considered more important in understandings of being a 'good citizen' than making no contribution.

Chapter 2: Taxation and Tax Compliance

This chapter formalises the areas this study will explore, framing the terms of reference and defining the boundaries of literature and work in this field. Tax is inherently interdisciplinary in nature (Frecknall-Hughes, 2014; Oats, 2012; McKerchar, 2008) and as such this means that the potential field from which to draw literature and theory is vast and wide ranging. The approach to the literature was therefore not bounded in *discipline* per se, but rather by theme. As will become evident from the varied literatures explored as part of this chapter, theory has been scoped from within broad questions, asking why people do pay tax, or conversely, why they do not. In order to answer these questions, literature has been drawn from economics, sociology, fiscal sociology and psychology, as well as more traditional accounting and law foundations of tax research. The result is an interwoven picture of a multi-stranded theoretical base that truly reflects the unique nature of tax research.

Starting by defining what tax is, this chapter will look at how tax systems might be structured, particularly in the UK, before moving on to explore the current, nuanced definitions of tax compliance, and of tax avoidance.

After attempting to define tax compliance, and what it is not, this chapter then explores the reasons why, and how, taxpayers might decide to pay, or not pay, their taxes.

Finally, it also identifies the conceptual framework within the tax compliance literature that attempts to understand the tax compliance decision, and that will be used as part of this study, and also offers an introduction to the second element of theoretical lens to be applied in exploring the citizenship element of the literature in the subsequent chapter.

2.1 What is tax?

Tax is often considered a ‘necessary evil’ (Kirchler et al., 2006; Webley et al., 2010) and can be formally defined as “the compulsory exaction of money by a public authority for public purposes” (Gaisbauer et al., 2013, p. 142).

A tax can also be defined as a compulsory levy for which nothing is directly received in return (James and Nobes, 2012), although Frecknall-Hughes (2014) also lists a number of definitions, which are not exhaustive, but the language of which suggests tax is a distasteful thing to be borne. Nevertheless, it is common public perception that the tax money exacted goes to fund the public services that are available to all. However, the government commits to spend a certain amount on services, and taxation then reduces the amount of this cost; any excess cost is borne by the government in deficit borrowing. What this actually means, therefore, is that non-payment of tax would rather result in additional borrowing, rather than an actual failure of public services, but the underlying concept of tax funding services is valid, as over-spending cannot continue ad infinitum (Murphy, 2015). Tax is therefore understood as a personal contribution to a common pot, out of which various items of governmental expenditure are funded.

However tax does have a purpose. In addition to raising revenue for the provision of public goods, Frecknall-Hughes (2014) notes four further objectives of taxation, to include redistribution of income and wealth, to promote social and economic welfare, economic stability and global harmonisation.

When people think of tax, it is most often income taxes that immediately spring to mind (Hedges and Bromley, 2001), and those studies that interchange the tax contribution with the

obligation to work also make an implied assumption of income taxes. In recent years moves have been made to amalgamate the income tax and national insurance requirements as many people find the distinction between the two confusing. The additional charge on earnings, national insurance, has, so far at least, not been officially referred to as a tax, or indeed perceived as such in its precise meaning (Hedges and Bromley, 2001), as people understand that contribution towards the scheme provides a measurable benefit in the form of state pension benefits. While many also believe national insurance contributions go directly towards the NHS, as was originally established, this hypothecation is no longer accurate. Nevertheless, many people do consider national insurance contributions to be a tax, particularly employees, who just see a deduction from their salary in an identical way to income taxes.

However, most people will pay taxes through other means, be those taxes on spending, duties and 'sin' taxes (such as those levies on alcohol and cigarettes), local taxes such as Council Tax, or capital taxes. While income tax is the most visible tax, people are aware that they pay other taxes, and indeed when asked about other, potentially hidden, taxes as part of a qualitative study in 2000, people felt that although income taxes were falling, other taxes were rising by stealth (Hedges and Bromley, 2001).

For the purposes of this research, tax is understood to mean any form of UK taxation, although income taxes are likely to take a prominent role. As part of data collection, participants were asked what taxes they could think of, and many were able to name a number, including those not often considered as prominent in individuals' awareness, like VAT and excise duties.

However, as is discussed in Chapter Five, often the default position is to consider income taxes in isolation.

2.1.1 Elements of a tax system

The 'founding father' of the modern tax system was economist Adam Smith, and the tenets outlined in his 1776 book known as *The Wealth of Nations* are still cited today as the essential pillars of an effective tax system (Smith, 1776/2012).

Smith's original four canons - fundamental basics of a tax system were Equity, Efficiency, Certainty and Convenience, to which the attributes of Simplicity and Flexibility (or even more) have later been added (Frecknall-Hughes, 2014; Lymer and Oats, 2015). While most are relatively self-explanatory, the doctrine of Equity is perhaps often misunderstood, and most relevant in the tax compliance decision.

Equity is normally split into elements of vertical and horizontal equity. Horizontal equity provides fairness between income types, such that two taxpayers on the same level of income should suffer the same amount of taxation. While this may sound obvious, this is far from the case in UK taxation, although the current tax system has greater horizontal equity than in earlier times. Vertical equity is concerned with 'ability to pay' and is often how taxpayers themselves understand the tenet of equity (Lymer and Oats, 2015). As part of vertical equity, the concept of ability to pay largely concerns the ideas of progressive and regressive taxation, or whether there is a required equality of sacrifice, or just equal terms for all. Put simply, should the rich pay more in tax because their income or wealth is larger, but not proportionally so (which would be described as regressive taxation, as they spend a smaller percentage of

their wealth/income on tax), or should the level of tax be proportional, or progressive, where the rich pay even more in tax such that it comprises a higher proportion of their income and wealth in tax? Legitimacy of progressive taxation and the 'ability to pay' are tied in with notions of justice and social justice (Lewis, 1982), and acceptance or non-acceptance of the concept can be tied in with attitudes towards tax compliance, as discussed below. Empirical work to date suggests that there are positive public attitudes for redistribution by way of progressive taxation (The Commission on Taxation & Citizenship, 2000) although this support might, in certain groups, be dependent on marginal rates being considered acceptably low (Lewis, 1982, p. 152)

2.2 Tax compliance

In simple terms, tax compliance is when any given individual complies with their legal duty to pay tax. Note that tax is not voluntary, but is a legal requirement. However in various literatures, compliance may be described as voluntary, as contrasted with enforced, and this is discussed in more detail below. Whether an individual agrees with the method, means, or purpose of tax collection is irrelevant: he or she is under a legal obligation to pay.

Nevertheless, not everyone who is liable does pay, or pay in full, and there is a good deal of work on tax compliance looking at why people do not pay tax. In the main, the literature is focussed on evasion as the reason for non-compliance, that is, deliberately defrauding the country and not complying with the requirements of the tax administration (in the UK, HM Revenue and Customs (HMRC)).

However, Webley et al. (2010) point out that some element of non-compliance is not deliberate, and is attributable to lack of understanding, lack of information or simple human

error. This means that, comprised in any assessment of a tax gap - the difference between the tax that ought to be collected and the tax that is actually so collected - there will be an amount of unpaid tax that is not related to any intention to avoid or evade tax.

An estimate of the UK tax gap, based on figures for 2014/15 is quantified as £36 billion (HMRC, 2016a). Although this covers all taxes, the largest contributory taxes are the personal taxes of income tax, national insurance and capital gains tax at £15.5bn combined, closely followed by VAT at £12.7bn. Note that the total tax gap also includes an estimated £2.2bn in avoidance tax loss, and a further £5.2bn lost to 'legal interpretation', which is where HMRC and the taxpayer differ in opinion as to whether a tax action is within certain legislation and where the case is challenged in a tribunal or a court. Presumably this amount represents cases where HMRC's opinion does not prevail but these amounts should arguably not be included in a tax gap calculation as if the taxpayer wins the case, the tax is not, and was not ever due. Tax avoidance, as compared with tax evasion, is not illegal and was generally accepted to be within the tax laws. However, HMRC's changing definition of tax avoidance, and its interaction with tax ethics, are discussed in greater detail below.

2.3 Tax avoidance

Tax avoidance and evasion are not a modern problem - even at low tax rates like 2.9%, there were complaints and in 1871 it was estimated that only 20% of returns in Exeter were considered satisfactory when examined through a special report by the collecting authority (Sabine, 2010)

However, while much of the tax compliance literature focusses on tax evasion, particularly when discussing tax ethics and tax morale, terms relating to an individual's inherent

propensity to pay tax, discussed in more detail below, tax avoidance is an important element to consider.

While tax evasion is perhaps more often studied owing to the fact that it can be measured, and therefore lends itself to positivist and objective research studies, the main difference between tax evasion and tax avoidance is that tax avoidance is legal, and evasion is not. This means that, as far as a strictly legal interpretation is concerned, those engaging in tax avoidance are fully legally compliant.

However, the situation is far from so clear cut in practice. When considering tax ethics and morals, the question arises as to whether those who avoid tax are actually fully compliant or whether they are not complying with their obligation to pay a 'fair share', even if they are considered legally compliant.

The phrase "tax avoidance" was coined by Seldon in 1979, as an amalgamation of the terms 'evasion' and 'avoidance' (Seldon, 1979, Illersic and Seldon, 1979). For the purposes of collecting tax revenue, both have the same effect - of less tax collected by the tax administration. Both also have an element of intent not to pay tax inherent in the term, although one operates within the law and one outside it.

Is there a difference between avoidance and evasion? Some would argue there is no moral difference and the lines are becoming increasingly blurred, as explored below. Sandmo (2005) describes a painter doing a cash job and wealthy tax avoider. The painter is assumed to keep all of the money and not declare his earning to the tax authority, which is tax evasion behaviour and against the law. The tax avoider declares all his income, but takes actions to ensure some of his income or gains is not charged to tax. Only one is illegal but both are

described as morally wrong, on the grounds that both are taking action deliberately to reduce their tax bill. However, whether morals are relevant in considering a tax obligation is a different point, and may depend on whether the definition of a fair share (discussed later) is in point. For now it is necessary to try to understand what is meant by tax avoidance, and what the term has come to include, or exclude.

2.3.1 What is tax avoidance?

Ascertaining what precisely is tax avoidance is problematic. If something is considered tax avoidance but it is later found to be outside the law then in future the same action becomes failed tax avoidance, which could then be described as tax evasion; nevertheless the intention was not necessarily to evade tax or be non-compliant in the legal sense.

It is even difficult, in the current climate, to ascertain whether something is considered tax avoidance or not, as the definition has changed dramatically in recent years. The current position is that everything could be construed as tax avoidance. As Tory peer, Lord Fink said in 2015 “The expression tax avoidance is so wide that everyone does tax avoidance at some level” (Murphy and Cecil, 2015). A hardening of attitude towards tax avoidance has been increasing, largely since 1997, when Gordon Brown was Chancellor of the Exchequer and when the term tax avoidance started to be used in similar ways to tax evasion, although they are fundamentally different, although the change in stance has had the effect of making tax avoidance appear “ethically dubious” (Frecknall-Hughes, 2014, p. 119).

2.3.1.1 HMRC's moveable position

Tax evasion has always been illegal, yet historically tax avoidance was considered acceptable, even by HMRC and certainly by the judicial system, so long as it fell within the bounds of the law. While there has always been legal dispute over the legality of certain actions, it was these very disputes that gave rise to (in)famous legal determinations that stated clearly that actions taken within the law were legal, and therefore acceptable in the judge's eyes. Some of the most famous examples are:

*No man in this country is under the smallest obligation, moral or other, so as to arrange his legal relations to his business or to his property as to enable the Inland Revenue to put the largest possible shovel into his stores. The Inland Revenue is not slow – and quite rightly – to take every advantage which is open to it under the taxing statutes for the purpose of depleting the taxpayer's pocket. And the taxpayer is, in like manner, entitled to be astute to prevent, so far as he honestly can, the depletion of his means by the Inland Revenue.*²

*Every man is entitled if he can to order his affairs so that the tax attracted under the appropriate Act is less than it otherwise would be. If he succeeds in ordering them so as to secure this result, then, however unappreciative the Commissioners of Inland Revenue or his fellow taxpayers may be of his ingenuity, he cannot be compelled to pay an increased tax.*³

² Lord Clyde in *Ayrshire Pullman v CIR* (1929) 14 TC 754

³ Lord Tomlin in *Duke of Westminster v CIR* [1936] AC 1

My Lords, the highest authorities have always recognised that the subject is entitled so to arrange his affairs as not to attract taxes imposed by the Crown, so far as he can do so within the law... In so doing, he neither comes under liability nor incurs blame. ⁴

However, as taxpayers (and their advisers) became more sophisticated, and as the country entered recession resulting in severe cuts to publicly funded services, the prevailing attitude towards tax avoidance changed. In 2012 HMRC released an 'issue briefing' entitled 'tackling tax avoidance', the headline of which read:

Tax avoidance deprives the UK of the money it needs to fund public services and undermines public confidence in the fairness of the tax system. (HMRC, 2012a)

The HMRC definition of tax avoidance was then revised, in open and explicit contradiction to the judicial position cited above, to become the following:

Tax avoidance is bending the rules of the tax system to gain a tax advantage that Parliament never intended. It often involves contrived, artificial transactions that serve little or no purpose other than to produce a tax advantage. It involves operating within the letter - but not the spirit - of the law. (HMRC, 2012a)

This meant that tax avoidance, which was still accepted as perfectly legal, was now somehow simultaneously legally right but morally wrong. HMRC also introduced another term, that of 'tax planning' in an attempt to differentiate 'good' tax avoidance from 'bad' tax avoidance:

Tax planning involves using tax reliefs for the purpose for which they were intended. For example, claiming tax relief on capital investment, saving in a tax-exempt ISA or

⁴ Lord Sumner in *Fisher's Executors v CIR* [1926] AC 395

saving for retirement by making contributions to a pension scheme are all legitimate forms of tax planning. While such actions may reduce the total amount of tax paid, they are not tax avoidance, because they involve using tax reliefs in the way that Parliament intended when it passed the relevant legislation. (HMRC, 2012a)

Far from clarifying matters, introducing another term seemed more likely to confuse taxpayers. However, subsequent developments suggested that this was an early attempt to separate what was to become illegal tax avoidance (and therefore become tax evasion) from 'legitimate' tax planning.

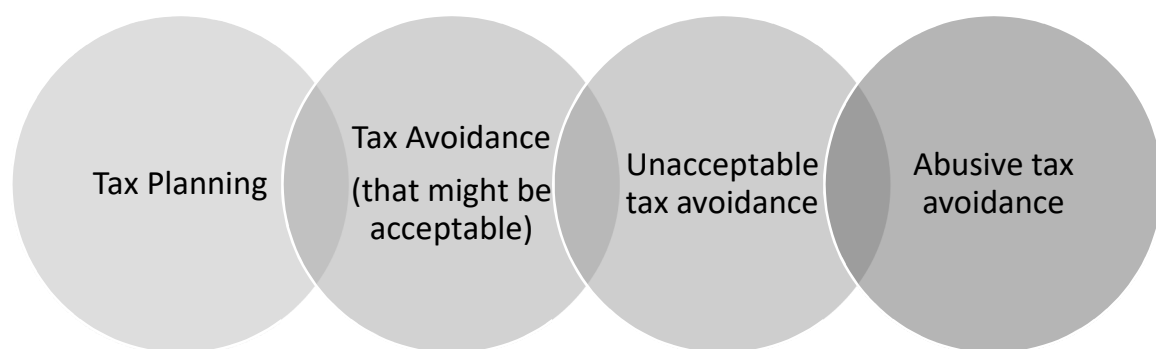
2.3.1.2 Making tax avoidance illegal

Finance Act 2013 included, amongst other things, a number of provisions that became known as the GAAR 2013, a General Anti-Abuse rule. In addition to the legislation, HMRC published detailed guidance notes (HMRC, 2015a) to clarify what activity is caught by the GAAR and which is not. While it looked likely that all 'avoidance' would be subject to the rules and 'tax planning' would not be, instead HMRC defined a new category of tax avoidance, and it would only be this narrow definition that would be subject to the GAAR. The guidance specifically refutes the judicial acceptance of tax avoidance included above, and instead asserts that "all taxpayers should pay their fair contribution" (2015a, p. 4), declaring that "taxation is not to be treated as a game where taxpayers can indulge in any ingenious scheme in order to eliminate or reduce their tax liability" (2015a, p. 5).

The key definition became whether tax avoidance activity is considered "abusive" or not as "the GAAR is designed to target and counteract only what it defines as 'abusive' arrangements" (2015a, p. 8).

Those seeking clarity, however, may be disappointed. While ‘abusive’ tax avoidance is caught by the GAAR, and therefore becomes unacceptable in terms of tax law, and ‘non-abusive’ avoidance is not caught by GAAR, “there may also be arrangements which cannot be described as abusive, but which nonetheless HMRC regards as seeking to achieve some tax advantage and as falling outside the range of acceptable tax planning. The fact that the GAAR would be inapplicable in those situations does not inhibit HMRC’s right to challenge such cases, relying where appropriate on other parts of the tax code applied in accordance with the legal principles developed by the courts.” (2015a, p. 8). This means that there are now four HMRC definitions of tax avoidance - tax planning, tax avoidance that is neither ‘unacceptable’ nor ‘abusive’, unacceptable tax avoidance (that which is challenged by HMRC but not within the GAAR) and abusive tax avoidance (which does fall within the GAAR). See Figure 2.1 below.

Figure 2.1: Representation of HMRC scale of tax avoidance per GAAR guidance



Unacceptable tax avoidance is activity that HMRC believe can be challenged using other parts of the tax code, including targeted anti avoidance rules (TAAR), and as such may, or may not, be outside the tax law. ‘Abusive’, in terms of tax avoidance is defined as “when the course of action taken by the taxpayer aims to achieve a favourable tax result that Parliament did not

anticipate when it introduced the tax rules in question and, critically, where that course of action cannot reasonably be regarded as reasonable” (2015a, p. 10). Far from being infinitely circular, applying a subjective measure of reasonableness in a subjectively reasonable manner, this paradox is described as a ‘double reasonableness test’ which gives added protection for the taxpayer.

Finance Act 2016 also includes two new heavy penalties (included at sections 156 to 158 *FA 2016*), one for transactions that later are determined to fall under the provision of GAAR as well as penalties for ‘serial tax avoiders’. If both penalties apply, the maximum liability is (capped at) 100% of the disputed tax.

As a result, far from clarifying the position, in addition to tax evasion behaviour, taxpayers can indulge in two types of tax avoidance that may prove to actually be tax evasion (but that also may not); they can undertake perfectly reasonable tax planning that will never be tax evasion, and taxpayers are still left with the grey area of tax avoidance that is neither ‘unacceptable’ nor ‘abusive’, yet is still presumably morally deficient and representing less than a fair contribution. Given the obfuscation around the topic, part of the qualitative work of this study was aimed at exploring these definitions more deeply.

However, there is evidence that some taxpayers themselves have far less trouble in differentiating between tax avoidance and evasion, and what those terms mean to them. According to Kirchler et al. (2003), participants clearly distinguished between tax avoidance and tax evasion. Interestingly, tax avoidance was associated with “legal, the intention to save taxes, cleverness, a good idea, and costs” and was perceived as “moral” and associated with “the acceptance of tax reduction, to make use of tax allowances, legal tax reduction,

horizontal justice, and tax loophole” (Kirchler et al., 2003, p. 8). On the other hand, tax evasion was associated with terms such as “illegal, fraud, criminal prosecution, risk, tax and the risk of getting caught” and was seen as “immoral” (Kirchler et al., 2003, p. 9). This apparent chasm between public perceptions of the two terms, and the fine line of difference that exists in reality was also a component in determining investigations as part of this research.

2.4 Why people *do not* pay tax

As discussed above, not everyone does pay their taxes irrespective of their legal obligation to do so. Historically, literature and academic research focussed on the tax evader, and trying to explore the decision process involved in making the choice to evade tax. A natural starting point in investigating rational decision making was therefore to first look at the philosophy of taxation, before examining the rise of individualism and neo-liberalism and how that impacts economic theory.

2.4.1 The philosophy of taxation

While Adam Smith’s canons of taxation (referred to in 2.1.1 above) are considered the starting point for theorising on tax systems per se, the philosophy behind the idea of paying tax started long before.

Hobbes (1651) and Petty (1662) both referred to concept of taxation in their seventeenth century works, although Hobbes’ *Leviathan* is discussed in more detail at 3.1.2.1 below in terms of a social contract. Hobbes felt that tax was owed according to how much the State was due in terms of payment for defence and the maintenance of the rule of law, as well as a

contribution to a social pot for those unable to earn a living. Petty's 1662 *A Treatise of Taxes and Contributions* set out six areas for which the king was entitled to charge: "defence, governance, the pastorage of men's souls, education, the maintenance of impotents of all sorts and infrastructure and things of universal good" (Frecknall-Hughes, 2014, p. 20). He also felt there should be a provision for the elderly or infirm. His preferred tax base was consumption taxes.

2.4.1.1 John Locke

1690 saw the publication of John Locke's *Second Treatise of Government*, which sought to connect the idea of a financial contribution with the voluntary alienation of certain rights of citizenship.

'Tis true that Governments cannot be supported without great charge and 'tis fit every one who enjoys his share of the Protection should pay out of his estate his proportion for the maintenance of it. But still it must be with his own Consent – i.e. the Consent of the Majority, giving it either by themselves or their Representatives chosen by them. For if any one shall claim a Power to lay and levy Taxes on the People by his own authority, and without such consent of the People, he thereby invades the Fundamental Law of Property, and subverts the end of government. For what property have I in that which another may by right take when he pleases himself? (Locke, 1690, Chapter 11.140)

Here, Locke identified the inherent conflict of taxation, namely that in practice it allows the Government to take some of an individual's money. However he also presented the solution to the bind, being that the requirement to pay for public services legitimises this 'theft' and means that the Government takes the tax money only with consent of the individual

concerned. However, where an individual feels he is overpaying for the state protection (or other benefits) afforded by his tax money, then surely he can withdraw his consent, offering a justification to tax avoidance and evasion behaviour (Frecknall-Hughes, 2014).

Locke was not specific in further detail on how taxation would work in practice “although his comment that a man ‘who enjoys his share of the protection should pay out of his estate his proportion for the maintenance of it’ might be interpreted as favouring some form of progressive or proportional taxation” (Frecknall-Hughes, 2014, p. 23). Alternatively this could be interpreted as an early conceptualisation of the benefits principle of taxation (see 2.5.3 below), and as part of the concepts of fairness and redistributive justice, further considered below. Additionally, it is not clear what Locke meant by ‘estate’, whether this was to include only landowners or be wider reaching.

2.4.1.2 Distributive/Redistributive justice

The idea of distributive, or redistributive justice is interrelated with concepts of fairness, but perceptions of fairness (as discussed later) depend heavily on the perspective of the individual concerned. What one person perceives as fair may be considered unfair by his neighbour. Similarly, in philosophical theory on redistributive justice, two alternative viewpoints can be seen.

John Rawls’ theory of distributive justice *A Theory of Justice* (1974) starts with the premise that society is a cooperative, that is everyone works together for the greater good of the group.

However, this theory struggles with the intrinsic conflict that the interest of one individual may not match those of the group, or that the group may not agree as to what is in its best

interest. Rawls suggested that principles of justice ought to find a way to “define the appropriate distribution of the benefits and burdens of social co-operation” which may not concur with the findings of individuals or even of the group (Rawls, 1974, p.4).

By this, Rawls was trying to determine the terms of the social contract inherent in this theory, but also recognised that the terms we might prefer might depend on our relative position within the group.

As a result, Rawls posited the ‘original position’ in an attempt to eliminate any possible bias towards, the rich or the poor, the political leaning or religious affiliation. The original position requires us to agree the principles of the contract without knowing what our position in society will be or what the aim/the best interest of the group is to be. This would prevent any one person from designing terms in his or her favour and will therefore result in the fairest outcome for all, ensuring:

that no one is advantaged or disadvantaged in the choice of principles by the outcome of natural chance or the contingency of social circumstances. Since all are similar situated and no one is able to design principles to favour his particular condition, the principles of justice are the result of a fair agreement or bargain. (Rawls, 1974, p.12)

Rawls claims that in the original position, the only possible outcomes are to agree to an equal distribution, unless some inequality, for example incentive payments, will work to everyone’s advantage. Furthermore, he suggests that once we know we are guaranteed a certain level of wealth, our basic liberties such as freedom of speech, political freedoms and rights over property will be valued more than goods. This will mean that equal liberty as procured from the original position will be preferred to unequal liberty but greater wealth.

Rawls' theory rejects the notion that rights can even exist, let alone be held prior to the principles of justice, as his assertion is that the principles of justice themselves assign rights such that a claim for rights could only be made *after* these are set in place. Robert Nozick, however, bases his theory on the idea that justice *arises from* rights and liberties.

Robert Nozick's theory *Anarchy, State and Utopia* (1980) is primarily concerned with the distribution of property. His theory on justice has three central concepts:

1. Justice in acquisition: how property rights are first gained over something that has not previously been owned;
2. Justice in transfer: how property rights are transferred;
3. Rectification of injustice: how to restore something to its rightful owner, in case of injustice in either acquisition or transfer.

Nozick contends that justice is about respecting people's (natural) rights, specifically rights to property and rights to self-ownership.

In essence, Nozick argues that people must be afforded the right and freedom to decide what they want to do with what they own. Each person is autonomous and should be respected as such and he or she cannot be used or forced to do things to which they do not agree, even if that would lead to some (subjective) 'greater good', which may result in other people getting what they need. The end point to this theory would suggest that to take property away from people in order to redistribute it according to some theory of redistribution determined by someone else would violate their rights as an autonomous individual. It is worth noting that

this is exactly what some element of taxation, that part concerned with redistribution according to need, is designed to do and reignites the debate over whether the government has a specific mandate to tax people with this explicit aim.

2.4.1.3 Post Lockean thinking

Of course, Locke's theory of a social contract legitimising taxation were not necessarily accepted by all thinkers. Hume, in the 18th century, in particular refuted the idea of a social contract which thereby rendered the 'consent' to taxation invalid. In part, it was Hume's theories that led Adam Smith to develop his canons of taxation in 1776 (Frecknall-Hughes, 2014).

However, social contract theory persisted, and in the late 18th century, influential thinker and revolutionary Thomas Paine published his work *The Rights of Man* (1791). Like Locke, Paine saw a social contract element to taxation, but rather than an elected government legitimising taxation, Paine felt that the payment of taxes was what made men morally entitled to participate in government, essentially turning the concept of a social contract upside down.

Living and participating in revolutionary times as he did, Paine's theories echo the American revolution claims of 'no taxation without representation' and his works go into finite detail on what an effective tax system might comprise, which included elements that would, far later, be aligned with the idea of a welfare state. While paying tax allowed men the right to have a say in public life, this was not dependent on the amount paid, just that a contribution was made (Frecknall-Hughes, 2014).

2.4.2 Individualism and neo-liberalism

Zygmunt Bauman summarises the rise of individualism by commenting that “the present-day uncertainty is a powerful individualizing force” (Bauman, 2000, p. 24). Bauman specifically refers to the demise of ‘jobs for life’ as a contributing factor that has increased uncertainty, and various financial crises around the world have done little to ameliorate this position.

More specifically, the idea of a common interest, one of the principles behind modern understandings of society, has, according to Bauman (2000), become incomprehensible to a society whose buzzwords include flexibility and who value fleeting acquaintance over lifelong loyalty.

Bauman goes on to say that individualising pressures have meant that “individuals have been gradually but consistently stripped of the protective armour of citizenship and had their citizen skills and interests expropriated.” (2000, p. 108). If there is no common interest, and no notion of collective rights and responsibilities of citizenship, how, therefore would taxation, whose mandate includes at least elements of wealth distribution, be acceptable within such an individualised society?

In fact, Bauman suggests that taxation and citizenship are bound together as a necessary part of democracy, suggesting that the origins of democratic society stem from “the stout refusal to be taxed without the consent of the taxed.” (2000, p. 54). He claims this was about the principle: “the idea of the subject as a citizen, and of the citizen as a member of the body politic having a say, together with other members, in all matters concerning their rights and duties, entitlements and obligations.” (Bauman, 2000, p. 54).

However, the concept of a democratic society occupies a somewhat uncomfortable position when looking at individual autonomy. Similarly, Harvey (2007, p. 77) describes the reliance on the existence of democracy as a contradiction in neo-liberal theory, claiming that neoliberal theorists are “profoundly suspicious of democracy.” In essence, submitting to being ruled by a government elected by majority is a threat to individual rights and constitutional liberties. Harvey suggests that, in neoliberal theory, “democracy is viewed as a luxury, only possible under conditions of relative affluence coupled with a strong middle-class presence to guarantee political stability”(2007, p. 77). He goes on to say that neoliberals therefore prefer being governed by “experts and elites” (2007, p. 77).

While the meaning of neo-liberalism has changed over time, its modern understanding is of an ideology favouring free market competition, which could be described as redefining individuals, not as citizens who are exercising rights and shouldering responsibilities, but as consumers, whose individual choices will result in net private gain, is efficient but which punishes inefficiency. It is therefore closely aligned with the rise of capitalism, where individual wealth generation, and retention, is highly prized.

Neo-liberalism does not feel competition should be limited in any way as this impinges on individual freedoms. State regulation should be minimised, public services privatised and taxation at low levels so as to encourage, rather than restrict, free movement of capital.

However, another contradiction inherent in neo-liberalism is the notion of individual rights (to profit). Rights are intangible and only exist insofar as there is some body capable of enforcing them. As Harvey describes, “rights are, therefore, derivative of and conditional upon

citizenship... difficult questions arise because of stateless persons, illegal immigrants, and the like. Who is or is not a 'citizen' becomes a serious issue defining principles of inclusion and exclusion." (2007, p. 194). Furthermore, a neo-liberal state is to have as little involvement in the market as possible, allowing free competition, and yet as a state it must endeavour to offer an environment attractive to trade and industry, and environment that must include taxation rates. This latter role requires a collective society which then "poses the problem of how to ensure citizen loyalty" (Harvey, 2007, p. 91), the solution to which, Harvey claims can often be found in nationalism, a ploy he claim offered a solution to Margaret Thatcher in the 1980s through the Falklands War.

Both individualism and neo-liberalism have a knock on effect on global citizenship, as under these theories capital can, and should freely move anywhere, and with no ties could move again as the individual need arises. As a result governments have to create welcoming conditions to attract and retain businesses and individuals, an environment that will include taxation.

However, Bauman notes that it is largely only the 'elites', the very same group whom the neo-liberals prefer to be running the country and setting tax rates, who can benefit from mobilisation to better their position, owing to "the new techniques of disengagement, non-commitment, evasion and escape" (2000, p. 36) now at their disposal. Instead, the rest of society feel "held in check, disabled and so deprived of their constraining power simply by the utter vulnerability and precariousness of their situation, with no need to 'normatively regulate' their conduct" (Bauman, 2000, p. 36), meaning the idea of non-compliance where possible becomes more and more attractive.

2.4.3 Neo-classical economic theory

Economic theory posits that the decision to pay or to evade tax takes place in a theoretical bubble, and that man is “a rational, amoral taxpayer”(Webley et al., 2010, p. 8). Note that this is not an *immoral* taxpayer, rather that notions of conscience, of the ‘greater good’ and any influence by social norms are not relevant in the model.

Instead, the classic model of tax evasion, presented by Allingham and Sandmo (1972), suggests that tax compliance is a function of tax rate, of penalties for fraud and of probability of detection.

Allingham and Sandmo (1972) found that, for each individual, the most efficient economic outcome is for them not to pay taxes - the risk and penalty of detection being far outweighed by the individual pecuniary benefit of retaining the money that ought to have been paid in taxes.

Allingham and Sandmo introduced the concept of the ‘free-rider’, the individual who chooses the best economic outcome for him or herself, regardless of what everyone else is doing.

However, why then do people pay tax? Clearly if everyone were to elect to be a free-rider, then no one could be one, and the economic decision would change. This paradox within the tax system is often described conceptually as a social dilemma, where individual interests are in direct conflict with the collective interest (Kirchler, 2007; Webley et al., 2010).

This means that, from a purely economic perspective, defection is each taxpayer’s rational strategy, considered in isolation. Being fully compliant disadvantages taxpayers who will be

worse off because they will be supporting free-riding, parasitic others (who are rational parasites) (Torgler, 2003a).

Economic theory is based around the premise that paying tax is a 'game' with three outcomes: (i) a sure loss; (ii) a probable gain; and (iii) probable major loss. The theory assumes that taxpayers are self-interested and will engage in tax evasion if it pays to do so. Rational choice is to evade, so virtually everyone ought to choose to evade (Smith and Kinsey, 1987). Standard economic models have four parameters - the probability of detection, the punishment, the tax rate and the level of income. Theoretically adjusting detection and punishment variables would increase or decrease the benefit of non-compliance, and therefore compliance itself.

However, empirical evidence does not find this model works well. Detection and punishment variables have a far smaller effect than anticipated. (Kirchler, 2007). Even adjusting for other variables in alternative theoretical modelling or experimental data does not fully explain the gap between the expected outcome in economic terms and the observed reality (Alm et al., 1992; Elffers et al., 1987; Kastlunger et al., 2011; Porcano, 1988; Webley et al., 2010).

What the rational decision maker in neo-classical economic theory is lacking is the understanding that, generally, taxpayers are willing to pay tax (Kirchler, 2007).

While the neo-classical economic approach has analytical appeal, results have shown that it does not translate into the actions of real humans (Cullis and Lewis, 1997). As a result, more and more researchers have looked at the sociological, behavioural and psychological factors that may influence the tax compliance decision. Rather than being merely a rational decision choice, the "*values, attitudes, perceptions and morals* of economic actors are of paramount importance: evasion is not just a function of opportunity, tax rates, probability of detection

and so forth but of an individual's willingness to evade (or comply)" (Cullis and Lewis, 1997, pp. 309–310).

Similarly, Alm et al., (1992, p.21) concluded that while "it is clear that detection and punishment affect compliance to a degree, it is equally clear that these factors cannot explain all or even most, tax compliance behaviour"

Of course, the neo-classical economic approach did not end in 1972: Andreoni et al. (1998) summarise a range of adaptations to the model in the following 25 years. For example, one observed weakness of the Allingham and Sandmo model is that it assumes a constant probability of audit and there has been work exploring the effect of a variable and of an audit frequency that has been pre-advised on the model (Andreoni et al., 1998). Andreoni et al. also detail research which has looked at the implications of "introducing a richer tax and penalty structure, allowing for imperfect information over such policy parameters as the audit rate and true tax liability, extending the number of items on which the taxpayer must report, and accounting for the roles of morals, social dynamics, and tax practitioners"(1998, p. 824).

Agnar Sandmo himself revisited the topic, and his original 1972 model, in his 2005 paper. Here he attempts to address some of the criticism levied at the model, and suggests, as one example, replacing the probability variable of the model with a value that represents the taxpayer's subjective probability, noting that this figure, even if estimable, will not necessarily be equal to the statistical likelihood of tax returns being checked: indeed, he further admits that empirical studies suggest that people tend to overestimate the probability of detection (Sandmo, 2005).

As Hasseldine and Li (1999, p. 101) summarised the position:

Although much of the early compliance research focused on what factors contributed to tax evasion, as researchers and policymakers sometimes encounter quite high voluntary compliance rates, there has been a shift in focus to why do people comply?

2.5 Why people *do* pay tax

Inverting the question in relation to tax compliance allows an important paradigm shift in thinking about the tax compliance decision. Rather than attempting to identify and quantify factors that affect the economic decision, by looking at why people do pay tax, this enables researchers to try to explore the factors that are present before the individual comes to make that decision, and understand how and why such factors then impact on the tax compliance decision.

2.5.1 Social and behavioural factors

There is a number of social and behavioural factors identified as having a potential impact on the tax compliance decision, which manifest themselves as a complex system of individual ethics and social norms. These are discussed in more detail below (Wenzel, 2005a).

However, one way of attempting to understand and explore reasons why some people evade tax and some do not is to try to classify people into those likely to comply and those likely to evade, based on some assessment of their internal motivations.

Vogel (1974) attempted to do this by building upon earlier behavioural work undertaken by Kelman (1965) separating people into those driven by compliance, identification and internalisation.

Kelman described *compliance* as being when individuals accept influence from another person or group; confirming to an outside authority (such as a tax administration) and therefore complying because they think they ought to. *Identification* can be said to occur when individuals change or adapt their behaviour to match that of another person or group - where people would be more likely to pay their taxes if all their friends did, or they accepted a social norm of being compliant. Finally, *internalisation* occurs when an individual genuinely changes beliefs, such that the activity, for example tax compliance, fits securely within an internal value system with the result that non-compliance would result in feelings of guilt (Kelman, 1965).

Vogel combined these three classifications with the added alternatives of being a ‘deviant’ or a ‘conformist’ taxpayer to give six categorisations (see Figure 2.2). For these purposes, Vogel defined those who comply with tax laws as conformist and those whose behaviour involved any element of tax evasion or deviation from tax laws as deviant.

Figure 2.2: Behavioural factors in tax compliance, compiled from Vogel's classifications

	Deviant	Conformist
Compliance	Deviant complier	Conformist complier
Identification	Deviant identifier	Conformist identifier
Internalisation	Deviant internaliser	Conformist internaliser

The most likely to be compliant are therefore the conformist internalisers, who are morally committed to paying tax. The person least likely to pay tax is therefore the deviant internaliser, who strongly believes that paying tax is the wrong thing to do. Strictly speaking this person is actually a tax protester rather than a cheater, however, as he/she is ideologically opposed to complying. Whether someone is a deviant or a conformist identifier will depend on their social group or accepted social norm: if the rest of the group are conforming then the identifier will also conform so as to fit in and vice versa. Those who are conformist compliers will pay tax because they think they will get caught and punished if they do not; deviant compliers think the chances of such detection are low and therefore worth the risk (Vogel, 1974; Webley et al., 2010).

In a similar vein, Torgler (2003a) whose work on tax morale is considered in more detail below, defined four types of taxpayer, and the variables likely to impact on their tax compliance decision.

The *social taxpayer* is strongly influenced by social norms, and a decision not to comply (or conversely, to comply) could instigate feelings of guilt and shame, particularly if discovered by the social group. These taxpayers are most likely to act as fits with other people's beliefs.

The *intrinsic taxpayer* has an intrinsic sense of obligation to comply without being compelled to comply and the *honest taxpayer* is one who happily pays tax without even contemplating ways not to pay tax.

The *tax evader* is the only one for whom the relative decision costs owing to higher punishment or higher audit probability are in point, and is therefore the only taxpayer type

who could be anticipated to act in line with the standard economic rational choice theory (Torgler, 2003a).

Moving slightly from defining personal characteristics to defining characteristics of compliance shared by certain types of taxpayer, McBarnet (2003) defined four types of compliance, which included separate categories that would cover tax evasion and include tax avoidance:

- Non-compliance, where taxpayers choose to evade tax;
- Committed compliance, where taxpayers are willing and happy to pay taxes;
- Capitulative compliance, where taxpayers are not necessarily willing, but they comply anyway; and
- Creative compliance, where taxpayers comply within the confines of the law, while not necessarily meeting their full obligation to pay tax, avoiding tax where possible.

It is clear from these definitions that both individuals' personal belief and values and social norms are likely to be important in framing the tax compliance decision. These are discussed in more detail below.

2.5.2 Tax ethics and social norms

In 1998 Andreoni et al. suggested that "adding moral and social dynamics to models of tax compliance is as yet a largely undeveloped area of research" (1998, p. 852). The following 15 years saw much work in this area, and an individual's own personal moral position, as well as the position of those around him or her, has been identified by a number of researchers as being important in the tax compliance decision making process (Alm and Torgler, 2011; Calvet Christian and Alm, 2012; Cullis et al., 2012; Kirchler, 2007; Kirchler et al., 2006; Wenzel, 2004,

2002). For example, Bobek et al. (2007) found that “the first and most influential factor was taxpayers’ own personal moral beliefs, along with the beliefs of those close to them (e.g., friends and important others). The second significant factor represented societal views of proper behaviour”.

Tax ethics, and the recently conceptualised tax morale are discussed first, followed by the social norms around tax compliance.

2.5.2.1 Tax morale and tax ethics

Tax morale, which could be described as the intrinsic motivation to pay taxes, has been identified as helping to explain the higher degree of tax compliance than anticipated. When assessing tax morale, researchers use the World Values Survey (Frey and Torgler, 2007; Torgler, 2003b, 2003c) or country specific studies (Ahmed and Braithwaite, 2005; Braithwaite, 2009, 2004; Torgler and Murphy, 2004) to explore the type of people who are likely to be committed compliers (McBarnet, 2003). While tax morale is correlated with attitudes towards law enforcement and religiosity, tax morale is largely quantified in relation to a single question in an extract from the World Values Survey asking people to rate ‘cheating on tax payments’ from ‘never justified’ to ‘always justified’.

However, this is not the first or only research into tax ethics. As far back as 1959, Schmolders (1959) was looking at the social and psychological determinants of tax compliance, and in trying to determine in what he called people’s ‘tax mentality’, defined as a generally favourable or unfavourable stance toward paying taxes.

This is the foundation of what constitutes tax ethics. Tax ethics have been described as “the moral principles individuals hold about either paying or not paying their taxes” (Devos, 2013) and “the normative attitudes of taxpayers with regard to their tax obligations” (Song and Yarbrough, 1978).

However, an important element of tax ethics as a whole is that an individual’s ethical stance may not be fixed, and may be affected by other situational or behavioural factors. Empirical research has shown that personal ethics can change over time and that different positions can even be held simultaneously (Braithwaite, 2003). Schmolders (1959, 1970) found that the subjective tax burden affects propensity to pay tax and the levels of tax ethics. Researchers have also found that attitudes change when individuals are considering their own self-interest as opposed to making a contribution to community interests.

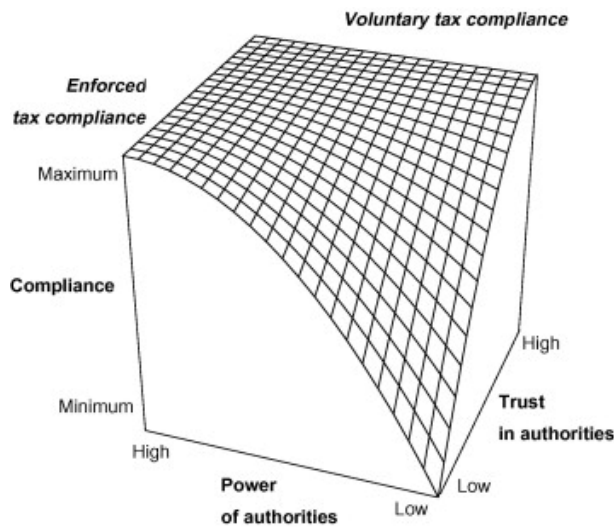
Overall, it is clear that moral rules and sentiments cannot be looked at in isolation, as issues such as a sense of fairness, and the relationship between taxpayer and government (Torgler, 2003a) are likely to have an impact on tax ethics, and therefore on tax compliance.

2.5.2.2 The ‘slippery slope’ model

Building on the concepts of tax morale, Erich Kirchler and his colleagues (Gangl et al., 2015; Hofmann et al., 2014; Kirchler et al., 2014) developed a three-dimensional model, known as the slippery slope (see Figure 2.3 below), to try to explain the effects of external factors on the tax compliance decision, specifically the power of, and taxpayers’ trust in authority. In the model, which is represented as a cube with a sloping top face, the low point of the model is

where both power and trust are low, leading to the lowest level of tax compliance, where “citizens seek to maximize their individual outcomes by evading taxes” (Kirchler et al., 2008, p. 212).

Figure 2.3: The Slippery Slope model (from Kirchler et al., 2008)



However, tax compliance can be increased without a corresponding increase in both variables. Considering the left hand side of the model, an increase in power of the authority will lead to an increase in tax compliance as probability of detection and likelihood of fines rise. Here, “taxpayers have less and less incentives to evade, because the expected outcome of non-compliance falls below the expected outcome of compliance” (Kirchler et al., 2008, p. 212), assuming again that a taxpayer is a rational decision maker. The compliance gained by increasing power is known as enforced compliance.

When looking at the right hand side of the model, increasing trust in government but not power will also result in higher compliance levels as taxpayers choose to trust the authorities with their tax money. This is voluntary compliance.

However, while the variables can act independently of each other to affect tax compliance levels, the two do moderate each other; “variations in trust matter most when power is low; however, when power is at its maximum, variations in trust are irrelevant because authorities can enforce maximum compliance. Conversely, variations in power matter most when trust is low; however, when trust is at its maximum, variations in power do not matter because citizens contribute their share regardless” (Kirchler et al., 2008, p. 213).

While both power and trust can independently achieve high compliance, Kirchler et al. note that “the reasons for compliance differ, and there is a qualitative difference between enforced and voluntary compliance” (Kirchler et al., 2008, p. 213). Kirchler and colleagues have tested the model on taxpayers in a number of different countries, with differing levels of trust and/or power to observe the variations in effect on tax compliance rates (Kirchler et al., 2014; Kirchler and Wahl, 2010).

2.5.2.3 Social norms

An overall assessment of motivation to pay taxes will include personal ethics, as discussed above, but also an element of group ethics, normally expressed in terms of social norms.

A social norm can be described as a pattern of behaviour that is judged (as either conforming or not conforming) by others and that therefore is sustained in part by social approval or disapproval. This is important in tax compliance decisions as, if others behave according to some socially accepted mode of behaviour, for example, where being fully compliant is socially acceptable, then the individual taxpayer will behave appropriately; if others do not so behave, then the individual will also deviate. Social norms can also be expressed as the way society

defines right and wrong and influences individuals to 'do the right thing' (Alm and Torgler, 2011; Braithwaite, 2003; Cullis et al., 2012; Frey and Torgler, 2007).

While there is much literature that has consistently found evidence for the significant impact of personal norms and ethics (see Bobek et al. (2013) for a comprehensive summary of the literature), there is less consistency in findings related to social norms (Wenzel, 2004). In particular, there is concern that the effect of social norms is more flexible and prone to change: if theories exploring social norms suggest that a taxpayer will comply owing to it being the 'right thing to do', then if non-compliance becomes pervasive in the social group of the taxpayer, the norm to comply will also disappear (Alm and Torgler, 2011). Similarly, Wenzel (2002) advises caution in relation to social norms, as the presence of norms alone does not necessarily affect the compliance decision; rather only if the individual identifies with the social group to whom the norms are attributed will the norms affect behaviour. If identification with the social group is weak, then the effect of social norms will be slight.

Furthermore, Wenzel highlights the issue of the perception of social norms, or rather their misperception. If taxpayers estimate the social grouping's acceptance of tax evasion as being greater than their own, this misperceived social norm could actually encourage non-compliance, even if the actual social norm would, in fact, suggest the opposite to be true (Wenzel, 2005b).

In recent times, tax administrations have attempted to use the perceptions of social norms to manipulate taxpayers into greater levels of compliance. In the UK, HMRC's Behavioural Insights Team developed a norm-based trial campaign aiming to recover tax debt, using national and local normative messages such as '9 out of 10 people in Britain pay their tax on

time'. Some messages in the trial also included references to a local norm, with references to other taxpayers in the local area, or by including the postcode. One hundred and forty thousand taxpayers were included in the trial and HMRC claimed the campaign raised the percentage of taxpayers who paid outstanding debt from 67% in the control group to 83% in the group receiving the local area norm message. Another trial went even further and contrasted the norm with the individual's own behaviour ('9 out of 10 people pay their tax on time', and 'you are one of the few people who have not paid yet') which was found to be even more effective. However, a further trial involving a group of individuals with the same profession (doctors) who had outstanding tax liabilities showed no effect of including the social norm, highlighting the unpredictable effect of social norms on tax compliance decisions and Wenzel's (2002) warning about the requirement for identification within the social norm grouping being used (Behavioural Insights Team, 2012, pp. 22–24).

The fact that there are different types and levels of personal social norm was investigated by Bobek et al. (2007) who compared the effects of personal and social norms on the tax compliance decision, to find that personal norms had a stronger effect on compliance intentions than social norms. In a later study with a different group of researchers, Bobek et al. (2013) classified social norms into different types, finding that those closest to the individual, subjective norms, and personal norms had the greatest effect, while general perceptions of society's expectations (injunctive norms) and others' actual behaviour (descriptive norms) had only an indirect influence on tax compliance decisions.

Bobek et al. (2013) also found that, while risk of detection and perceptions of fairness did have a statistically significant effect on the tax compliance decision in their model, personal and

social norms were more influential than any of the additional variables tested (Bobek et al., 2013).

So while it is generally accepted that social norms affect an individual's tax compliance decision, Torgler (2003a) notes that "while most studies focus on punishment, experiments have started to analyse the effects of rewards on tax compliance. The results indicate that rewards help to increase tax compliance" (Torgler, 2003a, p. 23).

It is interesting, therefore, to investigate whether norms and ethics can themselves offer a reward. While studies normally assume a taxpayer had no agency in the act of paying tax itself, Wenzel (2004) studied the influence of both injunctive social norms and personal norms in Australia. His study found that personal norms were more important than injunctive norms but that the importance of injunctive social norms was mediated by how strongly the respondents identified with "being Australian". Similarly Orviska and Hudson (2003) found that people were motivated to pay tax by a sense of civic duty. Whether a sense of pride in fulfilling one's civic duty can present its own reward is discussed in more detail below.

2.5.3 Fairness

Perceived fairness of taxation has also been found to be linked with tax compliance decisions, but this may be a 'chicken and egg' situation. On one hand, perceived fairness determines tax compliance (Andreoni et al., 1998; Kirchler, 2007), but alternatively, deviant taxpayers use unfairness to rationalise and excuse their non-compliant behaviour (Falkinger, 1995). Similarly, Bobek et al. (2013) found that individuals with more favourable social norms toward compliance were less likely to view the tax system as unfair, but this could also suggest that

those who did perceive the tax system to be unfair were less likely to hold favourable norm beliefs.

Fairness is a difficult variable to measure in terms of the tax compliance decision, as it is not only very personal, but it is hard to predict, as what one person finds unfair, another may not. The perception of fairness is also tied up with an individual's acceptance of the tax system as a benefits exchange or as social redistribution mechanism, but also with things like the subjective burden of tax, and individuals' own financial position (Hofmann et al., 2008). Wenzel (2003) discusses various types of fairness - distributive justice, procedural justice, and retributive justice - in the context of the tax compliance decision and refers to fairness as the perceived justice of the tax system in the eyes of the taxpayer (Wenzel, 2002).

Distributive justice concerns a fair exchange of resources, benefits and costs, and is distinguished into horizontal and vertical equity and what is referred to as exchange fairness (Kirchler, 2007). As outlined above, horizontal equity is related to a fair distribution of benefits and costs within one's income group, such that individuals in a similar financial position are not disadvantaged one against the other. Vertical equity refers to the distribution of benefits and costs across income groups, such that there is redistribution of wealth. Exchange fairness is related to whether the taxpayer considers his or her tax burden and the provision of public goods by the government to be a fair exchange (Hofmann et al., 2008).

Empirical and experimental research on horizontal fairness showed that citizens who feel treated disadvantageously compared with other taxpayers are more likely to evade taxes (Elffers et al., 1987; Spicer and Becker, 1980; Webley et al., 2010). Individuals who do not

believe in the redistributive aims of taxation, who feel that vertical fairness between the rich and the poor is irrelevant, unsurprisingly tend to evade taxes more than taxpayers who perceive high vertical fairness (Christiansen, 1980; Cowell, 1992; Webley, 2010). Researchers have also found a link between evasion and taxpayers' dissatisfaction with the provision of public goods by the government, which includes lack of value for money (Hammar et al., 2009; Hofmann et al., 2008; Porcano, 1988; Vogel, 1974). However, the empirical effect of perceived fairness of taxpayers' tax share and participation in public goods on the tax compliance decision is moderated by the importance of equal inputs and outputs. This means that distributive justice has a higher relevance for taxpayers who care strongly about receiving public goods equivalent to their tax payments than for other taxpayers (Hofmann et al., 2008).

However, are there other elements that affect perceptions of fairness? As discussed above, Bobek et al. (2013) found a link between social norms and perceptions of fairness. Verboon and Goslinga (2009) looked at the effect of personal norms on perceptions of fairness through distributive justice in their work with entrepreneurs. They found that "distributive fairness positively affects both tax compliance attitudes and intentions to comply among entrepreneurs with relatively low personal norms, while distributive justice has no significant effect among entrepreneurs with high personal norms" (Verboon and Goslinga, 2009, p. 140).

Looking at entrepreneurs also highlights another potential variable, that is, whether the effort exerted to earn taxable income is considered in compliance decisions. What Kirchler et al. (2009) found is that, despite the economic principle that spent costs ought not to affect present decisions, tax on hard-earned income is more likely to be evaded in a tax compliance

decision than on easy money as prior investments of money, time, or effort do matter in that decision.

Etzioni (1986) also looked at whether tax rates and levels of income affected perceived levels of fairness. Using US survey data between 1960 and 1980 he found that “tax evasion increased during this time, as did the percentage of Americans considering taxes unfair, even as tax rates remained stable” (p. 177). Furthermore, he found that taxpayers with lower incomes, and therefore the least incentive to evade, were most likely to perceive taxes as unfair. Etzioni attributes the growing trend to pervasive social norms therefore, rather than “increasing tax rates and one’s level of income to lead[ing] to tax evasion” (p. 177).

However, although these mitigating variables warrant further investigation, the major component of perceived equity within a tax system is related to horizontal equity and distributive justice, specifically whether it is fair that those with more, pay more. “Ability to pay is the most significant variable related to the perception of a fair tax system” (Devos, 2013, p. 22).

2.5.3.1 Ability to pay and progressive taxation

A progressive tax system is based on the premise of vertical equity, namely that there should be some element of redistribution of wealth from those with the most to those with the least. This normally manifests itself in the idea that those who earn more should contribute more... “the progressivity of a tax rate structure is commonly defined by the effective tax burden on differing classes of taxpayers, e.g. according to income or wealth” (Gaisbauer et al., 2013, p. 142).

While not every tax system in the world is progressive, one alternative, that of a flat rate tax system often appears as being regressive in nature - where the burden falls more heavily on the least wealthy as they have less disposable income and therefore a larger proportion of what they can spend is spent on taxation. The UK has a tiered progressive system, with the lowest earners/those with little gains/wealth paying nothing at all, with income taxes rising through 20% and 40% rates to the highest 45% rate for the very wealthiest (Lymer and Oats, 2015).

However, not everyone favours progressive taxation. While most people are happy to accept the 'fair exchange' of paying tax in order to benefit from public services, accepting that governments have a valid mandate to require an individual to surrender some of his or her money in order for that money to be given to another individual is a thorny issue for some people.

Gaisbauer et al. (2013) outlined three arguments used to justify progressive taxation: (i) a 'benefit argument'; (ii) an 'order argument'; and (iii) an 'ability-to-pay argument' (whereby the 'vulnerability principle' can be seen as a variation of this principle). These are defined as follows:

- (i) *The 'benefit argument' is based on the idea that wealthy citizens profit more from protective services provided by the state than less wealthy citizens; the argument could also be interpreted as making the claim that the state as the provider of a framework for human flourishing is more beneficial to wealthy people if one were to take 'wealth' as an indication of flourishing.*

- (ii) *The order argument is based on the idea of a well-ordered society, suggesting progressive taxation as an efficient means to generate revenue for the state and as an instrument to promote distributive justice. Sometimes, according to the order argument, progressive taxation increases productivity. Cohen (2008) has argued extensively against the so-called 'incentives argument' and the idea that higher taxes demotivate entrepreneurs and undermine productivity.*
- (iii) *The 'ability-to-pay principle' claims that taxes should be distributed depending upon the capacity of tax payers to pay them. Let us call the ability-to-pay 'p-ability'. This principle implies two normative elements: an element of horizontal justice (equally p-able x should pay the same amount in taxes) and an element of vertical justice (if y is more p-able than x y should be taxed with a higher rate than x). In its justification the 'ability-to-pay' principle has been linked to the 'order argument', which suggests that the ability-to-pay principle reflects a natural idea of fairness. A second source justifying this argument is the principle of the reproductivity of the tax system, i.e. the idea that a tax system must be sustainable and should impose taxes according to the citizens' abilities to contribute (exacting too much from the citizens would undermine their capacity to pay taxes in the long run) (Gaisbauer et al., 2013, pp. 144–145).*

What Gaisbauer et al. suggested was that a tax system ought to be designed with three important principles in place - those of need, desert and equality. Need is quantified as comprising a basic standard of living - ensuring that tax does not interfere with taxpayers having a 'decent life'. Decent is defined as a level below which full participation in society would be impossible.

Desert is likened to deserving, where “each person should receive according to her achievements and efforts” (Gaisbauer et al., 2013, p. 147). Equality is intended to mean that financial resources should be shared equally, but here Gaisbauer et al. use the term ‘citizenship’ interchangeably with equality, suggesting that social equality is merely another aspect of citizenship that demands equal distribution. Notwithstanding the fact that, in most tax systems, citizenship is not used as a base for taxation (the USA being a notable but not the only exception), and that all citizens are not taxed, or do not receive benefits, equally, these three tenets would seem to be in conflict. Here, Gaisbauer et al. suggest that the principle of need should be given priority over the principle of equality, and that both have priority over the principle of desert.

From the perspective of a fiscal administration, it seems clear that it is in the interests of the state to reward individual effort. Returning to the point about entrepreneurs and their efforts, if all incentive to do well and gain greater wealth is eroded by taxation, then no individual will invest the extra effort required. However, Gaisbauer et al. believe that “a progressive tax system reflects the recognition of individual differences. The ability-to-pay principle is compatible with the principle of desert as long as the tax system does not undermine a reward structure for personal effort (Gaisbauer et al., 2013, pp. 149–150). Of course, whether any given individual feels his/her personal effort is appropriately recognised by the taxing authorities is again a subjective decision, and another factor in the fairness variable as it applies to the tax compliance decision process.

The impact of tax and citizenship is discussed in more detail in the next chapter.

2.5.4 Fiscal Sociology

The narrow field of 'fiscal sociology' (Ganev, 2011; Musgrave, 1992) focuses particularly on the 'fair exchange' of taxation and the concept of quasi-voluntary compliance (Levi, 1989; Martin et al., 2009).

Fiscal sociology theory posits that consent to be taxed is a social contract and is "a collective fiscal bargain in which taxpayers may surrender resources willingly if they believe that those taxes fairly reflect the cost of providing for the public good. To say that taxpayers are concerned with fairness means that taxpayers are not concerned only with their own individual costs and benefits – all taxpayers' consent is crucially dependent on how they believe other taxpayers are treated" (Martin et al., 2009, p. 18).

Developing the idea further, Levi (1989) proposed the idea of 'quasi-voluntary compliance' which combines both carrot and stick; people comply because they want to, but non-compliers are punished. The success of quasi-voluntary compliance is not only dependent on governments generating confidence in their "credibility and capacity to deliver" (Levi, 1989, p. 53), and using tax monies for public good, but also on other taxpayers keeping their side of the bargain. Governments need to convince taxpayers that their contributions make a difference, and that everyone is playing by the same rules: no one likes to think that they are 'a sucker'.

However, quasi-voluntary compliance is conceptualised as a rational decision taking account of certain factors, as opposed to forced compliance (coercion) or non-thinking obedience to a norm, where individuals just pay taxes because it is 'the done thing', with no need for an element of fairness.

Yet with greater awareness of tax avoidance and evasion, can either quasi voluntary-compliance, which is an essentially social contract, with both carrot and stick, or the idea of a social contract or social norm explain why people pay tax, when both are dependent on the concept of everyone else paying tax too? Civic duty as understood through the concept of citizenship, specifically social citizenship, is a separate idea of 'doing the right thing' even if others are freeloading.

2.5.5 Civic Duty

While the idea of citizens and civic duty has been on the fringes of previous work on tax compliance, it is not often explicitly explored as a factor in individuals' tax compliance decision.

Given the seemingly simple relationship between citizenship and taxation, it is perhaps surprising that there are few studies on this relationship, particularly when compared with the number of studies on tax avoidance, tax evasion and tax morale. Likhovski's work (2007) looks at developing model citizens, who would naturally also pay all their tax dues with aplomb, and considers how, from a socio-citizen perspective, those who avoid payment of tax, and their corresponding civic responsibilities, are 'lunatics', a completely opposite position to the economic models of tax evasion, which suggest that actually, it is the tax law-abiding citizens who are acting against what would make economic sense to each individual (Allingham and Sandmo, 1972).

Scholz and Pinney (1995) used heuristics to measure the sense of civic duty that causes citizens to act in a manner contrary to their best (economic) interests, citizenship overriding individual benefits. However, they also found that also risk of detection is a factor, with under/over

estimates of risk of detection only being relevant where duty is not a factor. They concluded that detection rates have no effect if duty, in the sense of civic duty, is paramount.

Orviska and Hudson (2003, p. 100) proposed that, in making decisions on tax compliance, people are motivated “not just by a concern to maximize their own wellbeing, but by a sense of civic duty”. However, this work used survey questions related to attitudes towards volunteer work and propensity to abide by the law to gauge civic duty. The citizenship literature (discussed in Chapter Three) would suggest that there is more to a sense of civic duty than this.

Other research has suggested that people with a high sense of civic duty comply with tax law because of their intrinsic beliefs, not because they are forced by sanctions and audits (Frey and Torgler, 2007; Hofmann et al., 2008). While this is again tied to personal norms, if a link could be established between personal norms and civic duty, this would aid in understanding how these norms develop.

From within the citizenship literature, Isin and Turner (2007) describe the accepted notion of a set of contributory rights and duties as being most clearly evident within a national tax system. In exchange for tax monies paid over, citizens can expect certain things from the state. However, while for some this might constitute an expectation of assistance, for others their rights represent the “negative freedom” from interference in their private affairs by the state (Conover et al., 1991; Isin and Turner, 2007). Nevertheless, Isin and Turner (2007, p. 9) consider the

hallmark of a democratic modern state composed of citizens is a universal taxation system with few loopholes for the majority of the population. Tax evasion and corruption are correspondingly the hallmarks of failing states.

2.6 Conclusion

This chapter has sought to discuss the tax compliance decision, and some of the factors that may influence any given individual's personal choice exploring a range of different literature to explore how best enquiries into the decision may be understood or explained.

The moveable definition of tax avoidance has been discussed, its fluid nature making the line between tax avoidance and tax evasion even more difficult to discern, with a corresponding effect on the tax compliance decision. Unsurprisingly, the factors influencing the tax compliance decision are also far from simple, with philosophical and ideological groundings for such decisions feeding into economic, social, behavioural and psychological influences on the decision. While the neo-classical economic theory of tax evasion does not fully explain why people pay tax, neither can any other single factor explain the complex decision process and it was therefore necessary to explore deeper into the various literatures in order to gain a greater understanding.

Given the multi-faceted nature of the tax compliance decision, it was necessary to explore how far the various elements identified impact on taxpayers' thoughts and actions, and to question whether the different influences could be considered as part of a broader understanding common to all taxpayers. Rather than wondering what single driver it is that

makes us pay tax, over and above an intrinsic level of tax morale or how far we trust the government with our tax monies, is paying tax instead part of a commitment to the greater good? Could such a conceptualisation be better expressed as being part of good citizen behaviour? Good citizens might be defined as those assuming the rights and responsibilities of social citizenship as defined in the following chapter, but a good *tax* citizen could perhaps be something different, given the numerous influences explored here. Or, is tax compliance less dependent on citizenship and more on changing norms - do we pay tax because everyone else does, but would we then stop paying tax if that behaviour becomes a societal norm? Are there reasons why we might choose to pay tax regardless of duty or normative behaviour? The literature does not necessarily provide clear answers to such questions as it stands.

Nevertheless, civic duty has been identified as one of the elements that affects the tax compliance decision, but is it unclear how far this takes effect, or whether a sense of citizenship overrides perceptions of fairness or normative pressures, or vice versa, and the relative importance of these concepts in that decision.

Chapter 3: What is citizenship and why is it important?

The previous chapter identified a number of factors influencing the tax compliance decision, and ended by discussing whether the concept of civic duty, or more specifically, whether the ideas and concepts embodied by a modern understanding of citizenship form part of how citizens approach the tax compliance decision.

This chapter therefore explores what citizenship is, and which themes have shaped and developed the concept throughout history, before exploring in more depth the concepts of social citizenship and social justice, starting with the rights and responsibilities found therein.

However, the modern conception of citizenship is still evolving, and some of the ways in which the concept has changed and developed are explored in the latter parts of the chapter, together with a look at some of the limited empirical work that has been done to examine how citizens define and understand citizenship and the concepts associated with their own citizenship.

Finally, this chapter considers when citizens might be perceived as less equal than others and whether, if tax is accepted as a necessary part of being a citizen, those who do not contribute form part of an underclass of citizen.

3.1 The development of 'citizenship'

It would be impossible to attempt to present a full historical analysis of citizenship, indeed to do so would require a thesis in its own right. Nevertheless, this chapter starts by examining some of the broad themes that have impacted on the definition and development of the concept of citizenship over time, highlighting key areas such as social citizenship and social justice, before looking at how citizenship is defined and understood today, in both theoretical and empirical terms.

Note this chapter broadly outlines the development of citizenship in Europe: other countries and continents will have developed their own citizenship in different ways, and indeed their contemporary understandings of citizenship may still be very different from the ideas described here.

3.1.1 Members of the ruling class

Historically, citizenship as a concept was borne out of the development of the city-state in the classical world. In classical Greek and Roman times, the idea of a city state was a public forum for rational men, where the dominant classes depended on slaves, meaning that the “dominant class was an urban population of free, legally constituted citizens who nevertheless depended on the exploitation of... slave labour” (Turner, 1990, p. 201). Members of the *polis* had a right to speak, be heard and to govern, but only by virtue of the subordinate status of other classes of individual, to include women, slaves and children.

While it is difficult to pinpoint the exact birth of citizenship as a concept, the earliest accepted civilisation evidencing some facets of citizenship is the ancient Greek city of Sparta (Heater,

2004). While this may appear surprising - after all Spartans are famed for their prowess in battle and uncompromising attitude towards enemies, rather than for civilised behaviour - the Spartan system is often considered the birth of citizenship, and it is upon this system that later philosophers such as Plato and Aristotle based their findings.

In Ancient Greece, Spartan society included a number of important elements that can be aligned with the 'facets' described above. These not only point to the emergence of a concept of citizenship, but are ones that still remain in some forms in more modern interpretations of citizenship. Spartan 'citizens' enjoyed an overriding principle of equality, could own land and have economic interests, were party to (extremely severe) training and upbringing regimes, shared communal meals, were expected to do military service and show 'civic virtue' as well as personally participating in government (Heater, 2004). All this held for a very successful society, one that is still recalled over 2700 years later.

However, Spartans were less well known for being political or philosophical theorists and thus academic thought in the topic was not documented until Plato (428-347 BC) wrote his papers, of which *Laws* is most concerned with citizenship.

Plato studied the Spartan system in some detail and in his *Laws* outlined his idea for a Utopian society called Magnesia. In this ideal world, the *polis* was a city state where citizens were limited to 5040 households. Citizenship, here in its classical origins, was therefore a privileged status, with citizens who did not engage in economically productive work, as they had slaves to do this for them, and were supported by lower classes of non-citizens including serfs. Under Plato's model, citizenship was inherited through families, and even citizens themselves were further stratified into different classes.

While this idea of citizenship seems far removed from the current thinking, Plato's work did introduce a number of important concepts. First, Plato's citizens governed themselves, and it was this civic duty and political engagement that became a starting point for the development of citizenship. Note, however, that Plato still reserved the best positions for those in the higher classes, measured by wealth, status and occupation. Although all classes of citizen (but not non-citizens) were entitled to be a part of the representative council, places were allocated to classes of citizens in proportion to wealth and fines were levied for non-voting. The lowest classes of citizen therefore had least incentive and least opportunity practically to be part of the civic process.

Plato was also in favour of the Spartan education system - although rather than advocating brutal military training he wanted to further civil accord. In his ideal world, Plato's aim for stable and harmonious polity was achieved by developing citizens who were deferential, law-abiding and self-controlled (Heater, 2004).

However, Plato's work on citizenship was swiftly to be overshadowed by that of his student, Aristotle. While Aristotle also studied Sparta in depth, he disagreed with Plato on some aspects of how citizenship should develop. In his *Politics*, Aristotle specifically criticised the communistic nature of Plato's Magnesia which polarised the rich and the poor.

Aristotle also considered the problems of different types of citizens and non-citizens: resident aliens, the young, the old and the disenfranchised, and recognised that, far from Plato's Utopian and deferent ideal, citizenship itself was a complicated and contested subject: "the nature of citizenship...is a question which is often disputed: there is no general agreement on a single definition" (Heater, 2004 p.vii).

One of Aristotle's most famous quotations often paraphrased as 'man is a political animal' is actually a bastardised adaptation of "man is an animal impelled by his nature to live in a polis" (Heater, 2004, p.17). What Aristotle was saying is that man wants to live in a civil society, and, taking the Spartan and Plato's ideas further, Aristotle further felt that every citizen should take an active part in ruling, taking it in turns to both reduce the burden and to ensure every citizen played a part. For this reason, Aristotle believed that a *polis* had to be limited in size such that it was small enough for this full participation to be practically and administratively possible.

Aristotle, then, wanted all citizens to be more equal and share similar duties, but recognised that not all citizens are the same. In his *Ethics* Aristotle further identified that, in a non-Utopian civic society, there are both 'good' and 'bad' citizens - even Plato's system included fines for citizens not performing their proper duties - but that citizenship works better if the good citizens prevail. Aristotle's notions on citizenship went on to form the basis of Athenian society at that time.

The other main classical civilisation was in Italy and what later became the Roman Empire. The Roman monarchy was abolished in around 509BC and over the next 1000 years, the Roman concept of citizenship was developed albeit in a different way from the Greek conceptualisations of citizenship. The Romans were more flexible in the definition of what comprised a citizen, and the Roman way was also far more flexible in adapting the citizenship concept to the changing needs of Roman society.

As in the Greek model, there were different classes of citizen, but Roman citizenship developed progressively – slaves, if freed, could become citizens of Rome, and the plebeian classes demonstrated in 494BC to protect their rights as citizens.

Rome embraced the idea of rights and responsibilities that were formalised in later theories of social citizenship. From 44BC magistrates kept a census of all registered citizens to assist in ensuring citizens complied with their duties of military service and paying taxes (Heater, 2004). These were, largely, the responsibilities of Roman citizens that were exchanged for the rights to live and trade in Roman cities. Note, however, that taxes were not limited to citizens - non-citizens were also subject to taxes but at a higher rate than for non-citizens, thereby providing a benefit of being a citizen. Non-citizens were also not entitled to vote.

3.1.2 From denizens to citizens

The concept of citizenship has not remained historically static and a number of different themes has emerged over time as the concept has changed, refined and clarified its meaning. After its initial formulation, the importance of a political commitment to a *polis* declined and a Stoic idea of a civic obligation became more prevalent (Turner, 1990) and the attempt to overcome a kind of political disengagement with some kind of civic fraternal obligation.

However, before a collective identity could be established, and an obligation understood, it is important to explore how individuals identified themselves, and how the idea of a social obligation came to be.

The advent of Christianity in the western world meant that allegiance to the state was superseded by allegiance to a higher power. Cities became dioceses and bishops became civic leaders. The main premise of Christianity - that this earthly life was of little consequence in the search for eternal redemption in the afterlife - created a state of conflict with the duties of citizenship. Take for example the idea of a Spartan fulfilling military service and killing an enemy in protection of Sparta: while he was being a model citizen he would be a very bad

Christian indeed, breaking the commandment not to kill (Heater, 2004). What is less clear, however, is how the prohibition of killing fitted with the 'just war' of the Crusades.

However, by the 12th and 13th centuries, urban life in Europe continued to develop, with trading rights within towns spurring the creation of communes (a word still used in France today) and the creation of feudal rights - where communes, towns and cities sought self-governing status with a view to obtaining civic freedom. This also contributed towards a reawakening of civic pride and identity.

In England, these liberties were formalised through the use of charters, detailed bills of rights and independence. Those belonging to a city were known as 'citizens' and those to a chartered town (a borough) were called 'burgesses'.

By the 16th century, the nation states of Europe, such as England, France and Spain were established as monarchical states and the definition of citizen sought to transfer allegiance from a town or county to a country - for example to become a citizen of England rather than of Epsom.

3.1.2.1 Developing a Social Contract

Following the demise of the feudal state and the advent of individualism (Faulks, 1998), people were freed from the absolute power of the state (or feudal equivalent) but still needed to find a way to work together as part of a burgeoning society. The foundations of liberalism saw Thomas Hobbes (Hobbes, 1651) and Locke (Locke, 1690) theorise that every man is essentially equal (although not every woman) and that society existed by dint of a social contract, into which every man was free to enter.

Hobbes's *Leviathan* was published in 1651 (Hobbes, 1651) and he strenuously argued that civil peace and social unity are best achieved by the establishment of a commonwealth through social contract. Hobbes believed every man's greatest aim is self-preservation and that working together, in commonwealth, is the most effective way for each individual to protect himself. Hobbes's ideal commonwealth is ruled by a sovereign power, described as an artificial person, responsible for protecting the security of the commonwealth and which is granted absolute authority to ensure the defence of common people. In this way, people would act together in order to achieve the greatest outcome for everyone, which also gives the individual what he wants, that is, safety. The government is only there to help advance and protect the collective individuals' needs.

Similarly, Locke's *Second Treatise of Government* (Locke, 1690) expresses his belief that sovereignty lies in the hands of the people. Locke argues that people are equal and invested with natural rights in a state of nature in which they live free from outside rule. Going on from natural law, where every individual can protect himself as he sees fit, Locke saw that the development of barter and currency removed some of the limits of property, meaning that individuals have greater incentive to protect greater amounts of property.

Heater, indeed, describes the connection between property and citizenship as "as old as the status of citizenship itself" (2004, p. 66) and traces the theme of property ownership back to Ancient Greece, where Aristotle insisted on property ownership as a pre-condition to citizenship. Heater claims that this requirement was maintained through history on the grounds that property ownership was viewed as a virtue given that "a man without property would have no leisure to involve himself in public affairs; a man with property was less likely

than a man without to succumb to bribery”(2004, p. 67). Property ownership, and the rights attaching thereto, became a significant issue from the 17th century onwards, with the political, rather than merely the monetary value of land gaining prominence and offering a sense of stability. At its most extreme, Heater suggests, it was only landowners who seemed suitable to enjoy the full benefits of citizenship. This inequality, contrary to the burgeoning principle that all citizens were entitled to the same basic equality, was influential in the revolutionary times of the 18th and 19th centuries (see below).

However, to return to Locke’s argument, as part of a social system, people exchange some of their natural rights in order to enter into society with other people, the main advantage of which is gaining protection arising from common laws and a common executive power to enforce the laws. While individuals need some over-arching executive power to protect their own property and defend their liberty, the civil state is beholden to the people, and only exists to protect and preserve individuals’ rights. Locke describes a state where people have the right to dissolve their government, if that government ceases to work solely in their best interest: the government has no power or sovereignty of its own.

While neither Hobbes nor Locke developed their theories into one of citizenship per se, the concept of individualism itself, where each person is a sentient individual capable of autonomous decisions, allows the consideration of the rights of those individuals within the sphere of the outside world, which naturally includes other people who also have rights. Rousseau’s 1762 work built on the ideas of Hobbes and Locke in developing his Social Contract theory.

Jean-Jacques Rousseau, in *The Social Contract* (Rousseau, 1762) began with questioning why people would infringe their own freedoms in favour of a sovereign power. He suggests that any government's political authority is legitimised only by a social contract agreed upon by all citizens for their mutual preservation.

Rousseau (1762) thus explored the basis for a legitimate, political authority in which people must give up their natural liberty and determined that the solution to the problem of legitimate authority is the "social contract", an agreement by which the people work together for their mutual preservation. Rousseau called the collective grouping of all citizens the "sovereign", and, echoing Hobbes, claimed that it should be considered in many ways to be like an individual person. However, while each individual has a particular will that aims for his own best interest, the sovereign's interest, or the "general will", always promotes the common good, in contrast to the private will of each citizen which strives only for personal benefit. The sovereign's authority is limited to matters of public concern, but public concern is a serious matter for every individual: Rousseau even discusses the death penalty for those who violate the social contract.

Rousseau further believed that, when voting, people should not vote for what they want personally, but for what they believe is the general will. In a 'healthy' state, the results of these votes should approach unanimity as everyone votes the 'correct' way. Rousseau also considers a religious element, which helps ensure individuals are 'good citizens' of the state.

3.1.2.2 Liberté Egalité Fraternité

The time of Rousseau's writing coincided with periods of political unrest around the world.

Both America and France were to have people's revolutions, and the sentiments of 'liberté,

égalité fraternité' (freedom, equality and brotherhood) first formalised by Robespierre in the late 18th century still form a major part of the French national identity today.

Robespierre himself was deeply committed to Rousseau's theories of the social contract and civic virtue (Heater, 2004), but he also argued fervently that equality of citizens took precedence over anything else - and was specific on the subject of paying tax as a requirement of citizenship:

Each individual therefore has the right to participate in making the law which governs him and in the administration of the public good which is his own. If not, it is not true that all men are equal in rights, that every man is a citizen. If he who only pays tax equivalent to a day of work has fewer rights than he who pays the equivalent to three days of work ... then he who enjoyed 100,000 livres of revenue has 100 times the rights as he who has only 1,000 livres of revenue.

It is not taxes that make us citizens: citizenship merely obliges a man to contribute public expenditure in proportion to his means. You may give the citizens new laws but you may not deprive them of their citizenship. (Heater, 2004, p. 83)

Note that while Robespierre's words (cited in Heater, above) show he was adamant that more taxes does not equal more citizenship, he does still accept an inherent principle of contributing 'in proportion to his means'.

3.1.3 Exclusionary citizenship

As citizenship became more exclusionary than inclusionary, it was important to identify who was a citizen in order that those who are not citizens could be excluded from the social group.

Simon (2013, p. 513) even describes citizenship as a “weapon against outsiders” as well as against insiders. This was of crucial importance in 20th century Germany, where the concept of *Volk* paved the way for the removal of citizen, and human, rights from certain specific groups of people in Nazi Germany.

While Europe in particular has been more harmonious in later years, there is still a battle for inclusion, or exclusion from nominal citizenship. Historically, moving border delineations mean that people who identify themselves as German are in fact French, or that Romanian people, who identify themselves as Romanian, who have lived in the same place their entire life, may qualify as Hungarian citizens. The Yugoslavian conflict in the 1990s saw people who had lived together in the same country, who shared the same language and much culture, fighting over lands and individual nationality.

Nevertheless, most people have an understanding of their legal citizenship, usually formalised with a passport or national identity card, although it is possible in many jurisdictions to have more than one legal citizenship. What holding a passport does not do, however, is shed any light on how people see themselves as citizens, or how citizens interact with each other in day to day social groupings.

3.2 Social citizenship

Having journeyed through incarnations focussing on political engagement, political disengagement, inclusion and exclusion, belonging and revolution, the interaction of the social contract theory and the burgeoning development of citizen rights led to the formulation of the concept of social citizenship.

The seminal work on the development of citizenship as a social construct came with TH Marshall in the 1950s (Marshall and Bottomore, 1987). Marshall's marriage of rights and responsibilities, namely that one cannot expect to enjoy the rights of citizenship without also undertaking the duties associated with that status, conferred an earned status of citizenship that is still considered the foundation for studies on social citizenship today.

While some scholars believe an idea of citizenship as it relates to society was already in existence (Dean, 2013; Isin, 2008), many are of the opinion that Marshall's theory provided an important stepping stone in developing social theory by seeking to address the gaps left by civil and political rights, particularly under the harsh realities of capitalism (Hoxsey, 2011). The idea of social citizenship inherently includes some consideration of the tensions between citizenship, welfare and capitalism, as the notion of a social citizenship includes the intention to redistribute resources to offset the negative consequences, from society's perspective, of a free and unchecked capitalist market (Turner, 1990, 2009).

In 1949, Marshall gave a series of talks, which were later compiled into his 1950 essay, *Citizenship and Social Class* (in Marshall and Bottomore, 1987), was the first time the relationship between the entitlement and responsibilities of citizenship had been formally theorised, although the idea of duties and rights of citizenship forms a recurring theme in citizenship history. Marshall's three classes of rights awarded to citizens included the civil, the political and the social, with this latter category reinforcing the ideals that had been outlined in what was to become the welfare state in the UK (Beveridge, 1909; Mead, 1997).

Marshall's work went further than positing an intangible form of a social contract; rather citizenship was something to be won, and coveted: awarding those in possession inalienable

rights, not only to do and have things, but also the right not to be interfered with by the state. However, the trade-off was the reciprocal responsibilities, attaching both to citizens and to the state, that permitted those rights to be enjoyed freely (Dwyer, 2010; Lister, 2007; Mead, 1997).

However, while Marshall was clear on the rights of social citizenship, the specifics of the duties' side of the bargain is less clear in his writings - both for citizens wanting to defend their rights, but also when considering the extent of the State's responsibilities owed to its citizens.

Marshall's theory sought to find a way to make the equality inherent in citizenship compatible with the inequality inherent in class structure (Heater, 2004).

3.2.1 Citizenship and Social Class

Marshall himself drew on the works of Alfred Marshall (Marshall, 1873) whose work questioned whether "the amelioration of the working class has limits beyond which it cannot pass" (Marshall and Bottomore, 1987, p. 4), and who identified that the working class were already learning to value education over increased wages and were beginning to accept the "private and public duties of a citizen" (Marshall and Bottomore, 1987, p. 4) as is required to become a 'gentleman'. This was the start of a recognition of social rights such that every citizen, whilst nominally accepted as being equal does not, in terms of society, have equal opportunity.

Marshall himself defines citizenship, in light of Alfred Marshall's work and in the social context, as "a claim to be admitted to a share in the social heritage, which in turn means a claim to be accepted as full members of the society, that is, as citizens" (Marshall and Bottomore, 1987, p. 6).

Marshall's theory is underpinned by the splitting up of the idea of citizenship into three constituent parts: a civil element, a political element and a new social element. He describes these elements thus:

The civil element is composed of the rights necessary for individual freedom-liberty of the person, freedom of speech, thought and faith, the right to own property and to conclude valid contracts, and the right to justice.

By the political element I mean the right to participate in exercise of political power, as a member of a body invested with political authority or as an elector of the members of such a body.

By the social element I mean the whole range from the right to a modicum of economic welfare and security to the right to share in the full social heritage and to live the life of a civilised being according to the standards prevailing in society (Marshall and Bottomore, 1987, p. 8).

Marshall suggested that social rights had, in the distant past, been conferred by community membership (of the village, trade guild, etc.) but had been eroded from the 12th century onward when civil rights were more tightly defined in law. The formalisation of legal processes, at a time when classes were being eroded, meant that any social responsibilities were only considered for those who were not citizens, for whatever reason. By way of example, the 19th century *Poor Law Amendment Act 1834* only applied when people fell from citizenship - as an alternative to the rights of citizenship, not as part of a citizen's entitlement. Similarly, the contemporaneous *Factory Act 1833* excluded citizens. Even at the start of the

20th century, such benefits were only provided to the indigent as alternatives to the rights of citizenship.

Marshall contends that it was not until the 20th century that social rights became developed sufficiently to be considered on an equal footing with civil and political rights. Until this point there was an imbalance in citizens' rights.

However, while rights were being developed, Marshall's contribution to the citizenship literature was to align the concepts of rights and responsibilities of citizenship. Put simply, Marshall argued that an individual could not expect to enjoy the full rights of a citizen if that individual were not also prepared to assume the responsibilities of a citizen:

If citizenship is invoked in the defence of rights, the corresponding duties of citizenship cannot be ignored ... acts should be inspired by a lively sense of responsibility towards the welfare of the community (Marshall and Bottomore, 1987, p. 41)

Unfortunately, Marshall was not prescriptive in exactly what the rights and responsibilities of citizenship were, claiming there is "no universal principle that determines what those rights and duties shall be, but societies ... create an image of an ideal citizenship against which achievement can be measured" (Marshall and Bottomore, 1987, p. 18).

Citizenship is a status bestowed on those who are full members of a community. All who possess the status are equal with respect to the rights and duties with which the status is endowed (Marshall and Bottomore, 1987, p. 18).

Marshall's theory develops the idea that these three strands build upon one another - that civil rights of citizenship expand to include political and then social rights. However, Mead

suggests that, at whichever stage of development, citizens ask themselves “what shall be the terms of belonging in the society? What as a citizen do I give and receive?” (Mead, 1997, p. 225).

Marshall’s (liberal) theory centred on the idea of social responsibilities as well as rights, and the importance of taxation as a citizenship obligation is central to this implied bargain. As Marshall stated “the duty whose discharge is most obviously and immediately necessary for the fulfilment of the right is the duty to pay taxes and insurance contributions” (Marshall and Bottomore, 1987, p. 122). Marshall also discusses the importance of working (preferably hard) and military service as important contributions to fulfil the responsibilities’ side of the citizenship bargain. However, Marshall’s limited scope for alternative contribution, whereby citizens could contribute in non-working ways, and the lack of possibilities included for women, the elderly or the incapacitated have attracted criticism, as discussed below. As citizenship has been re-researched and developed since the 1980s, other scholars have given paramount importance to other elements, such as the obligation to work, family obligations, and even wider social obligation (Orton, 2004).

Marshall’s acceptance that the ultimate result of a capitalist economy is to produce inequality but that citizenship ought to be egalitarian is what prompted the formalisation of social obligation in his theory. As Turner (1990, p. 190) put it “citizenship is a status position that mitigates the negative effects of social class position within capitalist society”. Similarly, as Barbalet (1988, p. 16) notes, equal rights are not necessarily the final aim, as different rights have different effects on different people as “equality of opportunity leads to inequality of outcome or condition”. For example, paupers and millionaires have the same rights, such as

to own property but non-comparable opportunity, so the distribution of property is not affected by equal rights alone.

However, what Mead (1997, p. 225) describes as “the progressive issue” is how far, if at all, government should intervene in society to even out the uneven status of citizens. Mead describes progressive politics as a debate between those who want greater equality, achieved through increased government intervention, and those who want less interference from a smaller government. This idea is comparable to that of horizontal equity through taxation, as discussed in Chapter Two, and the notion of progressive taxation as a tool to enable greater therefore equality of wealth distribution.

3.2.2 Developing social citizenship further

Marshall’s model of citizenship is the foundation of modern citizenship studies and “remains important because it is descriptively one of the best accounts we have of the growth of social rights in twentieth century Britain” (Turner, 2009, p. 65). It was also the first conceptualisation of social rights as a complementary and essential element of civil liberties rather than as something in direct conflict with individuals’ own rights, evidence of Marshall’s “ability to proffer almost opposite possibilities without being contradictory” (Barbalet, 1988, p. 11).

However, Marshall’s work has been criticised for being too UK-centric (Mead, 1997; Turner, 1990), but even when applying this model in the UK, it is important to note that the rights of citizenship are assumed, rather than won in many cases. Isin and Nielsen (2008) express the opinion that formal citizenship, whereby citizenship is a badge, or status normally represented by a passport or similar document is different from substantive citizenship, where citizens play

an active role in earning their citizenship status, and ought to be differentiated as such. There is also a number of theories suggesting a split between different types of citizenship - contractual v communal, passive v active, liberal v communitarian, thin v thick - to name but a few (Conover et al., 1991; Conover, 1995; Turner, 1990, 2001). In addition, Isin (1997) describes citizenship as a bundle of rights and responsibilities, but suggests that the claiming of rights in itself makes citizens responsible (Isin and Nielsen, 2008).

Turner (1990, 1997, 2001) and others also criticised Marshall's work for a lack of focus on the responsibilities' side of the rights and responsibilities of citizenship and considered his work to be merely a starting point from which more nuanced theory could be expanded and developed. Turner (1990) outlined three routes of entitlement by which a citizen could earn sufficient social capital to be considered as such. These included work, military service and reproduction, and persons engaging in one or more of these could be assured they are making sufficient contribution. He also notes that there may be a fourth option, that of undertaking voluntary activities for the good of the community.

Some scholars also claim that Marshall's development of social rights did little more than identify the zeitgeist. In Marshall's time, Britain was more socialist, partly as a result of the wars, the effect of which Marshall does not explicitly acknowledge, than in Alfred Marshall's time. Was the development of a raft of social rights merely inevitable given the irresistible progress of democracy (see Hoxsey, 2011; Marshall and Bottomore, 1987; Turner, 1990)?

Others, such as Charles Tilly, focus more on the state as a driver of citizenship, with war and coercion mobilising states to capture citizens and then extract funds from them through taxation. He claims that it is the waging of war that both incentivises the formation of states,

and how they are practically formed (Tilly, 1997). Tilly's theory claims that it is coercion that works for states, as those who can apply force to members of a state obtain compliance, and with compliance comes material gain (Gentile and Tarrow, 2009), sentiments also found in Kirchler's work on the power of governments being a factor in rates of tax compliance (Kirchler et al., 2008).

That is not to say that Tilly discounts the rights and responsibilities framework of social citizenship; he suggests that "citizenship refers to a relation between 1) governmental agents acting uniquely as such and 2) whole categories of persons identified uniquely by their connection with the government in question" but that those relationships and interactions "cluster around mutual rights and obligations" (Tilly, 1997, p. 599).

While accepting that there are mutually enforceable claims as part of a citizenship relationship between individuals and the state, he suggests that "citizenship has the character of a contract: variable in range, never completely specifiable, always depending on unstated assumptions" (Tilly, 1997, p. 600). He goes on to say that while the rights and responsibilities of the contract, which vary and fluctuate, are not explicit nor specific, they are "sufficiently defined that either party is likely to express indignation and take corrective action when the other fails to meet expectations built into the relationship" (Tilly, 1997, p. 600).

Tilly concludes that, although "no standard definition of citizenship has yet gained scholarly consensus" citizenship can, at its broadest level be described as "a certain kind of tie" (Tilly, 1996, p. 8), whether or not this 'tie' is generated from coercion by the state. Without attempting to define the rights and obligations, and recognising that these have changed over time and in nature as causes such as the emancipation of women have become more

prominent, he sees citizenship as “social relations that remain incessantly open to interpretation and renegotiation” (Tilly, 1996, p. 12).

3.3 Social justice

When considering, therefore, that citizenship arises out of a social conceptualisation of obligations owed by a state to its citizens, consideration must be given to whether these obligations are met in an appropriate way. Classical civilisations were founded on the principles that while citizens had rights, slaves and plebs did not. While the very nature of citizenship is exclusionary, in that for some to be classed as citizens, others must be identifiable as not, the social justice element of citizenship has also developed over time.

When referring to social justice, as David Miller suggests, crudely “discussing how the good and bad things in life should be distributed among the members of a human society” (Miller, 2001, p. 1). In effect, when we look at whether something is considered just, we are seeing whether one person or group of people is disadvantaged (and conversely another advantaged) when comparing society as a whole. While this is often concerned with matters of finance, such as gaps between rich and poor, and relational levels of taxation, this is not the sum of social justice. Equality of opportunity, such as free education and health care for all, is also crucially important.

However, to paraphrase Hobbes, given all men are not created equal, social justice has elements of redistribution within its remit, which means that the arguments about distributive justice, and the works of Rawls and Nozick (see 2.4.1.2) are again relevant here.

In simple terms, social justice asks “what obligations, if any, the rich have towards the poor” (Barry, 2005, p. 4). This gives rise to two important questions: do the rich have any obligation to those lower down the economic pecking order, and if so, is this dependent on any quantifiable advantage they may have had; and are the rich morally bound not to profit from other people’s lesser fortune?

In considering the first question, Barry excludes those who have “come by their wealth by manifestly illegitimate means such as theft or extortion” (Barry, 2005, p. 4), as presumably these people should not be permitted to retain their wealth at all. While Barry discusses the tax status of non-domiciles and the potential exodus of tax exiles were taxation to be raised to a level that would support wealth equality, he does not, however, link the notions of tax avoidance or evasion to those of theft or extortion, despite tax evasion being precisely that.

In terms of the second question, initiatives such as minimum wage, and more latterly, the living wage, as well as national insurance and compulsory pension contributions are state-centric measures to restrain the march of capitalism. However, some would argue that it is not equitable for company owners and directors to earn many multiples of average wages of staff, giving rise to some calls for greater regulation of and caps on senior level pay packages.

Taking these important concepts further, after World War II, a number of key ideas of what social justice might mean were developed:

1. The power of capital should be held in check by unions and government/state regulation to ensure “people come before profit”(Barry, 2005, p. 5). Note that this deliberate interference into the workings of capitalism by the state is the antithesis to the ‘market is king’ philosophy of neo-liberalism.

2. That the capitalist distribution of income and wealth is unacceptably unequal and should be changed by taxation. The inequalities at the lowest end also justify the founding and funding of the welfare state.
3. Education and health services should be available to all to remove the market criterion of ability to pay. Note that this is not the same ability to pay in terms of progressive taxation (see section 2.5.3.1), but quite simply a choice between being able to pay for healthcare or not being able to afford it and going without. (Barry, 2005)

Barry further suggests that wealth inequality is a more serious consideration than income inequality as “for all the ill-effects on the social fabric represented by income inequality are much greater in the case of wealth inequality” (2005, p. 188). There are also financial data to support the assertion that the wealth gap, the chasm between rich and poor, continues to widen, with the advantage of starting with greater amounts of wealth having a compound effect. As Barry puts it, the first million is still the hardest, and that most of the wealthy “started with a substantial sum” (2005, p. 189).

Given that wealth inequality is a major part of the imbalance social justice seeks to address, Murphy and Nagel (2002) suggest it is obvious that questions of social justice should have an impact on tax policy as it relates to such inequalities. Tax was, as noted above, identified as the best way to deal practically with the inequitable capitalist distribution of wealth and income.

However, determining what is ‘fair’ and what the most appropriate rebalancing adjustment might be are far from simple. Even within largely homogeneous groups there are varied

circumstances and determining who needs the balance tipping in their favour, and by how much, is fraught with difficulty. As Murphy and Nagel summarise:

“in relation to taxes, it manifests itself in controversies over the fairness of differential tax treatment of persons with distinguishing characteristics who are in other ways economically comparable. The question arises with respect to savers and spender, the married and unmarried, people with children and people without, and so forth” (2002, p. 57).

This raises the idea of distributive justice again, and brings the redistributive mandate (or lack thereof) into the spotlight once again. Depending on any given taxpayer’s position or perspective, is it more important to prioritise social justice and include an element of redistributive levy within the tax charge, or is it fairer to allow those who have done well to retain the fruits of their labour? After all, does a citizen not have the right to own and retain his or her property? This debate has considerable implication on tax policy given the “wide range of possible views on the legitimate ends of government; protection of individual rights... creation of social and economic justice through equality of opportunity or redistribution” (Murphy and Nagel, 2002, p. 57).

Ultimately, in the UK it is widely acknowledged that an element of tax levied is redistributive in nature in order to try to establish some element of social justice. How far taxpayers accept the legitimacy of this is perhaps questionable although Murphy and Nagel note that the government does not actually need explicit approval, provided it has the mandate to govern: “the state must pursue the interests of all its citizens according to some standard of fairness

or equality and may obligate individuals to contribute to this impartial end through taxation and various redistributive policies” (2002, p. 57).

However, what Murphy and Nagel go on to say is that citizens *ought* to support this tax policy. Returning to Rawls’ ‘original position’ (see 2.4.1.2), without knowledge of one’s own position in society, an impartial aim of making things better for everyone should be welcomed: “as citizens, individuals are morally obliged to support such impartial public institutions” (2002, p. 71).

As we saw in Chapter Two, the fairness of tax policy is an important issue in the tax compliance decision, and the idea of social justice is aligned with a similar idea of fairness. As noted, however, one’s perception of fairness is subjective, and depends on a number of different factors, not least one’s own circumstances, and “usually, when fairness is an issue with regard to the tax system... it is related to differences over steep economic inequality, individual responsibility, the alleviation of poverty, equality of opportunity, universal guarantees of basic social protection and the sharing out of the cost of government and other public goods” (Murphy and Nagel, 2002, p. 174).

3.4 Defining citizenship

Notwithstanding Marshall’s conceptual rights and responsibilities, citizenship itself is essentially a “contested concept” (Lister, 2007, p. 49) that has a universal awareness, yet very little understanding (Dean and Melrose, 1999; Hallgarten and Pearce, 2000). Lister (1998, p. 5) goes so far as to say that the term citizenship “means different things to different people”, suggesting that one person’s perception of what it means to be a citizen could be very different from another’s. It may be, therefore, that citizenship can only truly be defined by

what being a citizen means to any given individual considering the question. As Conover et al. (1991, p. 805) put it: “[a]n essential part of understanding *what* citizens think about their rights, duties, and identities is understanding *how* they think about these matters”.

That said, there is a number of theoretical definitions of citizenship, but most include some reference to reciprocal rights and responsibilities in the wake of Marshall’s original theory. Faulks (1998, p.4) describes citizenship as “a status that mediates the relationship between an individual and a political community” while Turner (1990, p. 190) considers citizenship to be “a status position that mitigates the negative effects of economic class within capitalist society”. Mead (1997, p. 225) is more transparent in his finding that “every definition of citizenship embodies a decision about distribution, because it specifies the claims that the members of the community will have”.

Miller (2000) identifies three models of citizenship. The liberal model is aligned with Marshallian theory, that citizenship is understood through an interaction of rights and responsibilities giving equal status to all citizens, with a general acceptance that rights have evolved through civil and political to add social rights whereby ‘second class’ citizens are eliminated, or at least, steps are taken to ensure access to certain rights for all to counteract inherent social imbalance.

The second model posits citizens as consumers, who have a ‘citizens’ charter’ and who are able to challenge poor service from the state if their citizen experience does not live up to their entitlement. While encouraging more active citizenship, this does move more towards an individualistic understanding of citizenship as a whole.

Model three is seen by Miller as the minority view and is that of true active citizenship. Rather than being a rights-claimant, citizens are active participants in their community. Mere political activism is not sufficient as this has an element of individual interest: instead there should be a general responsibility towards the public, of acting in the greater good. While Miller describes this model as appealing, he also notes that it is “considerably more demanding, both in terms of time and in terms of the ethical demands it makes on individuals, than models one and two” (Miller, 2000, p. 29).

Etzioni (2007), when looking at citizenship tests around the world, for those who wish to gain citizenship of a new state, identifies four types of citizenship: libertarian, liberal, neo-communitarian and authoritarian.

A libertarian state is very ‘hands off’, offering minimal interference in individuals’ lives thus limiting both the duties of citizenship and the extent of participation required. Voting is optional, citizens pay as few taxes as possible and obey a small number of laws.

Liberal citizenship is described as the exchange of rights and responsibilities in social citizenship pursuant to Marshall’s work. Here, the protection of each individual’s rights is important.

Neo-communitarian citizenship is also rights bearing, but also bears responsibilities to each other and to the community at large. Etzioni (2007, p. 359) refers to states that require “normative commitments” and “readiness to assume responsibilities” in their citizenship test.

Finally, authoritarian states assume that citizenship is an integral part of life within the state. Individual rights and political liberties are curtailed, sometimes significantly, in order to maintain a state-defined social harmony.

What is clear therefore, is that understanding what defines and encapsulates citizenship is neither clear nor simple. However, it may be more easily understood by examining the concept of formal versus substantive citizenship.

3.4.1 Formal versus substantive citizenship

Formal citizenship is, in this context, defined as legal citizenship, where one is legally considered a citizen of a state by virtue of holding a passport or other document identifying one as such. Another criticism levied at Marshall is that he does not discuss the legal status of citizenship, despite the time of writing being one of huge migration into the UK (and other countries) following the two World Wars. Legal citizenship is assumed and largely ignored as a relevant factor (Crowley, 1998).

Isin and Nielsen (2008) express the opinion that formal citizenship is different from substantive citizenship, and ought to be differentiated as such. In addition, Isin (1997) describes citizenship as a bundle of rights and responsibilities, but suggests that the claiming of rights necessarily “responsibilizes” individuals as citizens (Isin and Nielsen, 2008, p. 1). If formal citizenship is what is legally the case, substantive citizenship is what it means to be a citizen.

However, *prima facie* evidence shows that it is not formal citizenship that allows access to some of the rights associated with citizenship, according to Marshall’s theory. Particularly given the free movement principles of the EU, but also attributable to other groups of immigrants, formal UK citizen status is not required to access much of the UK’s welfare provisions, in part if not in whole. As a consequence, these privileged non-citizens, or denizens (Brubaker, 1989, 1990) are able to participate in some of the most desirable rights of

citizenship without any obligation, formal or otherwise, toward the responsibilities of citizenship.

3.4.1.1 Active versus Passive citizenship

While some scholars focus on the formative nature of citizenship, others focus more sharply on the substantive element: what do citizens actually do to justify being named as such (Burchell, 1999; Turner, 1990)? However, it is important to note that, for the large part, the formative is somewhat divorced from the substantive in these discussions: few would call for apathetic citizens to be stripped of their formative title of citizen. Instead, discussions of active citizenship focus on the ‘good’ citizen, one who accepts and subscribes to the idea of paying for rights with responsibilities, the way discussions of whether one is a good person or not does not question whether one is, in fact, a person at all (Kymlicka and Norman, 1994). Nevertheless, there is some debate over whether a person who does not substantively act as a citizen should be permitted to benefit from the rights associated with the title. This is not a new debate: as far back as 1791 Robespierre declared that some were “destroying the principle of equality inherent in that title [of citizen] by drawing a distinction between active and passive citizens” (Heater, 2004, p. 83).

Marshall’s work itself leaves little room for consideration of those who do not contribute. As Isin and Turner (2007, p. 7) put it:

If contributory rights and duties, relating to work, taxation, military service and parenthood, defined Marshallian citizenship, what is the status of the unemployed, the disabled, the elderly or the migrant worker?

The father of the welfare state in the UK, Beveridge himself was actually far clearer on the subject of non-contributors, claiming that they ought be subjected to “the complete and permanent loss of all citizen rights” (Beveridge 1907, p. 327 in Komine, 2004).

Marshall argues that, before the concept of social citizenship, when society was governed by civil rights and contract law, it was up to every man whether he worked or not, provided he was not a “nuisance” (Marshall and Bottomore 1992, p. 5). If one was wealthy enough not to work, idlers were actually envied and admired - something that still has resonance today. Before development of his theory, Marshall explains that it was assumed that if the lowest classes could earn enough to eat by working three days, they would only work for three days per week. However, the personal obligation as part of social citizenship, as Marshall describes it, is not just to hold down a job (which Marshall described as “relatively simple” (Marshall and Bottomore 1992, p. 5)) but also to work hard.

While Turner (2001, p. 92) focusses on the activity, suggesting active employment is the ‘holy grail’ of citizenship responsibility “the idea that the citizen has a basic duty of work is fundamental to civic society”, others consider whether it is the payment of tax facilitated by gainful employment that meets the duty requirement (Conover, 1995; Lister et al., 2003).

3.4.1.2 Citizenship as a status versus citizenship as a practice

More recently, studies have developed the idea that citizenship is not a status, that can be arbitrarily granted or rescinded, but is rather a practice, engagement in which will automatically mean an individual is considered a citizen (Dean, 2013; Dean and Melrose, 1999; Lister, 1998). Lister (2003, p. 14) describes it as being “over and above a set of rights and obligations (which may or may not be interdependent ...): there is an underlying principle of

‘participation’ ”. Similarly Barbalet notes that “In its own terms the *practice* of citizenship contributes to the ‘public good’” (1988, p. 1).

Isin and Nielsen (2008) go even further, and in their theory on acts of citizenship suggest that practices of citizenship, such as paying taxes, are actually passive in nature, and that acts of citizenship necessarily demand deviation from the socially-accepted norm.

However, it is unclear whether those who do not practise citizenship - or those who do not practise citizenship to a sufficient degree to fulfil the requirements of an undefined accepted practice - are substantively non- or lesser citizens.

In essence, determining whether citizenship ought to be formative or substantive, or whether citizenship is defined as a practice or a status may not be a dichotomy. Instead, rather than citizenship being defined as one thing or another, its very fluidity in definition (Lister, 2003) and in practice may suggest that a continuum of what citizenship means is more appropriate - in a similar way to the spectrum in which tax avoidance is both described and accepted, as identified in Chapter Two.

3.4.2 Citizenship testing

Citizenship is normally gifted to indigenous populations either on the basis of *jus soli*, the right of citizenship by place of birth, as is normally used in the USA, Canada and Latin America or by *jus sanguinis*, the right of citizenship by the nationality of a person’s parents, as used in Germany, France, the Netherlands and the UK (Etzioni, 2007).

For these citizens, there is no need for a citizenship test, nor for citizens to prove themselves as such, given “most ... view their right to become citizens as a birthright, and not conditioned

on any performance, test of competence or assumption of responsibilities” (Etzioni, 2007, p. 353).

However, the content of a nation’s citizenship test not only reflects its immigration policies, but also implicit in the citizenship test is a representation of what makes a good citizen, at least in the eyes of the prevailing government and political climate, and how migrants need to be judged against this yardstick (Etzioni, 2007; McGhee, 2009).

Commentators have observed that most countries’ citizenship tests reflect a mélange of belief systems reflecting what a citizen, and citizenship, should look like (Etzioni, 2007; Kostakopoulou, 2010; Oers et al., 2010)

In the UK, the citizenship test as originally introduced was a ‘thin’ test purely for naturalisation purposes to determine whether applicants met the required criteria to apply for citizenship. However, in 2002 following the *Nationality, Immigration and Asylum Act 2002* the UK test was ‘thickened’ to ensure applicants had ‘sufficient’ knowledge of the English language and of life in the UK (Kostakopoulou, 2010). The test is now called the ‘Life in the UK’ test.

These extended knowledge requirements were considered “essential aspects of the ‘citizenship revolution’ which officials are keen to complete by requiring migrants to demonstrate good behaviour and a willingness to integrate” (Etzioni, 2007, p. 360). In addition to historic and political questions, Etzioni notes that the UK test asks “what rights and duties do UK citizens have?” (Etzioni, 2007, p. 360).

3.4.3 Earned and Active citizenship in the UK

More recently, the notion of citizenship as an exchange of rights and responsibilities between the individual and the state has been challenged by the idea of 'earned citizenship', that is, rather than a bargain between equals, a potential citizen must show that he or she is worthy of citizenship by offering something to the state (Etzioni, 2007). Citizenship gained greater prominence in the latter years of the most recent Labour government, with greater emphasis placed on citizenship education and the development of a citizenship curriculum for schoolchildren. In July 2007, the then-Prime Minister asked Lord Goldsmith to look at a wider perspective of citizenship within the UK. Lord Goldsmith's findings were wide ranging and *The Path to Citizenship* (Home Office, 2008), was later published. This document outlined a substantially revised path to UK citizenship "where the rights and benefits of Britain are matched by responsibilities and the right contribution to our country" (Home Office, 2008, p. 6). While the provisions originally passed through Parliament, becoming the *Borders, Citizenship and Immigration Act 2009*, the legislation was rejected by the new coalition government in 2010 before it could be enacted.

As discussed above, active citizenship is where citizens take their responsibilities seriously and when they 'contribute' to the host country, often in non-financial ways. While the definition of what constitutes an active citizen vary, it is interesting that in various UK governmental papers working and the payment of taxes are not, as was perhaps intended by Marshall in his original work on social citizenship, now counted as making an effort, but are instead *prerequisites* for those wishing to be full citizens. The *Path to Citizenship* paper declared that "working and paying tax is seen as an essential precursor to acquiring citizenship" (Home

Office, 2008, p. 12), a conclusion drawn using data from public 'listening sessions' , where the sentiment on this point was described as unambiguous.

Active citizenship was an important element of the proposed new citizenship regime, with those seeking new-style UK citizenship being required to evidence their active citizenship contribution. For the purposes of the UK migration policy, the types of activity that would have qualified as 'active citizenship' are community-based activities. Examples cited include volunteering at an official community group, helping to run a playgroup or acting as a school governor.

As explained, the new regime did not, ultimately, come to fruition. Nevertheless, the current naturalisation guidance states that "British citizenship gives you the opportunity to participate more fully in the life of your local community" (Home Office, 2014, p. 2) and that "among the duties and obligations which you are expected to fulfil is payment of income tax and National Insurance contributions" (p. 8). It also appears that paying tax is an assumed prerequisite of those seeking citizenship even by the public at large: "if you haven't committed a crime and paid your taxes, then you've done enough" (Home Office, 2008, p. 16). While it is probable that would-be citizens of the UK will be paying some form of UK taxation, even if only VAT, it is interesting that the guidance reverts to assuming that the only tax contribution can be made through direct income taxes. This point is further explored in the research data, as detailed in Chapter Six.

In other respects, the naturalisation procedure does require an English language test, compliance with the laws of the land and successful completion of the *Life in the UK* test, the

latter being a 24 question computerised test allowing 45 minutes for completion, and having a 75% pass mark.

However, all these documents deal with people wishing to become UK citizens, but what about those who already hold citizenship? Even without the more stringent proposed criteria post-Goldsmith, it is still the case that those applying for citizenship through migration are subject to tougher and more complex criteria than citizens who are UK citizens by parentage (Etzioni, 2007; Kostakopoulou, 2010). Prospective citizens grant the Home Office the right to scrutinise their tax affairs to make sure their affairs are in order and that obligations towards HMRC are discharged (Home Office, 2014). Those who are already British citizens are not required to do this as a criterion of their own citizenship.

There are two important paradoxes with respect to the enjoyment of citizenship. First, by its very nature it is an exclusionary right; it creates a border between those that have such privileges and those who fall outside the membership. We might say that the three principal markers of citizenship are income tax, pension and a passport. These indicate the presence of a set of contributory rights and duties that have an exclusionary force. Second, citizenship is typically inherited from our parents rather like a property right and therefore the benefits of citizenship are acquired arbitrarily whether I deserve them or not. Hence the criteria of citizenship membership are a deeply contested aspect of modern politics (Turner, 1990, p. 191).

3.5 Contemporary themes and empirical work

Although Marshall is widely recognised as formalising the basic premise of social citizenship, that is not to say that citizenship as a research paradigm has remained static since then.

Numerous scholars have published widely on the topic - many are cited here - and much like the profile of citizenship has grown in stature outside of academia, the breadth and depth of citizenship literature have expanded exponentially over the last 60 years.

However, it is also notable that much of the literature on citizenship is theoretical in nature with “remarkably few empirical studies” (Lister et al., 2003, p. 235) and the field described as “virtually an empirical void” (Conover et al., 1991, p. 801). As a result, it is important to examine some of the empirical work more closely, and to look at qualitative studies aimed at finding out what people think about citizenship, and how the concept relates to them.

3.5.1 Lister et al.’s five models

Lister et al. (2003) found five models of citizenship in their qualitative work with young people. These included universal status, respectable economic independence, constructive social participation, social-contractual and right to a voice.

Universal status describes where everyone is understood to be a citizen simply by virtue of membership of the community, group or nation. In its simplest terms, everyone is a citizen, but a more nuanced understanding is that it describes someone who is a member of a specified group - although any membership criteria are not specified.

The *respectable economic independence* model citizen is working, pays taxes and has a family and his/her own home. Such a citizen is described as a “respectable economically independent citizen” (2003, p. 238). Those who are not a functioning part of this model are thought of differently from those who do - framing the concept of first and second class citizens, as discussed below.

Constructive social participation is defined by giving something to the community. While this is also on a spectrum - from merely abiding by the law to active citizenship through to being responsible, helping people and having a positive impact - this is also where the concept of being a good or bad citizen is raised.

A smaller number (of predominantly female participants in Lister et al.'s study) identified with the *social-contractual* model where they referred spontaneously to rights and/or responsibilities in line with the social citizenship theory formalised by Marshall and in keeping with Conover et al.'s earlier findings that UK citizens in particular (when compared with US citizens) were more focussed on responsibilities (Conover et al., 1991).

The *right to a voice* model was identified by the smallest number of participants in Lister et al.'s study, where citizenship is defined as a "right and genuine opportunity to have a say and be heard" (Lister et al., 2003, p.239), although there is some cross over between this model and the preceding one, depending on whether the right to a voice was deemed satisfied by the rights inherent in the social-contractual model above.

Interestingly, Lister et al. found that these models were not mutually exclusive, with participants drawing on a number of models simultaneously in order to make sense of citizenship. This has implications, and challenges, for the theorisation of citizenship, as they identified that the words 'citizen' and 'citizenship' are understood in fluid terms. The researchers also found that, during their longitudinal study, that, as participants got older, their perceptions of what it means to be a citizen changed, often moving from the

membership based universal status into models more aligned with the concept of citizen responsibilities (Lister et al., 2003).

However, while models such as these can aid in understanding, the fluid nature of personal interpretations of citizenship means that they cannot be definitive, nor prescriptive. As Lister et al. note above, it may be that more than one model is used by individuals in their own understanding of citizenship. Nevertheless, the use of such models can help identify themes and concepts that form these individual interpretations of citizenship, as well as identifying things that do not normally form part of the citizenship paradigm.

3.5.2 Issues with social citizenship

It is important to note that, when Marshall first encapsulated the concept of social citizenship, the world was a very different place socially, politically and technologically. Some issues that would not have been contemplated in the 1950s are now important elements of consideration when looking at the rights and responsibilities of social citizenship.

3.5.2.1 Gendered contribution

Firstly, the emancipation of women changed the fundamental basis of social citizenship. When Marshall talked about a requirement to work hard at a job, he meant in gainful employment, and at that time, most women's role was in the home. The implication was that the male wage earner would contribute as was required, but whether this meant he was also contributing on behalf of his wife, and if such a contribution made her a full citizen by dint of that associated contribution is unclear. Women (and the elderly and infirm) are absent from Marshall's

analysis and the question has been posed as to whether they are non-citizens owing to their omission (Lister, 2003).

As society moved on, first through the concept of women working for themselves (although independent taxation for married women did not arrive until as late as 1990), questions were raised over whether Marshall's 'male' model of a worker-citizen ought to be at least accompanied by an alternative 'female' model of a carer-citizen (Lister, 2003).

Today, nuclear families are no longer the given norm, and marriages no longer necessarily involve a male and a female; even if they did so, there is no hard and fast gender-defined role in marriage in any case, although women are still more likely to be in a carer rather than a worker role for at least part of their active working life. The challenge for social citizenship is to find a place for such issues and to determine whether social roles that do not involve working contribution still 'count'. In particular, and as explored in the data analysis, do caring responsibilities count as a contribution in Marshallian terms, or are they simply a legitimate reason for postponing contribution requirements for a certain period?

3.5.2.2 Globalisation

Another issue that Marshall could not, perhaps, have foreseen was the extent of globalisation evident in today's society. While most would welcome the additional freedoms such globalisation affords, the notion of global citizens raises issues in respect of contribution. If an individual is a citizen of one country, and lives and works in that one place, there is no question as to which country he owes a contribution. If he is a national of one country, works in another and his family live in yet another, notwithstanding any issues of taxing rights, to whom does

he owe his contribution as a citizen? The particular issues of US citizens who are now living outside the United States are discussed in more detail in Chapter Three.

Another issue to do with globalisation is a very sensitive issue in the UK at the moment. By voting to leave the EU, against the wishes of 48% of the voting public, millions of people in the UK are having their EU citizenship forcibly removed from them. Many people wish to retain the rights and benefits of this citizenship, and are looking at ways in which they can retain these, in some cases by obtaining dual passports.

3.5.2.3 Individualism

The rise of individualism and neo-liberalism was discussed in more detail in Chapter Two with Bauman suggesting that individuals had been stripped of the “protective armour of citizenship” (2000, p. 108). The concepts of individualism and neo-liberalism favour the individual over collective interests, yet collective rights and responsibilities are a fundamental concept of social citizenship. Specifically, neo-liberalism in its purest form questions the authority of governments to levy taxation, as individually, each citizen could instead pay for his or her own use of collective services. How, therefore would taxation, an explicit responsibility of social citizenship, and the mandate of which explicitly includes wealth distribution, sit within today’s individualised society?

3.5.3 British Social Attitudes to redistribution

In 2004, the British Social Attitudes (BSA) survey included a number of questions in relation to inequity and redistribution of income (Park, 2005). While the findings of the survey in relation to progressive taxation are discussed in more detail below, one element of Tom Sefton’s

analysis in his chapter, *Give and take: attitudes to redistribution* finds echoes in the data collected here (Sefton, 2005).

From analysing BSA survey responses across a number of questions relating to tax and redistribution of wealth, Sefton classified people into three broad categories; Good Samaritans, Club Members and Robinson Crusoes.

Samaritans comprised about 30% of the population and their overriding attitude is that “people are entitled because they are in need” (Sefton, 2005, p. 21). These people are inclusive in nature and believe that people have a responsibility to help others in need. Those needing help are not required to have paid any ‘dues’ or to provide evidence their deserving.

Club members were the largest identified group at around 45% of the population. Here the tax and benefits system is one of social insurance, whereby the tax paid by the majority helps support those in need. While this system includes elements of redistribution, it is not a ‘free for all’. Instead support is “conditional on the recipients having fulfilled their part of the bargain by contributing what they reasonably can and only drawing out what they reasonably need” (Sefton, 2005, p. 21). Here, a definite distinction between the deserving and the undeserving is made, born out of concerns that some people will take advantage of those paying in. This model is far more exclusive, given that entitlement is based not only on need, but also upon behaviour.

Finally, the smallest group were identified as Robinson Crusoes. This quarter of the population thinks that it is very unfair that some people pay a lot more in taxes than others, particularly when these same people will often not use the services towards which they are contributing. The stance of Robinson Crusoe types is that everyone should pay their own way, thereby not

drawing any more, or contributing any more, than that to which they are entitled/bound. People drawing unemployment benefits are, in the minds of Robinson Crusoes, most likely to be 'fiddling' the system (Sefton, 2005).

3.5.4 Other empirical studies

Patricia Conover's studies (Conover et al., 1991; Conover, 1995) were attempting to address the void of empirical work and focussed on differences in perceptions and understandings of citizenship between US and UK citizens. The 1991 work found marked differences between the two groups, with US citizens mindful of their rights while UK citizens were more focussed on their responsibilities. However, there was also a distinction between citizens acting 'normally' responsibly, and those being 'especially' good. This theme was expanded upon in her later work where she compared the attitudes of i-citizens (those for whom the self is paramount) and the we-citizens (those for whom the community is key). Conover also found that, for British citizens, citizenship rights were virtually synonymous with "benefits to which British people were entitled as financial contributors to the social funds from which the benefits were drawn"; and that rights were less attached to a legal status and more "a taxpayer's due return" (1991, p. 810).

Michael Orton's work (2004, 2006) was centred around citizenship obligations and local taxation (council tax) in the UK.

His 2004 qualitative work with council taxpayers who were in arrears found that, not only was non-payment of council tax not linked to any decline or deficit of citizenship responsibility, but that lack of ability to pay and of horizontal equity, given the disproportionately regressive nature of council tax, were far more important: "the payment of taxation remains a

fundamental citizenship obligation and, as noted above, can be seen as evidence of being a responsible citizen” (Orton, 2004, p. 508). Orton goes on to suggest that: “in considering whether there is a contemporary deficit of citizenship responsibility it is perhaps time not for further focus on citizens with low incomes, but for a debate about the obligations of those with higher incomes (Orton, 2004, p. 521).

Orton’s 2006 work, therefore, looked at issues of citizenship and responsibility in relation to ‘better-off’ citizens, defined as those occupying properties in the four higher valuation bands for council tax, which include less than 20% of properties in the UK. However, Orton notes that occupying a valuable property does not necessarily render an individual wealthy and as a result, purposive sampling excluded those with the lowest incomes. The premise of the research was to explore whether participant felt that, in practical terms, the obligation of wealthy citizens to pay tax had reduced, and if so, whether a tax obligation had been replaced by notions of contributing the vague “time and commitment”, the meaning of which is explored in his work.

While the research found that the notion of active citizenship was ambiguous, there was a general acceptance of “the payment of taxation as a citizenship obligation, and that those on higher incomes should pay more than those on lower incomes (Orton, 2006, p. 261). However, there was reluctance expressed against raising tax for the wealthy. Furthermore, Orton found that the predominant model of understanding citizenship obligations within this group was aligned to Lister et al.’s (2003) *respectable economic independence* model, as described above.

3.5.5 An underclass?

Marshall's egalitarian theory 'guaranteed' social inclusion for all, meaning the concept of social citizenship should be a counterpart to the notion of an underclass (Morris, 2002). However, a society "that does not treat all its citizens as valued members of the political community encourages marginal citizens to think of themselves as political outsiders who share in neither the benefits nor the responsibilities of the social and political community" (Peterson, 1991, p. 625). Alongside the associated stigma of being so marginalised is a pervasive disrespect and 'othering' behaviour whereby those without the means for a financial contribution are not treated as citizens of equal worth (Lister, 2003; Pemberton et al., 2014).

While Marshall never sought to equalise incomes, merely to establish a framework that would contribute to the general enrichment of civilised life, even he admits that inequality of income can lead to prejudice and exclusion, rather than inclusion:

The more you look on wealth as conclusive proof of merit, the more you incline to regard poverty as evidence of failure (Marshall and Bottomore, 1987, p. 20).

Labelling the poor in such moral terms, together with the lack of contribution often found in such groups can create an 'underclass' of citizens, who do not fulfil their responsibilities of citizenship (Lister, 1998; Tawney, 1965); are they, therefore, similarly restricted as to the rights they may enjoy?

Other groups who, under Marshall's theory of full contribution for full membership, might therefore fall to become second-class citizens include the elderly or infirm, the disabled (Isin

and Turner, 2007), and women: “citizenship is a quintessentially universalist concept predicated on the exclusion of certain groups, most notably women” (Lister, 2003, p. 7).

Furthermore, empirical work with those on low incomes has found that they regularly experience stigma in their daily lives, and that they are treated as citizens of ‘unequal worth’ (Lister, 2003; Pemberton et al., 2014). It is also suggested that citizens’ worth is “constructed through participation in paid work and contributions made as a ‘taxpayer’ ” (Pemberton et al, 2014, p.33). Part of the problem, Pemberton et al. suggest, is that social discourses “stereotype and demarcate the ‘poor’ as ‘other’, creating distance between those who have the means to participate in society and those who do not” (Pemberton et al., 2013, p.25).

Lister et al.’s 2003 work with young people (described above) found that there was considerable resistance to classifying the unemployed as second class citizens, but that a clear consensus found that unemployed people *were* regarded as second class citizens by society: “they are seen as dependent, as not exercising responsibility, as not contributing to or participating in society as taxpayers or consumers” (Lister et al., 2003, p. 242).

3.6 Citizenship and taxation

Liability for taxation in the UK does not depend on citizenship: indeed in the UK we are, strictly speaking, subjects rather than citizens in any case, not that this makes a difference to formative definitions of citizenship. However, some studies suggest that taxation policy is merely the manifestation of a deeper seated conflict in the relationship between the citizen and the state (The Commission on Taxation & Citizenship, 2000), which reflect descriptions of modern citizenship (Isin and Turner, 2007). As a result, any examination of the efficacy and

acceptance of tax policy ought to look more closely at the relationship between citizens and the state.

Here, we look more closely at the technical aspects of the UK tax system and more specifically, where liability to UK taxation falls. As discussed in Section 3.7 below, nexus of tax liability is not aligned with citizenship in the UK.

That is not to say that historic understandings of citizenship, such as the common law concept of domicile, or the now-defunct status of 'ordinarily resident', have not impacted on the way the UK tax base has been established. Different taxes in the UK use different bases, but these are largely based on residence or physical presence, rather than citizenship. The USA is the largest economy to base its tax system on citizenship, an approach that causes its own issues.

Finally in this chapter, we look at some qualitative empirical work attempting to establish a link between taxation and idea of citizenship, work upon which this research seeks to build and expand.

3.7 What is a tax citizen?

In the UK, the nexus (point of charge) of liability for taxation does not rest with citizenship. It is as possible to be liable to pay UK tax while never having been a UK citizen as it is to have no liability to UK taxation while always having been a UK citizen.

In the UK, different taxes have different loci for determining liability. Direct taxes, such as income tax and capital gains tax, assess liability on the basis of physical presence in the UK, a concept of UK residence. Anyone with such a presence will become liable for taxation, regardless of whether or not they are a UK citizen. Similarly, if a UK citizen is not resident in

the UK, liability to UK tax may be removed altogether. This chapter considers the main direct taxes for individuals, income tax and capital gains tax in more detail first, before moving on to look at other taxes.

3.8 Income Tax and Capital Gains Tax

The most basic premise of liability to UK income and capital gains tax is that of UK residence, the most straightforward definition of which is that when an individual is physically present in the UK for six months (183 days) or more, that individual is considered UK resident and liable for UK income tax on his or her worldwide income. That does not mean to say, however, that someone who is not considered UK resident cannot come within a charge to UK income tax or capital gains tax, as tax may also be charged on a source basis, that is, income or gains arising from UK property or activities may be charged to UK tax irrespective of the status of the individual earning the income or gains. Additionally, for some categories of UK residents, their obligations in respect of income and capital gains tax are curtailed owing to their domicile status, which is a common law term aligned with neither residence nor citizenship, and of greater importance when assessing liability to inheritance tax.

As a result, even before exploring the vagaries of the definitions of residence and domicile, there are at least four categories of 'tax citizen' in respect of income and capital gains taxes:

- those who are liable for a full obligation based on their residence status;
- those liable for a partial obligation based on their residence status, tempered by their domicile status;
- those liable for a partial obligation based on the source principle of taxation; and

- those who may be present in the UK for limited time, who do not have an obligation to pay UK income or capital gains tax.

In none of these cases is their prima facie UK citizenship status relevant at all. We will now look at these definitions in more detail.

3.9 UK residence

In the now infamous *Gaines-Cooper*⁵ tax case, Wilson LJ summed up the problem with UK residence at the time of writing, in 2011 as that of a status of being resident that creates a liability to UK tax, yet that status is not statutorily defined. Furthermore, that status had remained undefined despite attempts to do so since 1936.

At the time of Wilson LJ's statement in 2011, the Government had already consulted on the potential contents of a statutory residence test, the final make up of which was refined over the next two years. While, prior to 2013/14, determining UK residence, or tax obligation, could have been a matter of interpretation of laws, guidance and accepted practice, particularly when coming to or leaving the UK, the introduction of the statutory residence test has provided far greater certainty on whether an individual is obliged to pay income and capital gains taxes given his or her personal circumstances.

3.10 Statutory Residence Test

As far back as early 2007, a research paper on expatriate taxation published by the Chartered Institute of Taxation (Ashby, 2007) lamented the lack of reliable guidance on residence and

⁵ *R (Gaines-Cooper) v The Commissioners for Her Majesty's Revenue & Customs* [2011] UKSC 47

ordinary residence, and consequent lack of certainty in relation to liability to UK income and capital gains tax, and called for some “statutory intervention” (p. 45) in the matter. Residence cases were also being heard more frequently, with the *Shepherd*⁶ and *Grace*⁷ cases causing controversy, and the *Tuczka*⁸, *Genovese*⁹ and *Turberville*¹⁰ cases seemingly contradicting each other on the definition of ordinary residence.

In 2008, HMRC began developing the broad principles and framework behind the idea for a new Statutory Residence Test, working with interested parties and practitioners, although “most of the key discussions took place under Chatham House Rules; that is, on conditions of confidentiality” (McKie, 2013, p.47).

In June 2011 HMRC launched an official consultation, entitled *Statutory Definition of Tax Residence: A Consultation* (HMRC, 2011) exploring the introduction of a new Statutory Residence Test (SRT) that would have effect for income tax, capital gains tax and inheritance tax (where appropriate) purposes. The aims of the development of a Statutory Residence Test were stated as follows:

The SRT is designed to provide a simple process and clear outcome for the vast majority of people whose circumstances are straightforward. (HMRC, 2011, para 3.2), and

To provide a fair way of determining residence for those with more complicated affairs the Government proposes that the SRT should take into account both the amount of

⁶ *Shepherd v HMRC* [2005] SPC 484

⁷ *Lyle Dicker Grace v HMRC* [2009] EWCA Civ 1082

⁸ *Tuczka v HMRC* (TC366)

⁹ *Genovese v HMRC* [2009] SSCD 373 (SpC 741)

¹⁰ *Turberville v HMRC* [2010] UKFTT 69 (TC)

time the individual spends in the UK and the other connections they have with the UK.

However, to avoid the complexity of current case law:

- *the test should not take into account a wide range of connections;*
- *relevant connections should be simply and clearly defined; and*
- *the weight and relevance of each connection should be clear* (HMRC, 2011, para 3.4).

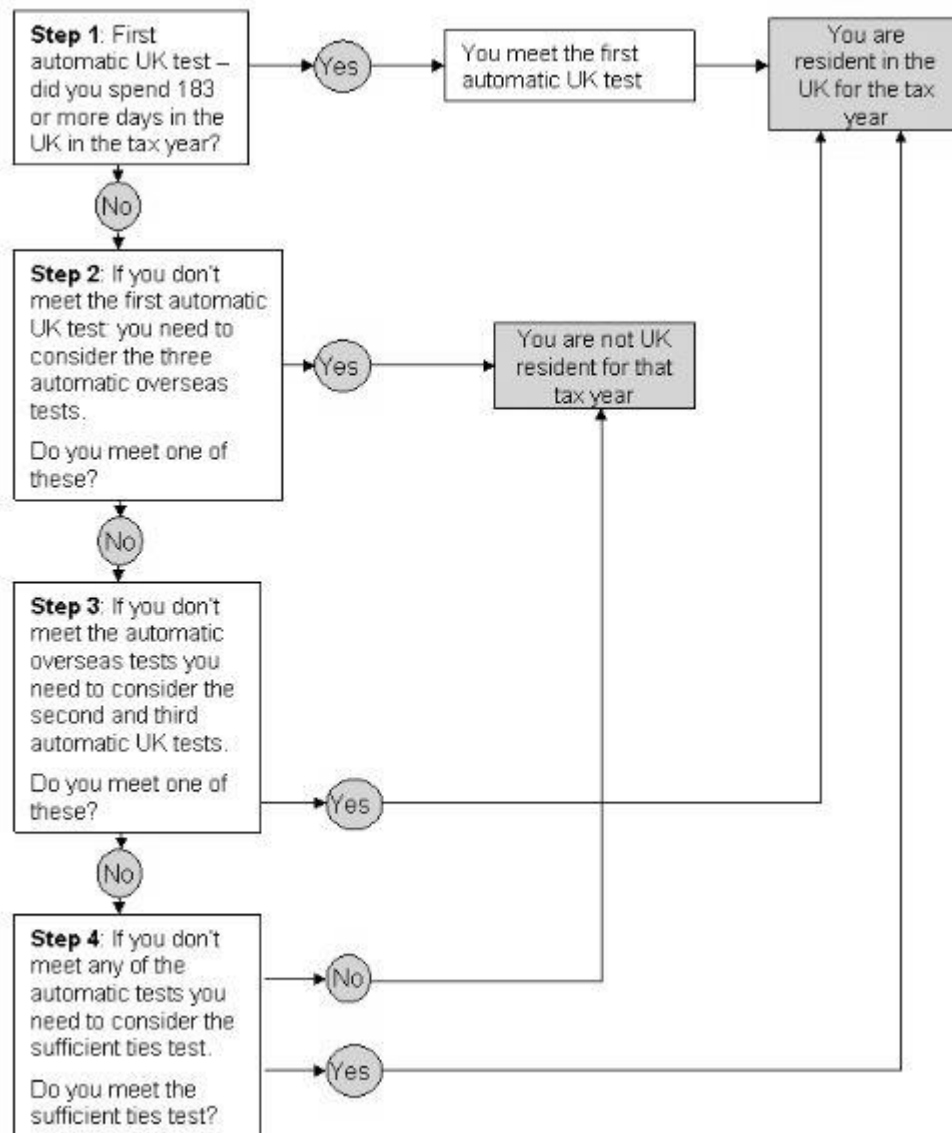
Although the broad framework of the SRT established in the initial consultation document remained unchanged, the volume and validity of the responses received, from a mix of individuals and organisations and published in the June 2012 summary of responses (HM Treasury, 2012), meant that the application of the test was delayed by 12 months from April 2012 to April 2013. This delay was instigated in order to allow all the relevant representations to be considered fully and, where appropriate, implemented in the final statutory definition. Many of the comments sought further clarification of terms used as part of the SRT itself, for example, what ‘full time’ work meant, or ‘available’ in relation to UK accommodation. This time, no one wanted to rely on the prevailing basket of case law and unreliable HMRC guidance, such as IR20 (HMRC, 2007) heavily relied upon in *Gaines-Cooper*, to be able to apply the test.

Overall, the reaction to the final test has been cautious and conferring muted approval. While it is generally accepted that the new test does achieve its aims of providing greater clarity, such that some individuals will be far more certain of their UK residence and therefore their liability to UK taxes, there are still criticisms that the test is not ‘simple’ or ‘straightforward’, and is yet another piece of complex UK tax code (Ashby, 2013).

Finally, on 6 April 2013, the SRT was introduced in the *Finance Act 2013*, taking effect from the tax year 2013/14 onwards. For the first time, the residence status of an individual could be determined with a far greater degree of certainty, allowing both taxpayers and their advisers to have clarity as to whether or not an individual had taxpaying obligations in respect of income and capital gains taxes, and to a lesser degree, inheritance tax.

The statutory residence test involves a number of steps, and is represented diagrammatically at Figure 3.1 below. Starting with the most basic tenet of UK residency, the first step is to determine whether or not the individual has been present in the UK for 183 days or more of the tax year in question. If the answer to this question is affirmative, no further steps need be undertaken: the individual is UK resident. If the individual has not been present for 183 days in the tax year, then the process continues, as detailed below. Note, however, that even when dealing with the most uncomplicated and unsophisticated measure, such as physical presence, there is still scope for ambiguity. Again, arising partly as a consequence of the *Gaines-Cooper* case, the method of determining whether or not a person is present in the UK on any given day is (now) also prescribed by law.

Figure 3.1 : The statutory residence test



Source: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/381705/rdr3_1_.pdf

3.10.1 Counting days

One of the major issues arising from the *Gaines-Cooper* case, notwithstanding the main point of contention which concerned the reliability of non-statutory guidance, was the HMRC residence guidance in existence at the time (IR20) which provided that the days of arrival in, and departure from, the UK were not to be counted when calculating the number of days spent in the UK in a tax year. While presumably intended as a means of not disadvantaging

those who spent a long time travelling to the UK, or those who arrived late/left early, Mr Gaines-Cooper was one of a growing number of internationally mobile individuals who was able to take advantage of the rules to spend three days in the UK, and yet have it count as only one. As a result, despite spending in excess of 183 days in the UK, these individuals were able to escape their obligation and liability to UK direct taxation.

Immediately following *Gaines-Cooper*, the practice of day-counting was updated (in the successor guidance to IR20, known as HMRC6 (HMRC, 2010) to provide that presence in the UK at midnight would constitute a day of UK residence, with limited exceptions for transit days and days of 'exceptional circumstances'. These provisions were later enshrined in law as part of Schedule 45 to the *Finance Act 2013*, along with a further category of 'deemed days' of UK residence. Where an individual has 'sufficient ties' with the UK, he or she can have any day where he/she is present in the UK, even if not at midnight, deemed to be a day that counts for UK residence purposes. (See below for the definitions of UK ties relevant to the statutory residence test.)

3.10.2 Automatic overseas tests

If the first residence test fails, the second step in the statutory residence test is to see whether the individual in question is automatically considered non-UK resident by virtue of one of the automatic overseas residence tests. The three overseas residence tests are:

- i. You were resident in the UK for one or more of the three tax years preceding the tax year, and you spend fewer than 16 days in the UK in the tax year. If an individual dies in the tax year this test does not apply.

- ii. You were resident in the UK for none of the three tax years preceding the tax year, and you spend fewer than 46 days in the UK in the tax year.
- iii. You work full-time overseas over the tax year, without any significant breaks during the tax year from overseas work, *and* you spend fewer than 91 days in the UK in the tax year, *and* the number of days in the tax year on which you work for more than three hours in the UK is less than 31 (HMRC, 2014).

If an individual's circumstances fall squarely within one of these situations, then he or she is definitively non-UK resident, and tax obligations can be calculated on that basis. Of course, further guidance defines what is considered 'full-time' and 'significant breaks' for the purposes of test (iii), to include non-standard working patterns, holidays, unpaid leave and parental leave.

After steps one and two of the statutory residence test, therefore, an individual can be conclusively UK resident, conclusively non-UK resident, or somewhere in between.

3.10.3 The automatic UK tests

If an individual is neither conclusively resident nor non-resident after steps one and two, the automatic UK tests are applied. While there are officially three UK tests, to match with the three overseas tests, the first test is the 183 day rule that is applied at step one. As a result there are two further tests that align to the historical concept of 'ordinary residence'.

3.10.3.1 Ordinary residence

While the term 'residence' had no previous statutory definition before 2013, it was at least a concept that could easily be understood - that of physical presence in the UK. Ordinary residence was a harder concept to quantify, and as such, was harder to define. Often cited as

being akin to 'habitual' residence, ordinary residence looked at an individual's behaviour over a longer period of time, typically over three years or more, to see whether a pattern of UK residence could be established. A 'rule of thumb', detailed in IR20 as was, was that visits to the UK averaging 91 days or more over three or four years would constitute ordinary residence (HMRC, 2007). This was especially important for those looking to leave the UK, and to 'lose' their previous UK residence status.

However, another point that was drawn out of the *Gaines-Cooper* case, among a number of other cases at a similar time, was that ordinary residence was not merely a 'box-ticking' exercise that could be achieved by skilful scheduling of visits to the UK, but was instead an amalgamation of factors to give an overall picture. These factors included a number of different things in addition to number of days visiting the UK, which included the ownership of UK property available for occupation, family ties, social or other connections as well as the intentions of the individual concerned.

When assessing the impact of making ordinary residence obsolete, the number of taxpayers for whom the term was relevant was examined. In 2008/09 29,800 taxpayers claimed to be not ordinarily resident in the UK, of whom 23,100 were also non-UK domiciled, which meant that they were able to benefit from the favourable tax treatment thereof, leaving only 6,700 for whom non-ordinary residence in the UK was a crucial term. Of these, only 300 actually claimed the remittance basis for UK income and capital gains tax purposes (HMRC, 2011). As a result, the new statutory residence test has rendered the old definition of ordinary residence defunct. However the third, non-conclusive part of the statutory residence test looks at the same factors that were previously considered when assessing ordinary residence.

3.10.3.2 Automatic UK test 2

The second automatic UK test looks at property in the UK and is relevant if the individual has or had a home in the UK during all or part of the tax year.

The test is met if there is at least one period of 91 consecutive days, at least 30 days of which fall in the tax year, when the individual has a home in the UK in which he/she spends a sufficient amount of time and either he/she:

- has no overseas home; or
- has an overseas home or homes in each of which he/she spends no more than a permitted amount of time

Note that individuals who own more than one home in the UK should consider each of those homes separately to see if the test is met, as it only needs to be met by one home.

For the purposes of this test, a 'sufficient' amount of time is presence in a home on at least 30 days. The 'permitted' amount of time is fewer than 30 days. Both of these time limits refer to a full tax year, but they do not have to fall within the consecutive 91 day period upon which the test is dependent.

The purpose of this test is to determine if a UK property is an individual's only or main home, which, when coupled with the consecutive 91 day period, confers automatic UK residence.

3.10.3.3 Automatic UK test 3

The third automatic UK test concerns employment in the UK and an individual will be considered automatically UK resident if he/she works full-time in the UK for any period of 365 days, with no significant break from UK work and:

- all or part of that 365-day period falls within the tax year;
- more than 75% of the total number of days in the 365-day period when more than three hours are worked are days when more than three hours of work is performed in the UK; and
- at least one day which is both in the 365-day period and in the tax year is a day on which more than three hours of work are performed in the UK.

Again, further guidance in the legislation on what constitutes full-time and significant breaks can be explored in cases of uncertainty.

3.10.4 Sufficient ties tests

If none of the automatic tests apply, an individual is considered to be not conclusively UK resident, i.e., not considered certainly UK resident nor non-UK resident. In order to determine residence status, therefore, an individual's ties to the UK are examined to see whether there is a sufficient tie to the UK to warrant a status of UK residence. In a similar manner to most of the other tests, the degree of tie required is directly proportional to the number of days spent in the UK. Thus someone who had spent very little time in the UK would have to have a far larger number of UK ties in order to justify being classed as UK resident. The number of ties that need to be present in order for UK residency to be applied, as dependent on number of days spent in the UK are detailed in Table 1:

Table 3.1: Number of UK ties required

Number of days spent in the UK	Number of UK ties required	Number of UK ties required
	(UK Resident in previous 3 years)	(<i>not</i> UK Resident in previous 3 years)
16-45	Four	n/a
46-90	Three	Four
91-120	Two	Three
120+	One	Two

There are five classes of UK tie:

- a family tie
- an accommodation tie
- a work tie
- a 90-day tie, and
- a country tie

Note, however, that the country tie only applies where the individual has been UK resident in one or more of the preceding tax years.

3.10.4.1 Family Tie

An individual has a family tie for the tax year under consideration if any of the following people are UK resident for tax purposes for that year:

- a husband, wife or civil partner (unless separated);

- a partner, where the individual is living together as husband and wife (on the same basis as is used for tax credits purposes) or as civil partners; or
- a child of the individual, who is under 18 years of age.

3.10.4.2 Accommodation Tie

The accommodation tie is met if, for a given tax year, an individual has a place to live in the UK and, not only is it available to that individual (i.e., not rented out to someone else) for a continuous period of 91 days or more during that year, but also the individual spends one or more nights there during that tax year. Note that the accommodation does not have to be owned or held by the individual; merely that accommodation is available to him or her. If such available accommodation comprises the home of a close relative, the number of nights' requirement is increased from one night to 16 or more nights.

A close relative for the purposes of the accommodation tie is a:

- parent or grandparent;
- brother or sister; or
- child or grandchild aged 18 or over.

3.10.4.3 Work Tie

An individual has a work tie for a given tax year if he or she works in the UK for at least 40 days (whether continuously or intermittently) in that year, where working constitutes more than three hours' work in the UK on that day.

3.10.4.4 90-day Tie

An individual has a 90-day tie for a tax year if he or she has spent more than 90 days in the UK in

- (a) the tax year preceding the one in question;
- (b) the tax year preceding that tax year; or
- (c) each of those tax years separately.

3.10.4.5 Country Tie

The country tie only applies where an individual has been UK resident in one or more of the preceding three years, but it will apply if the number of days spent in the UK by that individual (using the midnight rule of day counting) in any given tax year is the greatest number of days spent in any one country. Where there is a tie for the greatest number of days, provided the UK is one of the tied countries, the test will still be met.

3.11 Domicile

While residence is the main base of taxation for the direct taxes income tax and capital gains tax, for inheritance tax, it is the domicile of the individual concerned that is of most importance. While many people will have an awareness of their residence status, fewer people will have an understanding of their domicile, given its limited application in non-tax matters.

Domicile is a common law concept and, as was the case with the term 'UK resident' until very recently, has no statutory definition, and may mean different things in different countries. For

tax purposes, as part of their manual guidance at RDRM20080 (HMRC, 2016b), HMRC defines domicile thus:

Domicile cannot be defined precisely, but the concept rests on various basic principles.

- *Every individual must have a domicile at all times. The law ascribes a domicile to those individuals it regards as lacking capacity to choose one.*
- *An individual cannot have more than one domicile at the same time for the same purpose ...*
- *An existing domicile is presumed to continue until it is proven that a new domicile has been acquired.*

For the purposes of UK law, domicile has a different meaning from what may be meant in other jurisdictions, and is separate from other connecting factors such as nationality or residence. So, it is possible to be a British citizen, resident in France but domiciled in Jersey. Domicile can only be sited in a territory with a single legal system, a law territory, hence it is impossible to be 'UK domiciled', but an individual may be domiciled in England and Wales or Scotland, for example, or in one of the Crown dependencies with their own legal systems, such as the Bailiwick of Guernsey.

3.11.1 History of the domicile concept

The concept of domicile is a common law one, that is, its meaning has developed from what was accepted to be its meaning. Its modern day origin lies in colonial times, which is why it is such a British concept, tying in with the days of the British Empire when British people could actually be resident on British soil all over the world.

It was a similar idea of fluidity of movement of citizens that brought about the historical origins of domicile, which originated in the Roman Empire. After the demise of the Republic, Italy was divided into a number of individual townships known as municipia and the Empire into numerous provinces. Each province and municipium was essentially self-governing and, to a large extent, had its own system of internal law enforced by magistrates. Most inhabitants of the defunct Republic were considered a citizen of one or more of these provincial or municipal communities and/or with Rome itself (Schwarz, 2014).

Citizenship association could arise in three ways - "by origo (the place within the Empire to which a person's father or, if he was illegitimate, his mother belonged), by adoption, by election or by manumission". This meant that an individual could be "a citizen of one place, a citizen of more than one place - or a citizen of none" (Schwarz, 2014, p. 226). This meant that some individuals were subject to multiple rules of law, or of none. The answer was for the law of citizenship to take precedence, followed by the law of his origo (above) and finally by the 'tie-breaker of his domicile' - literally "the place in which a person had made his permanent home" (Schwarz, 2014, p. 226).

Domicile is now most relevant for inheritance tax purposes, as someone with a domicile sited in a UK jurisdiction (England and Wales, Scotland or Northern Ireland) is liable to pay inheritance tax on transfers of his/her worldwide assets. Someone who does not have a domicile in the UK, whether prima facie or a deemed domicile (see below), is only liable to UK tax on UK situs assets.

There are three prima facie classes of domicile, the origins of which can be traced back to the old Roman methods of determining jurisdiction. These are discussed below.

3.11.2 Domicile of origin

The common law ascribes a domicile of origin to every individual at birth. For the purposes of domicile for UK taxation purposes, an individual's domicile of origin is that of his or her father at the time of their birth. If the father is unknown, the domicile of the mother is used, and if neither is known, the domicile of origin is the place where an individual is found. An individual's domicile *of origin* can only subsequently be altered by adoption.

Note that a father's (or mother's) domicile may not be the same as the country in which they were resident in at the time of the individual's birth, nor as the country of which they hold citizenship at the time of birth.

3.11.3 Domicile of dependence

Domicile of dependence is the domicile that the law ascribes to an individual because of that individual's lack of legal capacity and legal dependence upon another person.

Dependent persons fall into three classes:

- Children, who do not have capacity until they attain the age of 16;
- Married women, who married prior to 1 January 1974; and
- Individuals who lack sufficient mental capacity.

3.11.4 Domicile of choice

Any individual who has legal capacity can acquire a domicile of choice. Such a domicile is acquired by the combination of:

- physical presence in a legal territory as an actual inhabitant; and
- the intention to remain in that territory permanently or indefinitely.

A domicile of choice is lost by the loss of both these factors. As a change of intention alone is insufficient to bring an end to a domicile of choice, it can be necessary to examine not only an individual's intentions at the time of an enquiry but also that person's intentions over a longer period. It is therefore impossible to lose a UK domicile by claiming an alternative domicile of choice while remaining in the UK.

3.11.5 Deemed domicile

As domicile is the nexus of obligation for inheritance tax, it is perhaps unsurprising that it is possible to gain a 'deemed domicile' for inheritance taxation purposes only, which may be linked to UK residence. This means that those who do not have an obligation to pay UK inheritance tax under common law are nevertheless converted into tax citizens for inheritance tax purposes in two specific circumstances.

Under *Inheritance Tax Act 1984* s267 there are two occasions where a deemed domicile can be acquired in the UK. Note that this does not actually change the domicile of the individual concerned, as he or she is merely treated as if he/she had a domicile in the UK. His/her actual country of domicile may be very different.

The first case of deemed domicile arises where the individual has recently held a UK domicile. Under the three year rule to apply, the taxpayer must have been domiciled in the UK both on or after 10 December 1974 and at any time within the three *calendar* years before the relevant event (which for inheritance tax purposes is a death or transfer of value).

The second situation is called the '17 out of 20' rule, and applies where the individual has been resident (for income tax purposes) in the UK on or after 10 December 1974 and in not less

than 17 out of the 20 tax years of assessment, ending with the tax year of assessment in which the relevant event falls.

Note that legislative changes have been announced that will introduce a similar concept of deemed domicile for long-term UK residents in respect of income tax and capital gains tax. These will take effect in 2017.

3.12 Remittance basis - the interaction of residence and domicile

While a UK resident individual is liable to income tax and capital gains tax on his or her worldwide income and assets, under certain circumstances, this obligation can be reduced, where the individual is also non-UK domiciled.

An individual who is UK resident but not domiciled in the UK is subject to special rules which may apply to foreign income and gains. While most UK residents are taxed on the arising basis, where income and gains are taxed as they occur, those who are also non-UK domiciled may benefit from the 'remittance basis' of taxation. The remittance basis means that an individual is only taxed on UK income and gains as they arise, and that foreign income and gains are only subject to UK tax to the extent that the individual, or another relevant person, brings (or 'remits') the proceeds to the UK, even if that remittance occurs in a later tax year.

For those who are only in the UK temporarily, particularly if most of their assets are situated outside of the UK, this can represent a significant reduction in obligation towards UK taxes. However, in more recent times, the UK government began clamping down on tax avoidance, notably with the Disclosure of Tax Avoidance Schemes (DOTAS) legislation in 2004, and one of

the ways was to restrict the application of the remittance basis in respect of long-term UK resident individuals from 2006 onwards.

A new Remittance Basis Charge (RBC) was introduced, which necessitates individual calculations to determine whether it is worthwhile for individuals to elect to apply the remittance basis and reduce their obligation to pay UK tax, but have to pay the RBC, or whether it makes more financial sense to submit to paying UK tax on the arising basis, even though they are, strictly speaking, entitled to reduce their obligation.

Since 2008, making the remittance basis election has also meant forfeiting a claim to both the personal allowance and the annual exempt allowance for Capital Gains Tax (CGT). The RBC means that those who have been resident in the UK for more than seven out of the past nine tax years will have to pay an annual £30,000 RBC to continue to use the remittance basis. Since April 2015, the charge is increased to £50,000 for those who have been UK resident for 12 out of the past 14 tax years, and a new £90,000 charge for those resident for 17 out of the last 20 years, and therefore 'deemed domiciled', also applies from that date. The RBC does not apply if the non-domiciled has less than £2,000 unremitted foreign income and gains (Lymer and Oats, 2015).

Anti-avoidance legislation under *s721 Income Tax Act 2007* that prevents the transfer of assets abroad for the purposes of tax avoidance. In these situations, an additional tax charge is levied to prevent a loss of tax to the UK.

3.13 Consumption and other taxes

While the direct taxes of income tax, capital gains tax and inheritance tax have been considered above, and the bases upon which an obligation to pay UK tax explored, these are not the only taxes applicable to individual citizens in the UK.

Consumption taxes and duties, such as Value Added Tax (VAT) and excise duties are normally levied at the point of purchase in the UK, and the taxation element of the purchase price of an item is not normally displayed separately when choosing to make a purchase, although VAT paid may be detailed on a purchase receipt.

However, despite the fact that these taxes must normally be paid by everyone purchasing relevant goods in the UK, it does not necessarily follow that all those who pay these taxes have an obligation to pay.

3.13.1 Non-EC residents

Under *s30 Value Added Tax Act 1994*, where goods are sold to an individual normally resident outside the EC, retailers are permitted to zero-rate certain goods, in order to allow the individual purchaser to claim a refund on the VAT paid upon evidence that the goods have left the UK. Note, however, that this is a voluntary scheme as far as retailers are concerned, and visitors cannot obtain a VAT refund without the relevant VAT form 407. This leads to the inequitable situation where certain individuals are not liable to pay this UK tax, yet many of them will still be obligated to pay as they will be unable to claim a refund.

EC residents who intend to permanently leave the EC for a minimum period of 12 months are also entitled to purchase goods under the scheme. Non-EC resident individuals cannot use the

scheme to get a refund of VAT on meals or on services such as hotel accommodation, car hire, taxi fares, etc., even though they have suffered VAT on them, as these services have been enjoyed in the UK.

Interestingly, while it is “domicile or habitual place of residence” cited by VAT Notice 704 (HMRC, 2004, section 2.4.1) as the relevant factor for determining whether an individual is entitled to a release of his/her obligation to suffer VAT on items enjoyed outside the UK, the evidence required is that of a “valid passport, identity card or other acceptable document, such as a driving licence” (HMRC, 2004, section 2.4.1), suggesting that, in this case, citizenship is accepted as, in this regard, comparable to residency, which is not the position for direct taxes.

In a similar way, excise duties may not be charged where goods are going to be enjoyed outside the EC. The most common occurrence is at airports, where ‘duty free’ shops offer lower excise duty reduced prices to travellers leaving the EC, where a boarding card to a non-EC destination is accepted as evidence.

3.13.2 Other taxes

For other non-direct taxes, such as stamp duty, stamp duty land tax (SDLT) and council tax, liability is based on enjoyment of, or execution of the relevant item in the UK.¹¹ SDLT only applies to UK situs property, and stamp duty to documents stamped in the UK. Obligation to pay council tax rests with those enjoying certain services in the UK, which is similar to, but not

¹¹ SDLT does not apply in Scotland, where the devolved Land and Buildings Transaction tax (LBTT) applies instead.

the same as, being assessed on the basis of residence. Liability may rest with a property owner, who is not resident, or a temporary resident who is not UK resident for tax purposes.

3.14 Tax Citizens?

On the basis of the above discussion of the various sites of tax nexus, and taking the definition of a tax citizen as someone with a legal obligation to pay UK tax, therefore, there are six identified classes of tax citizen. These are:

- Those who are UK resident;
- Those who are UK resident, but whose liability is curtailed;
- Those who are non-UK resident, but who have an obligation based on the UK source of income, gains or assets;
- Those who are domiciled in the UK;
- Those who are not domiciled in the UK but who are 'deemed domiciled'; and
- Those who enjoy goods, services or activities in the UK.

The UK specifically does not base liability for tax on citizenship, and as discussed, it is possible to be a UK citizen yet have no liability to UK taxation, and vice versa. However, there are other tax systems globally that do base their tax system on being a citizen of that country, wherever those citizens might be located.

3.15 Citizenship as a base of taxation

While the UK uses a combination of residence, source and enjoyment principles, other countries and jurisdictions use different bases for their taxation system, and using citizenship as a base is an established principle. The most well known tax system to use citizenship as its base is the United States of America.

While a full analysis of the US tax system is outside the scope of this thesis, the main features of the US system include the fact that, while it is primarily their citizenship, for citizens of the US it is also their permanent lawful resident (Green Card) status, that confers liability to taxation. This means that it is citizens, those entitled to reside permanently in the US (Green Card Holders) and those with a 'substantial presence' in the US who are required to file a US return. While the substantial presence test will automatically remove obligation once the presence in the US falls below the threshold, for both US citizens and Green card holders, in order for their obligation to be lifted they must renounce their US citizenship or surrender their Green Card.

Blum and Singer (2008) also note the potentially inequitable circumstance of an accidental citizen, generally described as a child born in the US to transitory non-citizen parents visiting the United States, often as workers on temporary assignment, as students, or as exchange visitors. Blum and Singer note that such citizens (and their parents) are normally unaware they are US citizens and that they are entirely oblivious to their tax obligations on returning to their home country. A US citizen (even an accidental one) may have no US source income, and may not visit the US at all during a tax year, but is still obligated to file a US tax return.

In addition, when renouncing citizenship or permanent lawful resident status, there is an 'exit charge' levied on the ex-US individual. This 'expatriation tax' is levied on individuals earning over a certain threshold and imputes an estimated gain relating to the property they are 'leaving' the US and still hold. Introduced in 2008, the aim of the citizenship-renunciation tax was to prevent tax-motivated relinquishing of citizenship, but commentators have suggested that it is "unconstitutional, violates human rights, [and] conflicts with the values of a liberal society" (Mason, 2016, p. 171).

3.15.1 The debate over citizenship as a basis for taxation

The USA have used citizenship as a jurisdictional basis of income tax since the 19th century but in this regard, the USA have been something of a 'lone ranger'. No other economically developed country uses citizenship as a basis upon which to tax income arising outside of a source basis with no opportunity to escape the tax net (other than renouncing citizenship), and even among less economically developed countries, only Eritrea joins the US in maintaining general income-taxing jurisdiction over its citizens living abroad (Kirsch, 2007; Mason, 2016).

However, the use of citizenship as a base of taxation was very deliberately established, dating back to the time of the US Civil War. Indeed, the thinking from this time was that citizens living abroad were, in fact, living lives of comfort and luxury away from the struggles facing home citizens and after the Civil War, legislation enacted in 1861 and 1862 reflected a desire to make citizens abroad pay extra tax as a way "to compensate for failing to contribute their personal efforts to the Union" (Kirsch, 2007, p. 451).

Of course, as times have moved on, while some would argue that overseas-resident US citizens have been subject to far greater administrative, if not necessarily pecuniary, tax burdens (Blum and Singer, 2008), the US tax system has developed to allow for the fact that a citizenship-base of taxation is not particularly compatible with the vast majority of other international systems, most of which utilise a combination of source and residency bases. Since 1926 US citizens living and working abroad have been permitted to exclude at least some earned income (i.e., income from work, rather than investments) from tax, although these amounts have now been capped, as well as benefitting from the introduction of full deduction (up to the amount of US tax suffered) of foreign taxes suffered on foreign source income that falls to be taxed in the US.

However, citizenship as a taxation base has been challenged on the grounds that it is, essentially, unlawful. Kirsch, a proponent of the US citizenship basis of taxation, cites the 1924 Supreme Court decision of *Cook v Tait*¹² as being the point at which citizenship was established as a legitimate jurisdictional basis to impose income tax, after a US citizen living in Mexico questioned the US government's power to tax his Mexican income. The Court found in favour of the US Congress, saying that "the power to tax did not depend on the situs of the property or the domicile of the citizen but is instead based upon his relation as citizen to the United States and the relation of the latter to him as citizen" (Kirsch, 2007, p. 452).

As a result, while Kirsch is content to assert that the US can levy taxes on US citizens even if they are resident abroad, he does offer some discussion as to whether the US ought to do so.

¹² *Cook v. Tait*, 265 U.S. 47, 56 (1924)

Kirsch's (and indeed the US Government's) prevailing argument is that non-resident citizens nevertheless continue to enjoy the benefits of citizenship while abroad and should therefore continue to bear the corresponding burdens - "in particular, the payment of taxes" (Kirsch, 2007, p. 470).

In terms of assessing whether or not it is equitable for the USA to levy taxation on a citizenship basis, specifically for non-resident citizens, Kirsch reviews the benefits attributed to citizens residing abroad, such as "personal protection", "property protection", "right to vote", "right to enter" and "past benefits" of citizenship already enjoyed and concludes that these benefits "provide a basis for concluding that the United States is justified in exercising some type of taxing jurisdiction over those citizens." (Kirsch, 2007, p. 479). Kirsch further argues that citizens abroad should be treated as members of US society and therefore subject to 'ability to pay' taxation because their failure to renounce citizenship "reflects a self-identification with the population of the United States (or the belief that the benefits of citizenship are worth the tax cost)," (Kirsch, 2007, p. 481), adding that "citizens living in the United States also view U.S. citizens living overseas as part of U.S. society, particularly in times of crisis." (Kirsch, 2007, p. 483).

In addition, Kirsch argues that there is little evidence that non-resident citizens actually suffer a greater burden of taxation than those resident, and that taxation is not normally a main reason for a citizen's residency decision; indeed he discussed the fact that the US Government treats those who do decide to renounce citizenship on the grounds of taxation as pariahs and subject to more stringent immigration policies in line with war criminals.

Kirsch's final argument in justifying citizenship-based taxation is that its removal might lead to resident citizens feeling that others were benefitting from a free ride, and "consequently lose confidence in the tax system and the social norm of tax compliance" (Kirsch, 2007, p. 502). However, others argue that the citizenship system itself is complicated, overly administratively onerous, and almost impossible to enforce which causes disenfranchisement in the whole system (Graetz and O'Hear, 1997). Other options suggested include changing to the "more practical" residence basis of taxation, based on the already enshrined concept of "substantial presence" (Blum and Singer, 2008, p. 707).

However, the debate over whether citizenship as a basis of taxation is defensible has been reignited in recent times, particularly since the introduction in 2010 of the US *Foreign Account Tax Compliance Act* (FATCA) which adds an even greater administrative burden not only for non-resident, but also US-resident citizens, with offshore income sources. In her recent and comprehensive paper, Mason claims that "expatriating Americans have cited the onerous new reporting environment as a reason - independent of tax liability - for renouncing citizenship" (2016, p. 217).

Mason also explores the debate over the inherent fairness of taxing on a citizenship basis. She refutes the claim that non-renunciation of US citizenship is an implicit acceptance of the taxation obligation, given that many have no alternative citizenship to adopt even should they feel so inclined. She also notes that people have strong emotional attachments to citizenship - far greater than that attached to a particular country of residence - and that some US citizenship-renouncers have suffered "emotional harm" by the process (Mason, 2016, p. 195).

Mason also considers the argument that US citizens are receiving benefits of their citizenship even if non-resident, contending that, not only does the US charge citizens for repatriation and foreign soil actions, for example, by the relevant US Embassy, but that many other countries gladly rescue, evacuate or aid their citizens who are located abroad even though they have not made a tax contribution.

Finally, Mason queries the argument that there is an enduring social obligation owed by US citizens to the homeland. While this social obligation concept relies on the premise that people have a moral obligation to support fellow members of their own society, she posits that this must not, therefore, mean there is an obligation to support all people everywhere. As a consequence, and in light of the far greater globalisation seen today, she argues that in cross-border situations it is necessary first to “determine *to which society or societies* the person owes this social obligation” (2016, p. 197) suggesting that, in a similar way to how this thesis has identified that tax compliance behaviour and conceptualisations of citizenship are understood, any person’s relationship to a national community is on a continuum, fluctuating depending on various personal and cultural contact points: “the meaning of national community membership is contested and constantly in flux” (2016, p. 199).

3.16 The relationship between tax and citizenship

Despite there being no explicit link between citizenship and liability to taxation in the UK, there are nevertheless, grounds for exploring the relationship between the two concepts.

Even though most countries do not apply tax on the basis of citizenship, in their comprehensive research report The Commission on Taxation & Citizenship found that there was actually a strong conception of citizenship, claiming that tax decisions “spring from

fundamental beliefs about the relationship between individual citizens and their government; and of the relationship between citizens themselves within society” (The Commission on Taxation & Citizenship, 2000, p. 338). Furthermore Twine (1994, p.140) considers that tax “is a neglected yet crucial aspect of citizenship”.

So why is taxation bound up with citizenship? While some consider that “at root, taxation is the relationship between the citizen and the state” (The Commission on Taxation & Citizenship, 2000, p. 81), a deeper question considers whether taxation, and citizenship itself, denote fundamentally a relationship between the taxpayer citizen and the state, or taxpayer citizen and society.

Powell (2002, p. 230) suggests that taxation was explicitly conceived as the instrument for building civic solidarity among strangers, describing taxation as the focal point of the crisis of citizenship. Empirical work on citizenship has found that the payment of tax, as separate and defined from being in gainful employment, is considered by some to be an essential part of being a citizen.

Conover et al. (1991, p. 810) in particular discuss the belief among British people (and to a lesser extent US citizens) that citizens are awarded certain rights as “financial contributors”, going on to say that citizens’ basic rights were not a legal entitlement but “taxpayers’ due return”. The payment of taxes, as a requirement additional to being in work is also mentioned by the young people interviewed in the Lister et al. study (2003).

The changing political landscape in the UK, particularly as regards personal income taxation thereby presents a dilemma, as successive governments have raised thresholds to announce proudly that more and more people have been taken out of paying tax altogether.

While the low paid will presumably welcome the additional retained income, does the laudable aim of increasing standards of living have an unintended effect on people such that it causes social harm? Are workers who do not pay tax still citizens by dint of their employment, or are they somehow second-class citizens, or even not citizens at all - part of the 'underclass' like the unemployed (Lister et al., 2003)? If citizenship requires a financial contribution, then are those who are active citizens in their community, yet who receive no pecuniary reward such as volunteers similarly lesser citizens? Can one be a good citizen if one does not pay tax?

Alternatively, the position might arise where, rather than paying tax, an individual might choose to avoid or even evade tax. Is this automatically anti-citizen behaviour, or is it sometimes acceptable? Does it depend on whether the taxpayer has paid his or her 'fair share'? Is a fair share defined as the amounts payable by law, bringing the disputed definition of tax avoidance back into question? At what point does acceptability tip between self-interest and civic responsibility - an example of Turner's "contradictory relationship between capitalism and citizenship" (2001, p. 190).

3.16.1 The Commission on Taxation & Citizenship

The Commission on Taxation & Citizenship was established as an independent commission in 1998 by the Fabian Society. Although the Fabian Society is affiliated to the Labour party, the commission had editorial independence and the members of the commission were independent professionals and academics. The commission was tasked with exploring the principles and practice of the tax system, with a view to stimulating public debate (The Commission on Taxation & Citizenship, 2000).

The result of the commission's efforts were twofold: a comprehensive report of the commission's findings was published in book form in 2000, entitled *Paying for Progress: A New Politics of Tax for Public Spending* (The Commission on Taxation & Citizenship, 2000), together with the research findings, published separately in 2001 (Hedges and Bromley, 2001).

The research was carried out in summer 2000 and involved three strands: eight focus group discussions, 12 questions included in an Office for National Statistics (ONS) omnibus survey and one question on an ICM Research, a public opinion researcher (ICM), opinion poll.

The focus groups involved 59 adults (18+) in total, spread over eight focus groups in four locations in England - Banbury, Sheffield, Sutton Coldfield near Birmingham and Barnet, Outer London. While the researcher describes a wide range of incomes being sampled, high earners were oversampled such that 20 out of 59 participants were classified as 'higher income' defined as those earning over £30,000 which, at the time, would have put them into the higher rate of tax bracket (Hedges and Bromley, 2001) although the researcher notes that he/she encountered difficulties in recruiting people earning over £50,000. Participants were paid £20 for participation. Six of the groups were split into older (40+) and younger (18-39) and two were split into Labour/Conservative groups.

The ONS omnibus responses were received from 1,717 individuals aged 16 or over, which represented a 63% response rate using randomly selected postal address data which was then weighted to adjust for unequal probabilities of sampling owing to geographic spread.

The ICM opinion poll interviewed 1,006 adults aged over 18 from across Britain and the results were weighted to be representative of the UK.

The findings of the Commission had a considerable impact on tax administration and practice in the years following publication. Many of the Commission's recommendations have been put into practice, with varying degrees of success.

For example, one criticism explored by the Commission was that taxpayers did not have enough information on how their tax money is spent, leading to distrust and disengagement. As part of the study, focus group participants were shown ONS data showing where the tax money was proportionately distributed, in a similar way to how Council Tax information is commonly presented. The study found that participant found the information interesting and useful. However, it was noted that people "reacted strongly" to some categories of expenditure, social security being the most often cited. (Hedges and Bromley, 2001, p. 50). As explained, "many participants resent their money going to people who they don't feel deserve support" (p. 51), yet views sometimes softened when it was clarified that 45% of the social security budget was spent on pensioners.

In 2012 the Treasury announced that 20m taxpayers (later revised to 24m) would be provided with an 'annual statement' of their tax paid from October 2014, tailored to their own personal circumstances, estimating how their own personal tax contribution had been allocated among public services (The Telegraph, 2012).

Another major tax policy change that resulted directly from recommendations within the Commission's report was the introduction of a higher tier rate of tax for the 'top' earners. While the report noted that most people have a tendency to think that the cut-off level for those on top incomes will be somewhere significantly above their own level of income, the report did find a consensus that suggested that incomes over £100,000 or £150,000 would

generally be thought of as high and that an additional tax rate of 50% seemed “fairly reasonable to many people, although some would prefer something more like 45%” (Hedges and Bromley, 2001, p. 33). Disadvantages of higher tax rates cited by focus group participants included the fear that the rich would just avoid or evade a higher tax rate, that higher taxes would adversely affect the economy and entrepreneurialism and concern over a potential ‘brain drain’.

In 2010, the sitting Labour government introduced higher tax measures for those earning over £100,000, in the form of reduced personal allowances, and a top rate of tax of 50% for those earning over 150,000. Two years later, the top rate was reduced to 45%, following tales of aggressive tax avoidance and evasion, fears over the economy and falling entrepreneurialism and reports of a ‘brain drain’ (The Guardian, 2009). Issues around the 45%/50% tax rate formed part of the data collected, and this is included in the analysis in Chapter Five.

3.16.2 The ‘Tax Detox’

In 2015, 15 years after the original research into tax and citizenship, the Fabian Society undertook another qualitative study, again using focus groups, with the aim of canvassing public opinion on taxation, hoping to present public opinion as a gateway, rather than a barrier to public policy reform (Srblin, 2015).

While the focus of Srblin’s study was on the legitimacy of tax, clarification of tax and issues of fairness, rather than on citizenship, citizenship was identified as still forming an important part of individuals’ relationship with taxation.

The study found that individuals “linked the payment of taxes to their common citizenship” (Srblin, 2015, p. 11). They also displayed pride in paying their taxes, as part of their relationship

with society, and as a means of making a contribution in exchange for services, rather than receiving services without having paid in, not having paid a 'fair share'.

The study also reasserted the macro-conception of citizenship, that of 'for the greater good' identified in the earlier study, with the responsibility to pay taxes being described here as "just humanity" (Srblin, 2015, p. 11).

However, conversely, some participants expressed concern over linking paying taxes and citizenship. One participant described it as "quite demoralising as ... it's like saying because you're not a taxpayer ... you're not a proud citizen". While participants did express the view that paying taxes was a core part of being a citizen, they also emphasised that "those on low incomes or those unemployed contributed in other ways, and that these individuals were no less citizens" (p. 11). This did not preclude the identification of "scroungers", however, and these themes were similarly found in the data of this research study, which is covered in more depth in Chapter Six.

3.17 Conclusion

In this chapter, the foundations of citizenship, and specifically social citizenship have been explored in some detail to see where an obligation to pay taxes might fit.

Central to an accepted understanding of the rights and responsibilities of citizenship is the idea of making a contribution, and back in 1949, when Marshall was delivering his seminal lectures, paying tax was considered the most important contribution a citizen could make.

However, these investigations also raised the question of those who do not fulfil their citizenship obligation to pay taxes, for a variety of reasons. Some may be unemployed, or rely

on welfare, while others may simply not earn enough to pay income taxes: are these two groups of people lesser citizens than those who earn more? Even those who are fully funded by the state will presumably suffer some form of taxation through spending taxes and duties - is this payment of non-income related tax sufficient to meet their citizenship responsibilities? Also, what of those who pay tax, potentially large amounts of taxes, yet who seek to avoid paying even more tax: are these also second class citizens for shirking a proportion of their responsibility to contribute?

While citizens' prima facie liability to pay UK taxes is discussed in more detail in the next chapter, these questions informed the research questions that form the basis of data collection for this thesis, as discussed in Chapter Four.

While similar ideas to those found in the social citizenship literature are found in the structure of the UK tax system, the latter is not based on citizenship and therefore citizens may legitimately fulfil their citizenship obligations without paying tax. However, given the requirement for contribution, this requires further exploration through the data of what might comprise an acceptable alternative contribution, or even whether non-payment of taxes is, whether legally acceptable or not, understood to be sufficient by other citizens.

Empirical work on the linked subjects of tax and citizenship suggests that ideas of citizenship are important in how citizens think about tax, and that there are other specific factors that warrant further research, including the concept of 'the greater good', paying one's 'fair share' and hypothecation of tax for specific services. These ideas were incorporated into research instruments and are developed further in the analysis of the data collected.

Chapter 4: Methods and Methodology

The research questions outlined in Chapter One were informed by the literature explored in the early chapters of this thesis. In order to determine the best way to approach the research, however, it is necessary to determine the most appropriate research paradigm, before considering the most appropriate methodology that will best suit the questions posed.

This chapter goes on to detail the research questions and the design of the research, detailing the specific methods used to collect data, sampling and recruitment of participants and ethical issues, before outlining the tools used in data analysis, which is explored in more detail in the next chapter.

4.1 Philosophical assumptions and conceptual issues

Taxation research is a difficult place to base research. Intrinsically interdisciplinary, it is a facet of many different areas of research interest, yet not necessarily considered an academic discipline in its own right (Lamb et al., 2004), but rather as part of a number of separately defined areas of academic interest and scholarly community. Indeed Lamb et al. in the 2004 volume identify five separate areas in which tax is regularly considered an area of research interest, namely, law, economics, accounting, politics and social policy - with these being merely the main contenders in a range that has already been extended to include history and psychology. For example, Frecknall-Hughes (2014, p. 2, Figure 4.1, below) notes the interdisciplinarity of taxation research by noting ten separate disciplines into which taxation research could fall.

Figure 4.1: The interdisciplinary nature of taxation research



What this means is that there are no concrete assumptions or readily accepted starting points for research in tax, or indeed an overarching philosophical grounding. As Oats says in her handbook on tax research, tax researchers tend to take tax as the object of their work, with the research approach dictated by practical and pragmatic concerns (Oats, 2012).

That is not to say that we cannot ignore the philosophical issues of taxation research, but it is more crucial than ever to identify the ontological and epistemological standpoint of the particular tax research being undertaken, as it is entirely possible that any combination of philosophy, methodology and research design could be appropriate in tax research.

As McKerchar (2008, p. 5) notes, the shape of taxation is formed as a “reflection of the shared values, goals and aspirations of society, and a means by which its members are bound together”. Far from being ‘just’ a study of taxation law and its application, McKerchar suggests taxation is “a social phenomenon that can be studied through various disciplinary lenses” (2008, p. 5)

This research is looking at taxation through a lens of citizenship literature, and specifically whether the ideas conceptualised as part of social citizenship form part of individuals’ understanding and acceptance (or non-acceptance) of the legitimacy of taxation. While being necessarily aligned with social policy themes therefore, as the welfare state is generally accepted to be funded (albeit indirectly) by tax take, the interdisciplinary element of this thesis is strictly grounded in citizenship and therefore sociology.

The fact that citizenship as a concept is contested has already been discussed, and empirical work undertaken to date has only confirmed this diagnosis (Conover, 1995; Lister et al., 2003), and this also has very important ontological implications.

4.1.1 Researching the wealthy

As discussed below, one group of research subjects identified as having important, and rarely heard, views on the specific matters being researched are the wealthy. The wealthy (and the powerful) are acknowledged as an under-researched group (Rowlingson and McKay, 2012) and researching the wealthy could present additional concern in terms of research design and approach.

While wealth does not necessarily equal power, wealth is often perceived as owned by those with power, and as providing power to those in possession of wealth.

Williams (1989) outlines some of the 'known issues' in attempting to research the powerful. They can be "unwilling to cooperate, reticent to talk and protective of their privacy." (p. 254). Further difficulties such as insurmountable access problems as well as fear from the researcher that such people could, by dint of their power, make things difficult for or impose sanctions on the researcher, suggest that researchers are unwilling to engage with the powerful as research subjects.

While access is an important and imposing hurdle to researching the wealthy, and the means of obtaining access in this research project is discussed in more detail below, this project was not approached with the pessimism or "gloomy anticipation" described by Mungham and Thomas (1981, p. 80). This may be attributable to the researcher's own long history in working as adviser to very wealthy individuals and the lack of perceived opportunity for any sanctions to be levied. The eventual access was provided, as discussed later, through gatekeepers who were also able to frame the research to participants in such a way that it was non-threatening to their privacy, and indeed many were of the opinion that they were doing a 'good deed' by participating.

In fact Mungham and Thomas (1981) found that actually, the powerful may "welcome researchers as a way of getting their views and opinions on the record" (p. 81) particularly in cases where they feel public opinion is uninformed on important issues to which they are privy. Mungham and Thomas also felt that assuming a "monolithic and unitary character" of a group of research subjects was fundamentally flawed, given "such an assumption of a

singleness of purpose and intention is a flat denial of everything we know about the complex character of social groups” (Mungham and Thomas, 1981, p. 82).

4.1.2 Approach

Having noted that taxation research could adopt a number of different approaches, albeit that some ontological, epistemological or methodological choices may be more suited to approaches viewed through particular given lenses, McKerchar (2008, p. 9) notes that:

“irrespective of whether or not the researcher is embarking on a ground-breaking methodological pathway or adopting a more traditional paradigm, the research must have a clear purpose at the outset. This may come from the review of the literature in which a gap of knowledge, to be addressed by the research, has been identified”.

Seeking to address a gap, and answering the specific research questions posed, provide the over-arching approach to this research, and this approach has, as noted below, facilitated the use of innovative and original approaches in research design.

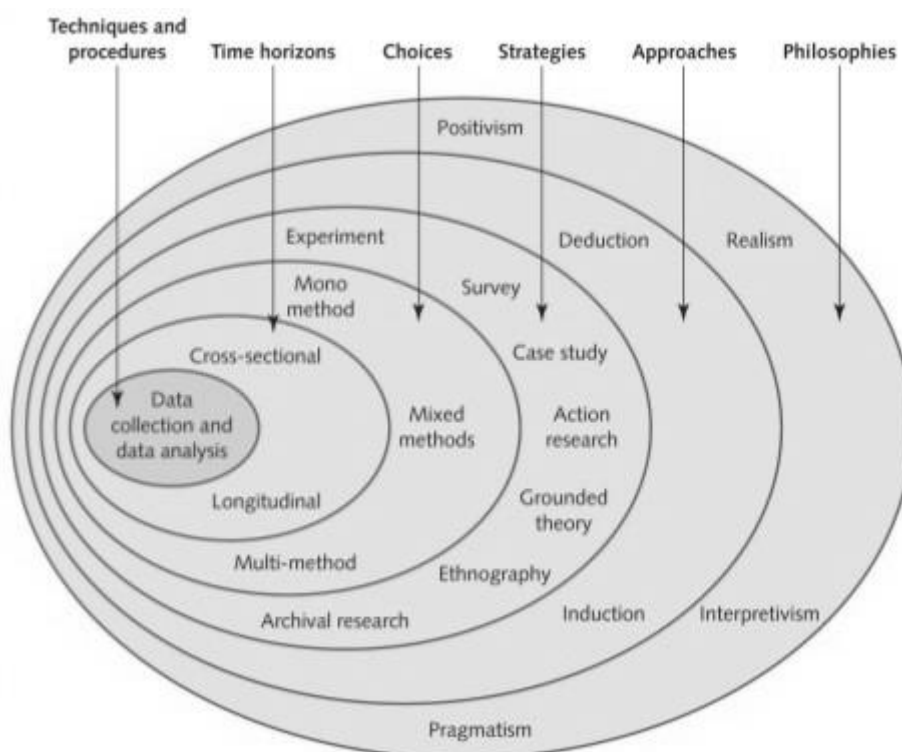
In practical terms, the research onion (Saunders et al., 2009) is a representation of the process that should be considered by researchers before embarking on a research project and when designing a research strategy. The onion (below, Figure 4.2) illustrates the numerous stages that must be covered in order to formulate an effective methodology.

The research onion leads the researcher to define the research philosophy which then creates the starting point for the appropriate research approach, which is identified as the second step. The onion then encourages the researcher to explore suitable research strategies and to consider the available and appropriate choices and time horizons that are most suited to

respond to the research questions. The final step identifies the most appropriate methods of data collection.

The research onion provides a framework for an effective progression through development of a research methodology and it can be adapted for almost any type of research methodology or used in a variety of different contexts.

Figure 4.2 : The Research Onion (from Saunders et al., 2009)



4.1.3 Ontological and epistemological perspectives

Determining in which paradigm tax research sits, and therefore which is the most appropriate approach is, in itself, a subjective matter. However, as described above, this tax research is seated within the social science side of the spectrum, and therefore ontological and epistemological considerations are examined with this in mind.

In the most simplified terms, ontology refers to how we see the world, and, if looking at things in black and white, whether we think the world is objective or subjective in nature. While these may seem directly oppositional in their position, as humans, we cannot help but perceive the world through our own understanding of it, no matter how objective we desire to be. Take the example of pain: while pain can be explained in a purely objective manner as a function of a physical and neurological response to a pain stimulus, the way in which pain is felt and experienced will be different for each person, making pain both objective and subjective (O’Gorman and MacIntosh, 2014).

Natural science research is normally undertaken as part of an objective ontological position, with the use of research devices such as placebos and double-blind trials in medical research aiming to remove all subjectivity from an observable response. On the other hand, social science, which deals with people as people, as subjective research subjects, is by definition more subjective in nature (della Porta and Keating, 2008; O’Gorman and MacIntosh, 2014).

In tax, depending on the particular area being researched, the research could be objective - for example, quantifying how many people paid over £1,000 in PAYE tax in 2015/16 is an objective fact that could be calculated from the relevant data. However, this doctoral research, being concerned with both the sociological concept of citizenship, and in seeking people’s opinions, is founded in a subjective ontology.

Having determined an ontological position, it is then necessary to determine the epistemological position that would fit both with the ontology and with the type of research and research question.

Epistemology means the study of knowledge, and is concerned with how we know what we know - how we can study reality (Bryman, 2012) or defining “the form and nature of reality and, therefore, what is there that can be known about it” (Guba and Lincoln, 1994 , p. 107). A starting point is therefore to consider the various epistemological positions in order to see where this research would sit.

Guba and Lincoln’s (1994) well known chapter classified ontological positions into four epistemological categories: positivism, post-positivism, critical theory and constructionism (or constructivism), with the final category deemed to also refer to social constructionism or interpretivism.

Della Porta and Keating (2008), however, re-drew these classification lines to comprise, positivist, post-positivist, interpretivist and humanist. Della Porta and Keating see critical realism and social constructivism as shades of post-positivism rather than categories in their own right, and include interpretivism as a specified category, with its own defined characteristics (as shown in Table 4.1). They also include humanism as a counter-point to positivism, providing a full spectrum of realities from which to choose.

Table 4.1 Ontological positions (from della Porta and Keating (2008, p. 32))

	Positivist	Post-positivist	Interpretivist	Humanistic
<i>Ontological issues</i>				
Does social reality exist?	Objective; realism	Objective, critical realism	Objective and subjective as intrinsically linked	Subjective: science of the spirit
Is reality knowable?	Yes, and easy to capture	Yes, but not easy to capture	Somewhat, but not as separate from human subjectivity	No; focus on human subjectivity
<i>Epistemological issues</i>				
Relationship between the scholar and his/her object	Dualism: scholar and object are two separate things; inductive procedures	Knowledge is influenced by the scholar; deductive procedures	Aims at understanding subjective knowledge	No objective knowledge is possible
Forms of knowledge	Natural laws (causal)	Probabilistic law	Contextual knowledge	Empathetic knowledge

O' Gorman and MacIntosh, as part of their constructed *Methods Map*, detail four slightly different epistemological positions: positivist, critical realist, action research, and interpretivist (O'Gorman and MacIntosh, 2014).

What is clear, therefore, is that epistemological considerations are far from clear-cut. However, it is generally accepted that epistemological positions fall on a spectrum ranging from positivism through to interpretivism, or even beyond.

4.1.4 From positivism to interpretivism

The positivistic approach comes from an objective ontological position, assuming that the world can be known, in its entirety as it is an entirely objective entity, independent of the mind of the observer (della Porta and Keating, 2008). Positivistic researchers consider themselves to be observing an independent reality which can be explained through empirical

observations and experiments that are common to this approach. The search for truth and explanation means that positivist research often seeks to apply and develop fundamental laws and explore causality as part of a wider, fixed, objective reality.

Although much social science research would not necessarily sit well within a positivistic paradigm, owing to the nature of the research and the subjectivity contained therein, positivism is popular in business research as many disciplines employ the use of highly specific and precise data that lend itself to more objective interpretation (O’Gorman and MacIntosh, 2014).

4.1.4.1 Interpretivism

Interpretivism is often considered the generic paradigm of the social sciences and emerged as a counterpoint to the positivist position. Interpretivism allows for the fact that there are fundamental differences between the natural and social sciences, and that a different approach to researching them is justified owing to the different aims of these two types of research - contrasting positivist *explanation* with interpretive *understanding* (O’Gorman and MacIntosh, 2014).

The social constructionist or interpretive approach to ontology is situated on the subjective side of the ontological spectrum. Here, reality is viewed as subjective and not fixed and reality is seen as socially constructed through human interaction and attributed meaning.

O’Gorman and MacIntosh summarise the philosophical stance in relation to reality as “not how our representations may necessarily conform to objects as such, but rather how objects may necessarily conform to our representations” (2014, p. 53), which suggests interpretivism

may be appropriate in seeking to understand the interaction between humans and objects. This is reiterated by Guba and Lincoln (1994, p. 111) who offered the position that “realities are apprehendable in the form of multiple mental constructions, socially and experimentally based, local and specific in nature (although elements are often shared among many individuals and even across cultures), and dependent for their form and content on the individual persons or groups holding the constructions. Constructions are not more or less true, in any absolute sense, but simply more or less informed and/or sophisticated”.

Context is, however, very important in social constructivist/interpretivist research since research on human activity has to allow for individuals’ capacity for situational self-interpretation, that is our own capacity to delude ourselves and thereby potentially misrepresent the ‘true’ position when researched (Flyvbjerg, 2011). This means that a researcher has to be aware that the findings will be intrinsically biased, even when asking research participants for their personal views. However, while strategies used in methodologies can help to minimise the effect of this bias, an interpretivist will also be interested in the ways in which subjects self-interpret as this also aids in understanding of phenomena.

Indeed, in terms of this specific research, exploring how participants self-actualise concepts is actually an important aim of the research. Empirical work has shown that individuals have not only a personal view of what citizenship means, but also of what taxation represents as well as what constitutes acceptable tax avoidance (Lister et al., 2003; Webley et al., 2010). As a result, a research paradigm that allows for and integrates such inherent subjectivity is required.

Following the exploration of ontological and epistemological considerations, a subjective, interpretivist approach is more appropriate for this study and this choice of paradigm is in alignment with the researcher's view of reality.

4.2 Methodological considerations

After having explored and fixed upon the appropriate research paradigm, it could be tempting to assume that further consideration of methodological issues is not required, given the "tendency for philosophical issues and technical issues to be treated simultaneously and occasionally to be confused" (Bryman, 1984, p. 75). However, this is inadvisable when attempting to bolster the robustness of research design. Della Porta and Keating (2008, p. 27) warn that not exploring methods and methodology as something separate from the research paradigm becomes "a source of considerable confusion, conflating ontology and epistemology on the one hand with methods and methodology on the other".

In simple terms, philosophy is concerned with seating the research in its foundations while methodology is about selecting the most appropriate method and means of gathering and analysing data, as compared with other available methods.

That is not to say that certain philosophical positions are not often associated with certain methods and methodologies. As discussed below, positivist epistemological positions often follow a deductive, quantitative approach to research. However, as Bryman (2012) notes, such associations may be predisposed to be most appropriate, but they are not deterministic and researchers should be fully aware of the range of methods available in order to make informed

choices about the most suitable. In addition, the ever-growing incidence of mixed methods research shows that such clear and linear distinctions are not always appropriate (Bryman, 2006; Giddings, 2006; Howe, 2012). Mertens, in her 2012 paper even proffers differing research paradigms to circumvent the objections to the ontological incompatibility of mixed methods research. For example a 'pragmatic' paradigm would be "based on the assumption that there is not one set of methods that is appropriate; rather, the criteria for choosing methods include the following: What fits with the research question in this study?" (Mertens, 2012, p. 256).

4.2.1 Inductive and Deductive reasoning

Research can be described as either inductive or deductive in approach. The difference between the two is related to where the underlying theory falls as part of the research process (Bryman, 2012; Ruane, 2015).

Deductive research starts with a theory and/or hypothesis and seeks to compare the research data against the theory in order to answer a research question postulated by the theory. Inductive research instead starts with the data, and looks for patterns to formulate theory or use existing theories to assist in understanding of reported data. Alternative ways of describing the two variants are to express the process as 'top down' for deductive work that starts with theory and 'bottom up' for inductive work, or by defining induction as moving from the specific (data) to the general (theory), while deduction begins with the general and ends with the specific answer to the specific question asked (Creswell and Plano Clark, 2010).

Again, while not fixed, inductive theory lends itself to an interpretivist epistemology, allowing the researcher room to explore the data before developing a theory to explain the findings.

Deductive theory allows researchers to measure data against a given yardstick, an objective marker that is aligned with a positivist epistemological position.

Yet there are two elements of methodology - the type of data we want to collect, to help formulate a response to our research questions, and the manner in which we want to collect it. The tools used to collect, create or gather data are the method of the research, and these tools are often classified as either qualitative or quantitative.

Often classified in linear streams, interpretive/inductive/qualitative research is described as aiming to understand events by discovering meaning. Here, the focus is not on blanket laws and causal relationships but on understanding human nature, including the motivations that lie behind human behaviour. "Theory is important, but is not always established prior to the research as in the deductive-empirical approach" (della Porta and Keating, 2008, p. 26).

For the purposes of this research, already sited in an interpretivist paradigm, theory is important, and the literature surrounding the concept of 'social citizenship' as well as previous empirical work on the subject was used in designing the research instruments used to obtain data. However, the data collected and analysed were intended to be looked at in an inductive manner - there was no right (or wrong) answer to be found within the data. Instead the data were used to determine what people thought about the issues identified with the theory and to try to understand, or possibly even explain, people's thoughts and actions in relation to those issues. As a result, while not wholly inductive, as distinct therefore from approaches such as grounded theory, this study is nevertheless inductive in nature, seeking to explore perceptions of theory, rather than measure responses thereto.

4.2.2 Qualitative vs quantitative data

As discussed, above, the qualitative/quantitative debate is focussed on the methods used in order to obtain data. When attempting to define qualitative data, it is common to see qualitative data classified by distinguishing them from quantitative data (O’Gorman and MacIntosh, 2014). While some suggest that quantitative data are a polar opposite to qualitative, others, who unsurprisingly include those who support mixed methods research, think the difference is slight, and merely a matter of measurement (Bryman, 2012; Creswell and Plano Clark, 2010).

In simple terms, quantitative research “emphasises quantification” in both collection and analysis of data (Bryman, 2012, p. 35), often manifesting as counting “occurrences across a large population” with the aim of validating “generalisability by reducing and eliminating social variables” (Holliday, 2016, p. 7). This goes back to the fundamental aim of qualitative research being mainly to measure something against something else - normally data against theory. This method of data collection and analysis, by its very nature, lends itself to a positivist and deductive paradigm, where objective data (often numerical) are applied to an established theory with the aim of finding causal or universal laws (Easterby-Smith et al., 2008).

However, rather than trying to remove areas of subjectivity, qualitative research seeks to investigate these very areas of subjectivity (Holliday, 2016). With qualitative work, the research is located in, and is dependent upon, its specific setting to explore subjective social variables. Also, as qualitative work is ‘exploring’ variables rather than ‘proving’ theory, there

is less of a burden of proof on qualitative work, as there is far less expectation of generalisability of the research (King and Horrocks, 2010).

Following on from the linear representation of research paradigms and methodologies, qualitative methods are generally, but not always, founded on the theoretical principles of interpretivism. This subjective and constructed foundation often found in qualitative work, however, means that it is even more important to detail the process used in qualitative research as, when we “acknowledge multiple realities and different ways of being it is essential to elucidate which approach/version of reality is being used” (King and Horrocks, 2010, p. 15). This is especially pertinent in this research, where a significant element identified is not only how people define and understand the idea of citizenship, but also how they understand and accept (or do not accept) taxation and its legitimacy.

This research is already positioned as interpretivist and inductive in nature, so even following a bilateral divide of methods, selecting qualitative methods would seem appropriate. However, this was not how research methods were selected in this case: rather the most appropriate methods to draw out relevant data to answer the research questions were chosen. In this case, it was determined that it would be very difficult to ascertain how people felt about the identified issues, and how certain terms were defined by different individuals, without talking to them. As a result, qualitative methods, including interviews and focus groups, were chosen as most appropriate. Having said that, once certain points had been drawn out from the inductive work, it would be possible to extend the application of this research through the use of other quantitative methods such as questionnaires in order to determine whether such views are widely held, and thereby offer a more generalised analysis.

It has been suggested that eschewing certain methods on the basis of ontological differences is foolhardy, with the contrast between the two types of method “often blown out of proportion, to the point of positing two fundamentally divergent paradigms, two views of reality, and other such polar extremes. The existence of two sets of methods entails at most that having more than one set of tools is useful” (Howe, 1988, p. 15).

4.2.3 Validity

Validity, in terms of quantitative research, is important. Making claims of causality and/or universal law requires that the research and research data do indeed support the claims being made. However, when looking at qualitative research “ ‘validity’ is not a single, fixed or universal concept, but rather a contingent construct, inescapably grounded in the processes and intentions of particular research methodologies and projects” (Winter, 2000, p. 3).

Qualitative work is normally subjective in nature and has limited generalisability. Normally claims made from qualitative work refer to the subject involved, and while the analysis might have wider impact or implication, this is not necessarily true. Interpretivist social science, by its very nature, cannot proffer the definitive explanatory and predictive theory that is considered the hallmark of good positivist work (Flyvbjerg, 2011).

This means the concept of ‘external validity’ is not really relevant in this type of exploratory qualitative research. As a result, many researchers have espoused their own theories of what might give qualitative work ‘validity’. Terms such as ‘trustworthy’, ‘relevant’, ‘credible’ and ‘representative’ have been used to attempt to demonstrate a robustness of method, of data

collection, and of interpretation of qualitative data (Denzin and Lincoln, 2005; Guba and Lincoln, 1994; Winter, 2000).

4.2.4 Philosophical Assumptions

The above discussion of the relevant philosophical and methodological considerations of research leads to the following conclusions:

1. The research is sited in an interpretivist/social constructivist position, based on a subjective ontology as this is considered the most appropriate given the research questions, the subjective nature of the enquiry and the researcher's own position.
2. The position of this study is appropriate as the aims of the research are to develop an understanding of a subjective overall situation, where experiences are experienced differently by different individuals and as such are interpreted differently by each of them. However, by observation and analysis it is hoped the research will identify common themes and ideas that could seek to explain and aid understanding of how individuals relate to taxation.
3. The research instruments were founded in identified theory on both citizenship and tax avoidance/evasion literature, but the data collected are inductive in nature, seeking to explore areas not covered by literature and understand individuals' positions.
4. In order to obtain the rich, nuanced data necessary in order to identify and explore such themes, it was necessary to employ qualitative methods in order to obtain words and meanings, rather than numbers and measurements.

4.3 Research strategy

Having explored both the literature on social citizenship and on tax compliance, including tax evasion and avoidance, an avenue of exploration was identified which sought to examine the 'rights and responsibilities' concept of social citizenship in tandem with individuals' acceptance and willingness to pay their taxes. As a result, the following research questions (and sub-questions) were developed.

4.3.1 Research questions

RQ1: Is there a social obligation associated with taxation?

- a) Do citizens accept a social obligation to pay tax, as understood through the concept of rights and responsibilities of citizens?
- b) Do citizens accept a social obligation to pay tax 'for the greater good' with no anticipation of personal benefit?
- c) Does any social obligation fall differently/more heavily on certain classes or types of citizen?

RQ2: Can citizenship be implied by tax activity?

- a) Is payment of tax, specifically income taxes, necessary to satisfy the obligations of citizenship?
- b) Are those who do not pay income taxes classed as lesser citizens?
- c) Are those who work, yet do not pay income taxes owing to the level of their income, classed differently from those who do pay income taxes?

RQ3: Are there acceptable levels of tax avoidance/tax evasion behaviour taking into account the obligations of citizenship?

- a) Are those who choose to avoid tax classed differently from those who meet their 'full obligation'?
- b) Is there a point at which a 'full obligation' can be considered met, beyond which tax avoidance behaviour is considered differently?
- c) Are there circumstances in which personal tax avoidance is considered socially acceptable?
- d) Are there circumstances in which tax evasion is considered socially acceptable?

As discussed above, the most suitable way to obtain relevant data was considered to be by using qualitative methods, to talk to individuals and find out what they thought about the issues being researched.

4.4 Research Design

The overall research design represents the process which has been used by the researcher in the study as a means of ensuring that the research findings are trustworthy and credible.

McKerchar's 2010 volume on the design and conduct of research in tax (McKerchar, 2010) provides a detailed guide to the issues and considerations pertinent to any tax researcher.

When specifically referring to an effective research design McKerchar notes that an effective research design is one where:

- its methodology fits within a paradigm that is (ideally) understood and accepted by others;
- it has a fundamental framework or structure to its conduct;
- it employs appropriate strategies of inquiry or research methods;
- it allows for knowledge claims to be made that are both consistent with the strategy of inquiry; and
- it allows the researcher to answer the research question(s) and meet his or her objectives. (McKerchar 2008, p.9)

As detailed above, the research questions' aim was to explore people's thoughts and opinions on both citizenship and taxation, and their interaction, and as a result, qualitative interviews and focus groups were selected as the most appropriate methods for generating suitable data.

On the most basic level, the design of the research was to talk to people about citizenship and about tax avoidance and evasion. However, it was important to determine to whom the researcher ought to speak and the manner in which subjects would be asked their thoughts.

4.4.1 The wealthy

The first identified group of participants was the wealthy. A founding principle of social citizenship is the Marshallian idea of rights and responsibilities, with citizens exchanging acceptance of their responsibilities for their free enjoyment of rights. Exactly what those rights comprise is a fluid issue, but those with greater wealth are more able to make a choice to pay

privately for otherwise public-funded services such as health or schooling. With increased levels of wealth, these people can essentially use their resources “to establish private lifestyles and modes of consumption that set them apart from more ‘mainstream’ society” (Rowlingson and McKay, 2012). These people can often also choose to live elsewhere in the world and obtain alternative forms of legal citizenship, should they so wish. As a result, while this group contributes a large proportion of the UK tax take, generally accepted as the public means of paying for public services, they may actually use fewer public services than other types of individual, thereby tipping the balance of rights and responsibilities out of their favour.

In addition, a criticism that has been raised about those who do avoid tax is that it is only the wealthy who can afford to avoid tax, a point confirmed as accepted opinion in the focus groups.

However, Barnard et al. (2007) in their work on assessing the feasibility of researching the very wealthy suggested that “in research terms, the very wealthy can be seen as a hidden population” owing largely to difficulties in recruitment because of the “deep-seated reluctance of very wealthy individuals to take part in ... research, based on a powerful desire for their affairs to remain private” (Barnard et al., 2007, p. 18). They concluded that “it would be very hard for the government to conduct meaningful social research with very wealthy individuals ... exploring their attitudes and behaviour regarding the tax system” (Barnard et al., 2007, p. 19).

Nevertheless, it was determined that the wealthy, not only as an under-researched group but also given their unique position in relation to both social citizenship and tax avoidance, should be included in the study. Sampling and recruitment difficulties are discussed below but, given

the inherent problems with this group, interviews were considered the most appropriate method of data generation. Besides the fact that it would have been even more challenging to recruit sufficient participants to run focus groups with meaningful numbers, given the reticence of this group to participate in research, a group situation was likely to act as a deterrent to many. Interviewing also meant that each individual's position could be explored in greater depth.

4.4.2 The non-wealthy

In addition to the wealthy, as detailed above, research into what less wealthy people thought about similar issues was considered necessary to provide a rounded picture and to highlight any areas of potential difference when compared with the very wealthy individuals. Note that the sampling frame was restricted by age, but, owing to the sampling method used, naturally drew from a group of people who could broadly be described as 'middle class'. While not sufficiently wealthy to be included in the very wealthy/top 1% definition, at least some of the participants would still have been categorised as wealthy.

That said, the purpose of the research was not to generate a stark contrast, and as such participants were not sought from those at the polar opposite financial position to the very wealthy. Instead a sampling frame was set up to select from those in the 40-65 age bracket. This was a conscious decision to sample people who are, hopefully, more financially secure than those in their youth, or those in retirement.¹³ Additionally, previous work by Lister et al. (2003) particularly found that individuals' thoughts and positions on citizenship changed over

¹³ Although two participants were actually retired, it is assumed that those with the financial resources to have retired earlier than State Pension age would not consider themselves in a poor financial position.

time and as they aged. As a result it was felt that a homogeneous age group pool would be most appropriate for this purpose.

While it would have been possible to conduct interviews with all focus group participants in the same manner as with the wealthy individuals, a focus group dynamic offers additional benefits to a researcher. In particular, the interaction between focus group participants was aimed at teasing out additional perspectives and allows other participants to entertain a view they may not otherwise have considered. Focus groups also allow for greater discussion of a topic, which can give greater depth, although there is the risk that some participants will not get involved in the group discussions and will therefore offer fewer data than in an interview situation. Finally, using focus groups allowed the researcher to use different tools, such as 'post it' notes and tax avoidance definition tools in order to obtain a group opinion which might be different from a number of individual opinions.

4.4.3 Research instruments

For both interviews and focus groups, a research instrument was developed as a guide to assist the interviewer/facilitator. For this purpose, both interviews and focus groups were in part semi-structured.

Interviews can be used both qualitatively and quantitatively (Bryman, 2012) but in order for quantitative analysis to be rigorously applied, an interview would have to be structured, with a strict order and wording of questions.

This was not the case in this research. While an interview guide (protocol) listed questions covering areas of the citizenship and tax compliance literature that had previously been

identified as of interest, the questions were not always asked in the same order, and sometimes questions were skipped either because the issue had been covered in conversation, or because the conversation had taken a different path. However, all interviews and all focus groups followed a broadly similar path through the identified areas of interest, without being restricted to those areas or format. Both interviews and focus groups were flexible and allowed the participants to pick up on the areas which interested them and what they wanted to say: what the interviewee/focus group participant sees as important is important in itself (Bryman, 2012).

Care was also taken to try to clarify issues and reach an accepted definition of contested terms, particularly in the focus groups, such that individuals were all conceptualising issues in a similar way. That said, analysis did identify a number of occasions where participants were not consistent in their use of terms/concepts throughout the interview or focus group. This is discussed in more detail when looking at the results of analysis. Another reason for asking participants to define concepts in their own terms was to prevent or minimise opportunity for the interviewer/facilitator to lead the participant. Again, analysis was fine-tuned to highlight where comments about specifics were made prompted or unprompted.

4.4.3.1 Scale of tax avoidance

To complement work on the relative acceptability of tax evasion, for the focus groups only, an additional tool was used to help gauge where the 'line' was that delineates acceptable from unacceptable tax avoidance. This tool was not used with the interviewees for two reasons. First, it was important not to alienate the interviewees and it was felt that some might have felt a simplified pictorial tool was not appropriate to their position. Also, given their own level

of wealth, it was assumed that these participants would have a higher knowledge of tax concepts, and particularly of tax avoidance terms. The research found no evidence to contradict this assumption. As part of the interview process, most interviewees also expressed relatively strong views on the legality/morality of tax avoidance without needing any assistance from a definition, so the decision not to use this tool was assessed as being appropriate.

The scale used (attached at Appendix One) was a simplistic linear representation of tax avoidance (and evasion) available in the public domain, and while it was perhaps too simple to enable a definite line to be drawn, it did facilitate discussion on the elements of what was acceptable or unacceptable within the group dynamic. This was a tool used by the TV company Channel Four as part of a series of articles centred around Lord Fink's assertion that everyone is involved in tax avoidance.

4.4.4 Ethical issues and sensitive information

All research has ethical considerations, but research involving real people, as in this study, has even greater potential for ethical issues owing to the interaction with individuals. This research project received formal ethical approval from the Humanities and Social Sciences Ethical Review Committee of the University of Birmingham in March 2015 under reference ERN_15-0352.

Deiner and Crandall (1978, cited in Bryman, 2012) classified the types of potential ethical issues into four categories:

1. Harm to participants

2. A lack of informed consent
3. Invasion of privacy
4. Deception

Bryman (2012) does note, however, that there can be considerable overlap between the categories.

As far as this research study is concerned, there was no deception and all participants gave informed consent. All potential participants were told the main theme of the research in advance and were asked to sign a detailed consent form agreeing to participate, permitting recording of their responses and advising them of their right to withdrawal.

Privacy issues were twofold. First, the participants were guaranteed confidentiality as distinct from anonymity. This issue was raised by some of the interviewees and the difference was clarified to them. While their participation and personal details would be kept confidential, known only to the researcher and the gatekeeper/referrer where appropriate, the research could not be anonymous as one person (the researcher) could identify them from their data. Also, the focus group participants might be able to identify each other, if not formally, from their interactions within the group. The participants were happy that they could not be identified from the work, and when referring to individual participants during analysis, focus group participants are identified by age and gender (see Appendix Two), while interviewees are identified only by a number, which relates to a corresponding pen picture (see Appendix Three) containing only anonymised personal and demographic information.

Second, it has been suggested that asking individuals to divulge details of their financial affairs could be considered an invasion of privacy (Cohen et al., 2007). While this could be true in

certain circumstances, all participants in this study took part voluntarily, and the only question that referred specifically to their own personal wealth was stressed as optional, and indeed almost half did not answer the question. As most participants were recruited through gatekeepers, there was no need for anyone other than their own adviser to have access to details of whether they would qualify or not before they had agreed to participate.

However, the final category of ethical issue identified above relates to causing harm. While it is extremely unlikely that any participant would come to physical harm as a result of the research, harm is not limited to physical harm, and could include mental harm, damage to self-esteem or other forms of harm. The subject matter of the research therefore raised some ethical issues over the idea of causing unintentional harm to participants, or raising ethical dilemmas for the researcher, which were addressed by the use of specialist research instruments that aimed to remove the focus from individuals' own behaviour and put it instead in the context of a fictional person.

4.4.4.1 Sensitive information

Part of the research instrument, and in particular with regard to research question three, involved asking about an individual's attitudes towards tax compliance. Tax compliance in general forms a social norm and those reporting non-compliance or non-compliant attitudes could be considered engaging in socially undesirable behaviour (Tourangeau et al., 2000). The problem with asking people directly about their past or future tax evasive behaviour is that this is a very personal and potentially sensitive topic: tax evasion is illegal and there are practical and ethical considerations of asking people to confess to a crime.

Elffers et al. (1987) in particular found a measurable discrepancy between observed tax evasion and reported tax evasion in survey responses, claiming that “since tax evasion behaviour is both sensitive and potentially incriminating, the possibility of underreporting in response to survey and interview questions would appear to be substantial” (1987, p. 313).

Thus, the sensitivity of the subject does give cause for concern in designing a research instrument. Evidence suggests that questions on such topics could lead to participants refusing to respond or worse, offering a misleading response aimed at concealing “unacceptable behaviour” (Warner, 1965, p. 64). The danger is that, rather than exploring a sensitive subject, surveys may give a deliberately misrepresented picture (Tourangeau and Yan, 2007).

According to Tourangeau and Yang (2007), a topic such as tax avoidance is doubly sensitive, as there is not only the threat of the disclosure of behaviour that is potentially socially unacceptable, but also the real threat of disclosure to outside parties, such as tax authorities, who could then impose sanctions on the unfortunate participant should confidentiality be breached. As a result, direct questions on respondents’ own tax evasive behaviour are unlikely to elicit fully truthful responses (Elffers et al., 1987).

Alternative techniques for obtaining sensitive answers, such as randomised response technique (RRT) (Buchman and Tracy, 1982) or variations on the concealment of responses (Kuk, 1990) have been previously used. Frey and Torgler (2007) felt that asking about tax morale (the propensity to pay tax, rather than to evade it) was “less blunt” than asking about tax evasion and that they could therefore expect greater honesty in responses. However, a negative response to a question posed on tax morale is not necessarily correlated with a positive response, or indeed action, regarding tax evasion. Other sources suggest there is little

evidence to suggest that ‘forgiving’ wording, couched so as to minimise the impact of discussing a sensitive subject, has an effect (Tourangeau and Yang, 2007).

For this research, it was therefore decided that, instead of asking outright whether participants have evaded, or would consider evading tax, a number of scenarios could be used to judge the participants’ attitude towards tax compliance/non-compliance.

Vignettes

Ten vignettes were initially drawn up, and these were narrowed down to five which were used in both the interviews and the focus groups. The full set of vignettes are as follows, and are included at Appendix Four for reference:

Figure 4.3 : Vignettes

Tracey is a waitress and a single mum with two children. She is very good at her job and earns good tips, although her pay is at minimum wage, so she does not earn enough to pay tax over the personal allowance. She does not declare her tips on a tax return.

Sarah has been unemployed for 3 months, and has had 15 interviews in that time. She occasionally gets one day’s casual work at her local children’s play centre. She does not tell the jobcentre as that day’s pay could wipe out her jobseekers’s allowance/ESA benefit payments for the whole week. When not looking for a job, Sarah volunteers at her local hospice, caring for and talking to patients.

Geoffrey runs a large and profitable contracting business and employs 50 people. Certain of his clients pay for their work into an offshore bank account, and Geoffrey spends this money when on one of his many exotic holidays each year. The taxman does not know about Geoffrey’s other account.

Colin runs a manufacturing business. The economic downturn has hit him hard and many of his customers are also taking longer to pay. Colin has been adjusting his sales figures downwards for the past few years in order to minimise his tax liability so that he doesn’t have to lay off any of his workers.

Susan is a wealthy individual. She pays a large accountancy firm £40,000 to implement some tax planning that is accepted by HMRC as within the law, but that comprises actions that she would not otherwise have taken, had she not been attempting to save tax. She saves herself approximately £400,000 in tax.

Vignettes in research

While vignettes, or context-specific scenarios, have a history of use in business ethic research (for example Weber, 1992, Thorne, 2000, Massey, 2002), the use of vignettes in tax research

is not widespread, and as such, the use of such vignettes in this research could be described as innovative. As in this research, the rationale for using vignettes is to add context to the research instrument, as particularly when exploring ethical responses, it is difficult to measure a response to abstract stimuli. As discussed later, the use of vignettes in this research also drew out a number of particular issues and specific uses in research in taxation, that contribute to the methodological literature in this field.

However, some examples of vignettes being used in tax or tax-related research can be found notably Cruz et al (2000), who developed a number of “ethical dilemmas” (p. 228) to try to simulate the position where a client was exerting pressure to adopt an aggressive tax filing position in order to evaluate advisers’ ethical judgements. Here, researchers adopted a quantitative approach, attempting to measure the effect on decision making of a number of ethical and moral reasoning variables. While the results were not always conclusive, the researchers suggested that owing to “the limited amount of previous research on ethical judgments in a tax setting, there are clearly many opportunities for research along these lines” (Cruz et al, 2000, p.239). They further suggested that future research could explore how far an individual’s level of cognitive moral development or personal values influence ethical judgments and intentions (Cruz et al, 2000).

Similarly Doyle et al (2009) sought to apply a specially-adapted existing ethics measurement instrument but felt it was importance to contextualise the instrument to reflect the fact that business, and indeed tax, decisions are influenced by real-world environmental factors. Here the Defining Issues Test (DIT) was modified to produce ethically similar dilemmas to those included on the original DIT instrument, in order to measure ethical responses to tax specific

scenarios and to compare responses in this context to more generalised dilemmas, which would allow researchers to identify context-specific differences in ethical reasoning on issues that are broadly similar.

One of the difficulties identified in this study was the need to “balance realism with the need to represent a genuine ethical problem” (Doyle et al., 2009, p. 44). The scenarios were also required to be “easy to read and understand” (Doyle et al., 2009, p. 44).

In this study, care was taken to ensure that the scenarios offered were realistic and simple, but that they also covered moral issues and judgments designed to elicit different responses. Some pairings of scenarios were also used to explore whether certain specific changes to similar scenarios affected participants responses. While Doyle et al., (2009) above used only three tax-specific vignettes in their research, to avoid fatigue, these were presented as part of a wider instrument to allow for comparisons, so it was felt that five or six scenarios would be appropriate.

While the vignettes in this research were originally applied for ethical/sensitive subject reasons as well as to contextualise the specific evasion/avoidance behaviour being examined, the vignettes used in this research also highlighted an important methodological point that has implications for future research on tax compliance behaviour, as discussed in later data analysis chapters.

Development and selection of vignettes

The vignettes were developed over a period of time and evolved from their original permutation. As part of a research methods' training exercise, ten vignettes had been drawn up to form a tool that could be used in a large scale questionnaire. Rather than being developed for discussion therefore, these were designed to be offered alongside a numerical 'scale' of how heinous the behaviour described was perceived in terms of tax evasion/avoidance behaviour. The aim of the exercise was therefore to determine which behaviours were considered most unfavourably or gave the least cause for concern when looking at large numbers of responses.

When exploring ways in which to elicit opinions on tax evasion or tax avoidance behaviour, therefore, it was a relatively easy step to return to these originally drafted vignettes to see whether these could be modified or adapted to a qualitative research setting.

The original tool as drafted contained nine vignettes and included Bob, who was a builder doing jobs 'for cash' and Steve, who was a window cleaner who often drank the day's cash takings in the pub on Friday night despite 'doing his best' to maintain proper records. The five vignettes selected for discussion here, however, were selected from this group of nine and modified as appropriate, for their potential to spark discussion, and for their relationship to each other. For example, Bob was rejected as being too common a scenario and least likely to generate debate. Other original vignettes were rejected for being too close in context to some of the selected vignettes.

The five vignettes that were selected formed two 'pairs' with a single vignette standing alone at the end. Although the vignettes were not introduced to either the interviewees or the focus groups as couplets, most recognised the similarities, and important differences between

them. Additionally, the vignettes were tweaked to ensure there was scope for some elements of the citizenship literature to be drawn out.

Tracey and Sarah were both about low-level evasion. Both were presented as people who were making some kind of contribution to society, but who were just 'getting by'. The major contrast between the two was whether it was tax evasion or benefit fraud. The amounts involved were deliberately low to observe whether this had an effect on responses, but also to see whether participants could extrapolate the situation up into a case of larger amounts of tax evasion, as the principles remained the same. Tracey and Sarah worked very well as vignettes.

Geoffrey and Colin were also a pair of scenarios. In both, these were company owners engaging in some form of evasion, although the motives behind the action differed. These vignettes were designed to explore whether tax evasion behaviour was viewed differently if the perpetrator was a business owner, and was therefore paying other taxes such as PAYE. The direct contrast between the two was designed to look at whether motive is at all relevant in judging reaction to tax evasion.

Finally, Susan was a specific real-life example of tax planning undertaken by High Net Worth individuals in the researcher's experience. This vignette was kept deliberately short and simplified for fear of bamboozling participants with the intricacies of tax planning ideas, but it may have been too simplified for some focus group members to grasp the mechanics of what was happening as this vignette generated the least amount of discussion or dissent. This vignette was the only one that concerned tax avoidance rather than evasion.

Use of vignettes

Each vignette was intended to draw out opinions on various tax evading/avoiding behaviour, but the impact was twofold. Not only was it intended to elucidate a participant's own feelings on an issue, but by putting the behaviour into a context, but it was also interesting to see whether previously expressed opinions changed when the facts were presented as a 'real-life' scenario.

The vignettes worked particularly well within focus groups as certain individuals presented different points of view, potentially then changing the group opinion. A number of individuals remarked on how the vignettes were cleverly designed to get them to think, and a number of participants identified with the activities outlined as part of the vignettes. These final five vignettes were selected from a shortlist of ten vignettes, all aimed at targeting a specific type of tax avoidance/tax evasion scenario, and the testing of the vignettes formed part of the pilot testing before the data collection began.

While mustering sympathy was not the point of the vignettes, 'Tracey' garnered the most sympathy and 'Geoffrey' the least, which goes some way to informing how individuals might rate such activities on a scale of acceptability. 'Susan', the only vignette definitively covering tax avoidance rather than tax evasion was far less contentious than might have been predicted.

4.4.4.2 Illegal activity

Part of the reason for using vignettes was to avoid putting participants in the position where they might disclose illegal activity, for example, if they had themselves evaded tax. However, the other side of this ethical dilemma would be the researcher's ethical responsibility to disclose this information should it be volunteered (Robson and McCartan, 2015).

However, while the use of vignettes was intended to counteract any such admission, two interview participants related to the vignettes so strongly that they confessed to tax evasion.

While this did seem to present the very ethical dilemma the researcher had so assiduously attempted to avoid, in both cases they went on to describe how they had been 'caught' by the tax authorities, and the penalties they had faced, before reflecting on the choices they had made and how their attitudes and behaviour had changed since then. As a result, it was determined that there was no 'unknown' illegal activity being admitted to and that there was no ethical obligation to disclose this information.

4.4.5 Sampling

While qualitative research sampling does not have to be fully representative in order to be generalisable, it is necessary to construct "a robust purposive sample that fully represents the diversity of the population" (Barnard et al., 2007, p. 19). For the interview participants, this involved not only identifying who fitted within the category criteria, but also determining how participants could be recruited from within that sample frame.

Focus group participants were less problematic in definition, but the sampling of a sufficient number of suitably diverse participants was also a sampling issue.

4.4.5.1 Interviews

As previously discussed, recruitment of very wealthy individuals is perceived as "particularly problematic" with "significant barriers to participation" noted as impacting on the research

(Barnard et al., 2007, p. 1), focussing on issues with identification of and access to potential participants.

As discussed above, the main anticipated problem with researching the wealthy is problems in sampling and recruitment. Barnard et al (2007) discussed the possibility of using HMRC tax data to sample the wealthy but found that such data would not include all potential participants and preliminary work with gatekeepers to the wealthy suggested strong negative reaction to using tax data for non-compliance purposes.

However, before access can be attempted, it is necessary to define the class of participant from which potential interviewees can be drawn by identifying a sampling frame. Using the classifications outlined by Rowlingson and McKay (2012) of rich, richer and richest (original emphases):

rich: those with sufficient financial resources to establish *private* lifestyles and modes of consumption;

richer: those with sufficient financial resources to establish *highly exclusive* lifestyles and modes of consumption; and

richest: those with the very *highest level* of financial resources in a society (Rowlingson and McKay, 2012, p.75).

Rowlingson and McKay go on to define the rich as those in the top 10% of the population for both income and wealth which equates to about 8% of the population as a whole. The richer group are defined as those in the top 1%. The richest group are not specifically defined, which is attributable to the fact that the 'tail' at the top of the scale of the very wealthy is very drawn

out, and some of the very richest have wildly differing levels of wealth, even from each other, meaning arbitrary cut off figures are meaningless for this group. These definitions are broadly aligned with the 'rich' and 'very rich' categories identified by Majima and Warde (2008) in their work on consumption, although it is worth noting that in 1961, a very small proportion of the sample, which equated to only 34 households within the number sampled, fitted within the top 1% 'very rich' bracket, although this rose to c70 in later years.

Quantifying the top 1%

Barnard et al. (2007, p. 1) found that "there were a range of approaches to defining the term 'very wealthy', but none were definitive", but for the purpose of constructing a sampling frame, it was necessary first to quantify the group being sampled using some kind of external data measure.

The two main sources of National Statistics that produce estimates of wealth in the UK are the Wealth and Assets Survey (WAS) and the Personal Wealth Statistics (PWS). The WAS is a longitudinal sample survey of private households produced by the Office for National Statistics (ONS), while the PWS is produced by HMRC.

However, the PWS is based on inheritance tax reporting data based on estates liable for inheritance tax, and it is estimated that this only covers 31% of the population, and does not adjust for jointly split estates. In addition, according to the ONS "HMRC states that UK personal wealth statistics are ... 'not a suitable data source for estimating total wealth in the UK, or wealth inequality across the whole of the wealth population; the Wealth and Asset Survey is more suitable for those purposes'." (Office for National Statistics, 2016, p. 4).

The WAS, in its last 2010-2012 phase, interviewed over 40,000 individuals aged 16 or over in more than 21,000 private households. Importantly, the WAS is designed to be representative of the UK population and despite the small proportion of the very wealthy, over-samples the wealthiest 10% of households to adjust for the fact that the wealthy are less likely to respond to a survey instrument. According to the ONS “this ensures both good coverage of the very wealthy and more precise estimates for overall household wealth” (Office for National Statistics, 2016, p. 1). However, a spokesperson for the ONS did say that, despite over-sampling, if an individual’s wealth fell far higher above the top 10%, the less ‘accurate’ responses would be, identifying that the ‘tail’ of the very wealthy (less than 1%) was likely to be very extended, such that individuals on consecutive points on the scale could have wealth differences of millions.

As a result, it was determined that the WAS would be the most accurate and suitable gauge for determining who fell within the ‘richer’ top 1% category for potential interviewees.

Using WAS data, therefore, figures suggest that the cut-off figures for being in the top 1% of households are as follows: those with annual income in excess of £150,000; those with net wealth excluding property and pensions of £657,000; or those with net wealth including property net of mortgage but excluding pension rights of £1.4m (Hills et al., 2015, p. 14).

When recruiting, it was decided to use the first and third measures shown above, as most people would automatically include net property values when assessing their wealth. Although there was a comparable figure for wealth including pension rights (£2.8m), owing to the inherent difficulty in valuing such rights, this criterion was excluded when talking to potential participants. It was also determined that, while ideally participants would be in the

top 1% of households in terms of both wealth and income, a potential participant meeting just one criteria would not be excluded. In the event, only one participant (interviewee 012) was recruited on income grounds alone and this participant earned in excess of £350,000. In addition, to take account of the weaknesses identified by the ONS, wherever possible, participants were recruited who exceeded the cut-off point by some margin. In most cases the cut-off markers were easily exceeded, with the wealthiest individual interviewed having in excess of £70m wealth. Note also that the figures taken from the WAS refer to *households*, as much wealth is jointly owned, but when recruiting individuals for this study, they were asked if they had personal wealth exceeding these limits. In most cases it was assumed household wealth would be even higher.

Gatekeepers

Although two participants were recruited by direct contact, all other participants were recruited through the use of a gatekeeper. Barnard et al. (2007, p. 14) previously suggested that “persuading gatekeepers of the legitimacy and worth of the study” would be crucial in attempting to undertake qualitative work on individuals within this group.

A gatekeeper is “someone who has the authority to grant or deny permission to access potential participants” (King and Horrocks, 2010, p. 31) and can be either an obstacle or an aid for research purposes. In this case, the group of individuals identified as potential participants were not only perceived to be reluctant to participate, but they were also difficult to locate. To this end gatekeepers were essential in permitting and facilitating access to these individuals.

Two gatekeepers provided access in this study. One was a trusted family professional adviser, who was able not only to identify individuals who would fit the criteria, but who was instrumental in encouraging them to take part. The other gatekeeper was the clerk to the trustees of a charitable body who facilitated access to the trustees, where those eligible could self-select to participate. The help and support offered by these gatekeepers in recruiting participants was invaluable.

What this does mean, however, is that the sampling used for the interviewees is largely snowball sampling from the gatekeepers' pool of participants. Snowball sampling is defined as when a researcher accesses participants through other participants (Noy, 2008). Many of the interviewees from gatekeeper 1 were based in the Midlands and many of the interviewees from gatekeeper 2 were based in London. However, as this is not intended to be a representative sample of wealthy people in the UK, this does not adversely impact on the data findings, and, indeed, snowball sampling approaches are presented as being frequently employed when researching hard to reach populations (Bryman, 2012; Noy, 2008).

As previously identified by Barnard et al. (2007), it is accepted that very wealthy individuals might be reluctant to participate in research studies owing to "social taboos on discussing personal income and wealth" (Barnard et al., 2007, p. 13). However, they also identified that a willingness to discuss wealth could be affected by whether it was 'earned' or 'unearned' wealth, surmising that "entrepreneurs would be more comfortable discussing their wealth, because they enjoyed talking about their achievements in business and about how they became wealthy, and so would be more willing to take part in the study" (Barnard et al., 2007, p. 14). While participants were asked about inherited wealth, and some admitted to having

received family wealth, most of the interviewees considered themselves as 'self-made' and were largely entrepreneurial wealth holders.

The sampling strategy led to the identification of 15 interviewees, whose pen pictures can be found in Appendix Three. All were UK citizens and none identified as being born outside the UK, although one was currently resident outside the UK. The interviewees ranged in age from 53 to 77, and all but one were men. Most (but not all) had children and all were married or were divorced.

Initially the target had been to secure ten such interviews, given the considerable difficulties inherent in securing qualitative interviews with individuals in this group (Rowlingson and McKay, 2012). However, a total of 15 interviews was ultimately conducted, being within the norm parameters suggested by Kvale (1996) and Saunders and Townsend (2016) as a minimum for robust qualitative work, which advises the number should not be too small to obtain data saturation but not so large as to impede in-depth analysis. This number of interviews was sufficient to achieve data saturation, with analysis of identified themes reaching a point of supporting identified themes, rather than establishing new areas of interest after approximately 12 interviews.

4.4.5.2 Focus groups

As previously mentioned, the sampling frame for the focus group participants was established as individuals within the 40-65 age group. While it was not considered imperative that these people should be actively working, it is likely that people within this age group would be working, and would therefore have limited time available for research.

Also, it was not desirable to recruit participants who were too far removed from the interview participants, in order to identify some nuanced differences in opinion between the two groups. As a result it was decided not to offer incentives for participation, as those who would self-select to participate for a nominal sum might not comprise a (more broadly) comparable group.

In addition, focus groups were held in the evenings or at weekends to allow for working people to attend.

This meant that finding a means of recruiting participants for focus groups was problematic. These people did not comprise a community in and of itself: indeed if all participants had been recruited from a hobby interest group, for example, this would likely have not met the requirement for a robust, purposive sample (Saunders and Townsend, 2016) as identified above. Some more traditional methods of recruitment, such as posters in libraries or community centres would also have skewed the sample towards those not in work, and newspaper advertising was not considered likely to succeed, given the lack of incentive offered.

As a result, a modified snowball sampling method was used. In this case, individuals in the researcher's acquaintance, rather than already-recruited participants, were asked to locate other individuals within their acquaintance who fitted the age criteria. For example, one friend asked her mother, another friend asked an old university friend of his, a relative asked a work colleague and so on. The people recruited could, in some cases, therefore have been described as 'friends of friends' so there could have been some social linkage with the researcher through the mutual acquaintance; however most were relative, if not total strangers. If one

individual provided more than one person who was then recruited, these were sorted into different focus groups to try to minimise the chances that participants would have prior knowledge of each other. However, in one focus group there were two participants who knew each other previously. While it is impossible to say definitively, it is not believed that this impacted on either individual's contribution, and both expressed definite personal, and sometimes opposing views as part of their focus group.

Snowball sampling is "arguably the most widely employed method of sampling in qualitative research in various disciplines across the social sciences" and can be "used as the main vehicle through which informants are accessed" (Noy, 2008, p. 330). Noy goes on to say that snowball sampling can actually be of value in its own right, as the snowball sampling allows researchers to explore the social capital and dynamic of the networks of the participants. While this research was not looking to investigate the group as a group dynamic, this method did give the overall sampling frame an element of homogeneity that fitted within the requirements of the research. Most individuals in the researcher's acquaintance would fall within a moderately high social demographic, and as a result, most participants also fell within this demographic. This homogeneity allowed for exploration of the issues without extreme perspectives skewing the results. It was also hoped that some meaningful differences could be identified between the wealthy and the 'ordinary' people included in the research, and having a focus group sample of individuals not at a polar opposite from the wealthy facilitated this more easily. Indeed, while specifics of focus group participants' wealth or income were not sought, at least three participants self-identified themselves by virtue of reference to their own circumstances, as likely falling within the top 10% wealth strata of the population, that is, the next echelon down from the 'richer' wealthy who were interviewed.

Focus Group One was the oldest in terms of age, with all participants being in their 50s or early 60s. This group contained two UK citizens who had been born abroad and who had become naturalised UK citizens. The overall gender balance of the focus groups was 45:55 women:men and this group followed that balance. Focus Group Two was the youngest in terms of age, with most people in their 40s or early 50s. Everyone in this group was born in the UK, although this group showed the greatest differential in wealth levels, with two participants self-identifying as 'rich' (using the previous definitions) and one as unemployed (but supported by a partner). This group comprised four men and two women and was by far the longest running group. Focus Group Three had the widest range of ages (from 42 to 64) and contained one non-UK citizen. Containing the average gender split, this group appeared the least diverse in terms of identified personal circumstances, and indeed this group functioned most effectively as a group, discussing differences of opinion largely thoughtfully and arriving at a general consensus.

For confidentiality purposes, the focus group participants are not identified by name. Appendix Two sets out how participants have been described in the following data analysis chapters.

4.5 Primary data collection

For the purposes of this thesis, the primary data were generated using interviews and focus groups. The interview subjects and the focus group participants were, as detailed above, drawn from different groups, and the differing use of methods was designed to bring out different reactions and interactions. Nevertheless, both interviews and focus groups followed a semi-structured instrument designed to ensure all areas identified as relevant were covered,

although participants were encouraged to interpret questions as they saw fit and to talk around issues as appropriate. In total, 15 interviews were conducted in various locations and remotely; and three focus groups with a total of 18 participants were also facilitated in and around the Midlands area. The interviews were conducted in November and December 2015, and the focus groups in February and March 2016.

4.5.1 Interviews

As discussed above, a semi-structured interview schedule was developed that was informed by the three main themes of the research questions as set out above (see Appendix Five). The decision to apply a semi-structured interview technique is based on the premise that it allows a range of themes and topics relevant to the research to be explored (Kvale, 1996). More specifically, the themes of the interview schedule derive from the exploratory nature of the research questions of the study.

The interviews ranged in duration between 30 and 90 minutes, averaging around 55 minutes. All the interviews were recorded (with express consent) and transcribed verbatim. Of the 15 interviews, nine were conducted face to face in either Birmingham or London and the remaining six were conducted by telephone owing to scheduling and geographical constraints: one interviewee was in Italy at the time of the interview. The telephone interviews were recorded and transcribed in an identical manner to the face to face interviews.

4.5.2 Focus groups

As detailed above, three focus groups with an average of six participants were conducted in three separate locations. The first was in an affluent suburb of Birmingham, which was also a location for the 2000 Fabian Society study (Hedges and Bromley, 2001). The second was held

in a semi-rural area in the environs of the city of Stoke, in Staffordshire, and the third was held in a community/sports centre in an inner-city suburb of Birmingham.

All participants fell within the specified 40-65 age group, and most, but not all, fitted within a similar social demographic. However, there did not appear to be any particular issues around social strata. While being a UK citizen was not specified as a criteria for selection, all but one of the participants were UK citizens, but, three participants had been born outside of the UK and were immigrants/naturalised citizens.

Interaction between group members varied. In two of the groups there was one participant whose contribution was slight, perhaps owing to the more vociferous participants, which is a risk and a consequence of using a focus group method, which is hopefully outweighed by the lively discussion and interaction of other group members. The first group included participants who were most confrontational, with some participants agreeing to differ on occasion, rather than continuing to argue a point, although this led to some heated debate. The third group, which was arguably the most diverse in make-up, was most effective at considering issues as a group and reaching a group consensus despite the diversity. Most participants were actively engaged in the discussion and most said they enjoyed the experience.

In total 335 pages of transcript were generated comprising almost 100,000 words.

4.6 Data analysis

As discussed above, the main research instruments used were an interview guide and a focus group rationale to guide the interviews and focus groups through a range of topics previously

identified by the literature. These literature-informed themes formed the first a priori codes used in the thematic analysis of the data (Miles et al., 2013).

Thematic analysis is a search for themes in data through “careful reading and re-reading of the data” (Rice & Ezzy, 1999, p. 258). Already identified as inductive and interpretive, the analysis of data in this research study was an iterative process, which started with data collection and continued to the formal writing up stage of the research.

Miles et al. (2013) suggest that data analysis in qualitative research is ideally undertaken from the very first stages of data collection and indeed, data analysis began with data collection itself and the ensuing transcription of the data. As all of the interviews were completed before the first focus group was convened, initial analysis of the interview data was also able to inform the data collection in the focus groups. The data analysis was then ongoing, a process that was aided and organised by the nVivo qualitative research software. The data analysis process proceeded as is detailed below.

After each interview was conducted, the researcher undertook the transcription of that interview in a timely manner and as close to the time of capture as was possible. The transcription was invaluable in enabling the researcher to become immersed in the data - one of the four key steps identified in qualitative data analysis which are immersion in the data, coding, creating categories, and the identification of themes (Green et al., 2007). For simplicity, the four steps are here enumerated in a linear fashion, but as analysis is an iterative process, this is more of a cycle, with repetitive movement between all steps until saturation is reached.

Following the initial acclimatisation with the data, initial coding was employed. Coding allows researchers to classify data through categories and themes. A priori coding, as detailed above, starts with existing theory and literature and is related to the theoretical framework upon which the research is based. The very basis of template analysis is for the researcher to produce a list of codes (a 'template') representing themes identified in their textual data. While some of these will usually be defined a priori, these will be modified and added to through analytical induction as the researcher reads and interprets the texts (King, 2004).

As similar instruments were used to guide both the interviews and focus groups, the questions on the instrument, which had been informed by the literature, formed the first a priori codes. The data was then initially coded using text and meaning 'nodes' to identify areas which were common to, or not found in the different data sets.

After several iterations of this process, where codes are combined, added, removed and modified, a final coding structure, a template, was produced. A template is described as representing "the relationships between themes, as defined by the researcher, most commonly involving a hierarchical structure" (King, 2004, p. 256). A number of codes was at this point combined into other, similar codes. Care was taken, however to ensure that similar codes that actually reflected different meanings were not so combined. A good example of this is the concept of 'no choice' identified in Chapter Five, where the same word meant vastly different things to different groups of participant.

The final stages of data analysis included the identification of the conceptual association between the different themes in the data (Miles et al., 2013). As King says, "one of the most difficult decisions to make when constructing an analytical template is where to stop the

process of development. It is possible to go on modifying and refining definitions of codes almost ad infinitum” (King, 2004 p. 263). However, it is also necessary to examine the finished template as a whole to identify any themes running through the template, or contextual links that cannot be seen by looking at codes or themes in isolation. This research identified and refined codes in all stages of analysis, developing a rich structure through which to explore individuals’ opinions on the main themes of the research study.

As with any method of analysis, this approach has its advantages and disadvantages, but perhaps the most widely accepted advantage of template analysis is that it is a highly flexible approach that can be modified for the needs of any study in any area. In addition, there are no hard and fast rules that must be learned, and it is relatively simple for those unfamiliar with qualitative research to learn. The approach, by dint of the development of the hierarchical template, requires the researcher to take a “well-structured approach to handling the data, which can be a great help in producing a clear organized, final account of a study” (King, 2004, p. 264).

On the other hand, the lack of formal rules could mean that inexperienced researchers find they produce an overly simplistic or over-complicated model without the requisite depth of interpretation. Other criticisms are a tendency to over-descriptiveness and the risk of losing individual voices as part of the wider, aggregated themes.

Analysis of the interview data followed a broadly identical process given that the transcripts were organised in an identical structure even if the interview itself had visited topics in a different order or in a slightly different way. This structure made it easy to compare responses

across a priori codes and to determine where there were areas of accord and discord and where there were areas that required greater investigation and deeper analysis.

In the focus groups, while there was a similar structure for all three, the way in which the topic were approached by the different groups varied wildly. In all three groups there were discussions unique to that group.

What was most interesting from a data analysis perspective was the effect of the focus group dynamic on the discussions and the conclusions drawn. Specific nodes were identified to highlight changes of view, both where participants identified a change themselves and where it was evident that some change in understanding had taken place from the discussion. Focus Group One showed the least evidence of group thinking affecting individual understandings, as the participants in this group were largely self-assured and confident at expressing their own opinion. Here, where alternative perspectives were presented, they were given consideration, but people largely held firm to their own position. Focus Group Three worked the most effectively in exploring alternative point of view and coming to a revised group position, with people acknowledging where they might change their view. Focus Group Two was not so explicitly effective in creating a group position, but by tracing (good natured) challenges made by group members to other group members, and identifying inconsistencies in responses from individual members, the effect of deliberative democracy could be observed.

4.7 Conclusion

This chapter has discussed the philosophical and methodological underpinnings of this study, which have been used to inform and direct this research into social citizenship and tax compliance, specifically whether there is any link between the two.

The study adopts a qualitative approach as this was considered most appropriate in collecting the most relevant data. Issues surrounding sampling and recruitment have been identified, as well as some specific ethical issues relating to this study. Care has been taken to ensure the research and the data are robust and reliable.

Finally, the use of template analysis and computer-aided research techniques have been employed to assist in inductive analysis of the data, based on the theoretical framework identified in earlier chapters. The findings of the multi-step analysis are discussed in more detail in the next chapter.

Chapter 5: The social obligations of taxation

Following the collection and initial analysis of qualitative interview (n=15) and focus group (n=3, 18 participants in total) data, the findings are as detailed below, split between the three research questions as defined.

5.1 Research Question 1: The social obligations of taxation

RQ1: Is there a social obligation associated with taxation?

- a) Do citizens accept a social obligation to pay tax, as understood through the concept of rights and responsibilities of citizens?
- b) Do citizens accept a social obligation to pay tax 'for the greater good' with no anticipation of personal benefit?
- c) Does any social obligation fall differently/more heavily on certain classes or types of citizen?

In order to assess whether an obligation to pay tax is understood by means of the rights and responsibilities of citizenship, it is first necessary to explore how people understand the concept of citizenship.

5.2 What does being a UK citizen mean to you?

As outlined in Chapter Three, citizenship itself is essentially a 'contested concept' (Lister, 2007), one that has a universal awareness, yet very little understanding (Dean and Melrose, 1999; Hallgarten and Pearce, 2000). Lister (1998) goes so far as to say that the term citizenship "means different things to different people" (Lister, 1998, p. 5) suggesting that one person's

perception of what it means to be a citizen could be very different from another's. It may be, therefore, that citizenship can only truly be defined by what being a citizen means to any given individual considering the question. As Conover et al. (1991, p. 805) put it: "[a]n essential part of understanding what citizens think about their rights, duties, and identities is understanding how they think about these matters". Similarly, this empirical work also found that research participants felt that it was very difficult to define something that most people just accept as a part of who they are, without questioning what it means to them:

It's your own personal opinion. Everyone will tell you what citizenship is, but what it means to you will be slightly different from what you've been told it is. *M, 60, FG1*

I think there is a difference between 'official' citizenship and feelings of citizenship ... But what you and I see as being a citizen, well we just take it for granted because we all, you know, that's our way of life, we were born here and we've never even thought about it. *F, 65, FG1*

I don't actually think it's something I think about a great deal at all, because it's not something I really question. *I012*

However, some common themes relating to how people define citizenship have been drawn out, with some noticeable differences in how citizenship is understood between the interviewees and the focus group participants.

Within all of the focus groups, individuals' understanding of citizenship is centred around how they relate to other people. Themes such as 'belonging' and 'identity' were evident, as well as a strong sense of community and neighbourliness, which are all ideas that have already been identified as important in the development of citizenship itself (Conover, 1995). As previously mentioned, three of the focus group participants were not born in the UK; two had become

naturalised citizens and one long-term UK resident had retained German citizenship. In one of the focus groups, which happened to contain the two naturalised citizens, the idea of identity was strongly linked to the place of birth, with one participant claiming that:

Anyone can be British, but you have to be born here to be English. It's different ...
F, 65, FG1

This discussion originated from the fact that, when talking about citizenship, some people identified strongly with being English, rather than being British. While this was not a theme that emerged in any other focus group, and only one interviewee explicitly asserted the opinion that he was English, rather than British, the discussion did go on to reach agreement that “anyone can be British” and that not being born in the UK was no barrier to being a full citizen: indeed those coming to the UK might even be considered more informed than those born here:

I think people who come to this country, and who become British citizens should see themselves as being British. So I came to England in 1965, and I am probably more British than most people that I have met ... *M, 52, FG1*

You're saying 'well, I'm a citizen', well OK where are your citizenship papers then? Have you taken the test? I've looked at the test for immigration status and I can't answer half the questions and I was born here! So ... *F, 65, FG1*

As a result, in this focus group, not being born in the UK was not considered a barrier to being able to contribute fully to the discussion on defining citizenship.

However, when looking at all of the focus groups independently, in all cases, the idea of defining citizenship seemed inextricably linked with being a 'good citizen' even though the questions posed related purely to the idea of citizenship without any requirement to be 'good'. However, there was no true consensus of agreement on what it means to be a citizen,

let alone a good one. This ties in with Lister et al.'s (2003) research where almost 90% of participants expressed views on being a 'good citizen' and the previous findings of Dean and Melrose (1999) who noted that discussion of what makes a good or bad citizen generated "some of the clearest expressions of the meaning which people attach to the idea of citizenship" (p. 110). Their study found that a good citizen was defined as "someone who looks after other people, ... someone who contributes to the community, and ... someone who obeys the law and/or pays their taxes" but ideas that a good citizen could also be "someone who takes pride in their country" or who "works hard at what he or she does" were also evident (Dean and Melrose, 1999, pp. 110–111).

The notion that citizens can be good, or bad, goes all the way back to Aristotle's *Ethics*, but in this case, what the focus group participants were doing was responding to the question in terms of meeting their *responsibilities* as a citizen, going back to the Marshallian conceptualisation of the rights and responsibilities of a social citizen (Marshall and Bottomore, 1987). This is not to say that focus group participants did not recognise and value their rights as citizens: indeed Focus Group Two engaged in a prolonged discussion on the full extent of one's rights in particular situations. However, when asked what being a UK citizen meant to *them*, this was, in the main, interpreted as needing to fulfil a social obligation. Tax is therefore accepted as a way in which citizens can show their fulfilment of responsibilities, as "evidence of being a responsible citizen" (Orton, 2004, p. 508). Bad citizens, on the other hand, have been previously identified as "selfish, uncaring, lazy and lacking in respect" and as "someone that's all take and no give" (Lister et al., 2003, pp. 244–245), or who shows a lack of respect for fellow citizens. The issue of taking rather than giving, and how this affects citizen status is considered below when looking at negative contributions.

Interviewees, on the other hand, for the most part considered the question more in relation to the benefits citizenship provided to them, with their rights as citizens, rather than responsibilities, being most prominent. Common themes included the security and protection of being a UK citizen and the enjoyment of being resident in what was an 'agreeable place' to live. Those who did not spontaneously mention rights focussed instead on an intrinsic feeling of citizenship or nationality and were able to talk about the benefits of citizenship when prompted. Again, this is not to say that the duties of citizenship were not mentioned by this group, but again, largely, this was secondary to the benefits identified above, and many times also after specific prompting. Note that the difference in approach to the question, whether coming from a rights or responsibilities perspective cannot be attributed solely to the fact that interviewees were asked their view individually, rather than as part of a group. The start of all focus groups consisted of an exercise asking participant to write down two or three attributes that they *individually* felt reflected the meaning of a citizen, before comparing the notes to see whether there was any group consensus or common themes.

Both groups showed national pride, with high levels of pride in being British (or, in some cases, English, or German). Both groups also accepted that part of being a citizen was that you owed a responsibility to your fellow citizens, and this was helpful when exploring whether some of the same ideas of citizenship were evident in reasons why people said they paid tax. While the one focus group participant who was not a UK citizen is not sufficient to comprise a research sample in his/her own right, it is interesting that this participant did not express markedly different views from the rest of the group, which offers the possibility that ideas surrounding the obligations of citizenship may be transferable into conceptualisations of citizenship in other countries, although this would, of course, require specific further research.

What is clear is that some similar themes relating to the conceptualisations of citizenship were evident like those identified by Lister et al. (2003) in their empirical work with young people, as fully detailed in Chapter Three. Similar to that study, however, this research also shows that people draw on different elements of the models, sometimes simultaneously. Also, while Lister et al. (2003) found that *universal status* and *respectable economic independence* ideas were most prevalent, this research would suggest that the most commonly held model within the focus groups would be *constructive social participation*, where there was greater emphasis on being a 'good' citizen. For the interviewees, while they would all have constituted respectable economically independent citizens, such a view was not articulated, but this is likely because it would not occur to such people that the ability to support oneself would be in question. Here, the *social-contractual* model was most widely expressed.

However, as discussed below, when talking about other citizens, in both focus groups and interviews, many expressed views similar to *universal status* - such that everyone is, *prima facie*, a citizen, but yet there are also reservations in relation to the sorts of people that Lister et al. (2003) identified as often falling within the definition of 'second class citizens'. While Lister et al. (2003) describe definitions of citizenship as being fluid and using multiple models, it would seem that participants here adopted a *universal status conditional* model: everyone is accepted as being a first class citizen *unless* he/she has undertaken undesirable steps, or has not taken required desirable steps, which mean he/she is therefore considered a second class citizen. Note that this does not mean that the unemployed or infirm are automatically considered second class or outsiders: it is more aligned with a perception of effort and of 'give and take', and is discussed in more detail below with the concept of 'no negative contribution'.

The questions asking how people defined citizenship and why they pay tax were common to both focus groups and interviews and were the most (deliberately) open, not only because these are areas that it is accepted are difficult to define, but also so that participants could express their own, spontaneous, views with as little ‘leading’ as was possible. Almost all interviewees answered immediately without requesting clarification of what the researcher was looking for. In the focus groups, to try to ensure the widest range of initial views as possible, participants were each given paper slips and a pen and asked to write down two or three things that they felt defined citizenship. These were then collated and discussed in the group. There was often duplication, but the words that were selected by focus group participants are summarised as follows:

Table 5.1: Spontaneous definitions of UK citizenship from focus groups

Focus Group One	Focus Group Two	Focus Group Three
<ul style="list-style-type: none"> • Exchange of responsibilities • Good neighbour • Responsibility to each other • Rights • Freedoms and protection • English and proud • Identity • Personal responsibility 	<ul style="list-style-type: none"> • Participating • Belonging to a community • Belonging to a nation/ national identity • Being part of the country • Understanding the culture • Conforming to ways of life • Indigenous population • Abide by the laws of the country • Mutual support • Looking after each other • Rights 	<ul style="list-style-type: none"> • Resident • Member of society • Participant/ participation • Morals • Responsibility

When seeking to explore specifically what participants thought might be the responsibilities of citizens, some spontaneously mentioned paying tax, but given that all participants knew the topic of conversation would include tax, this is not necessarily indicative of an inherent acceptance of a citizen's duty to pay tax without prompting. Nevertheless, all participants accepted that paying tax was a duty of being a citizen. This is in line with previous empirical findings (Orton, 2006).

5.3 Why do you pay tax?

When it came to reasons for paying tax, both interviewees and focus groups shared an idea of there being no choice in the matter, although the interpretation of this notion of 'no choice' was very different across the different types of participant. Focus groups offered the concept of 'no choice' as a reference to deduction of tax at source and lack of opportunity to avoid/evade - something that they accepted they might agree was wrong but was not necessarily something they would not do given the opportunity: a 'do as I say, not as I do' type way of thinking. Interviewees, however, suggested there was no choice in a different way. They accepted they had 'no choice' to pay tax because it was an essential part of the bargain they had struck by accepting the laws and obligations of being a UK citizen. However, that is not to say that focus group participants all rejected the idea of civic duty as a driver in their tax compliance decision, and discussions within the groups showed that a great number had significant personal morals in relation to paying tax and making a contribution. However, for focus group participants their main focus was on the lack of opportunity to evade/avoid tax, meaning they did not feel any requirement to consider their own civic duty given it was already considered moot in that decision making. Nevertheless, it is noted that, where there

was opportunity, actual action may not be as honourable. This is discussed further under RQ3 below.

Alongside the lack of option, three main themes emerged as being important in how participants viewed the decision to pay tax. Both focus group participants and interviewees saw the exchange for services as a valid, and often a primary, reason for paying tax. The infrastructure of the UK was likened to a business, or to a utility bill, and while there was no explicit acceptance of a social contract, participants were, in most cases, presumably not suggesting that their contribution alone was sufficient to pay for all the services they required, although for some interviewees this may have been a possibility. Nevertheless, despite the implied contract with other citizens, no one suggested that their decision to pay tax was influenced by anyone else, either socially or via the media. Interviewees were asked specifically whether their tax compliance decision was affected in any way by other people and/or peer pressure. Most seemed surprised at the question and all were confident their decision was theirs alone. Media representations were offered as potential influences in focus groups but there was very little acceptance of any impact, despite a number of participants 'name-dropping' the large corporate tax avoiders highlighted by the media.

I think if you put it in household terms, it's to pay your utility bills. The government provides the utilities in effect. *F, 65, FG1*

We should pay tax because if you don't pay tax, how does the country work? How do we have a free health service and a police force and schools, etc.? You can only do it from people paying tax in some guise or another, whether it be income tax or all the different taxes that they collect. There's certain taxes that I don't like and don't agree with, but in general, people have got to pay tax. *I005*

To fund the provision of services provided by the state or your local authority, so things like the NHS, the police and emergency services, security, the army, the infrastructure of the country in terms of road, rail, that sort of thing ... that is the primary reason for paying tax. *I013*

This suggests that, on the whole, all participants accepted the concept of exchange fairness, being the fair exchange of tax monies for public services (Hofmann et al., 2008; Kirchler, 2007). While this would indicate that perceived unfairness should, therefore, be lower, unfairness was mentioned by a significant number of participants, in both focus groups and interviews, and this is discussed in more detail below. One likely explanation for this apparent contradiction is that, while participants agreed with the theoretical exchange bargain, some made reference to a lack of 'value for money' in public services. While they were happy to provide the government with monies to pay for public goods, they were less comfortable with perceived waste and profligacy in providing those services.

One way in which some participants suggested this could be addressed would be through greater transparency and ensuring accountability. However, when focus group participants were asked whether they had read their tax statements, showing a breakdown of how tax monies were spent, only two suggested they had read it, and even they had not found it of much interest. Other participants were more prosaic on government spending, as they felt the government had to be left to 'get on with the job'.

Continuing to explore reasons for participants' tax compliance decisions, in similar but not quite the same terms, many participants suggested that supporting other citizens was also

important in their decision to pay tax. Over and above paying taxes to fund infrastructure, the idea of providing a safety net to less fortunate members of society was also a strong theme.

That's what the tax system's for, is to help. I don't have any problem with that. *I008*

The reason we pay tax is to make sure that all disabled people aren't hanging around on the streets begging, so there are people who need contribution from government and need care and those I set on one side and say those people, that's why we pay tax, the rest of us. *I014*

The desire to help others, however, was often seen as running alongside the need to pay for services, rather than as a stand-alone reason for paying tax.

Collectively, we need to pay taxes to support each other and to provide the services that we need. *M,52, FG1*

And I do think as well, in terms of tax, that it's important that we pay tax because there are people who can't pay tax, who need money, and we need to be able to help them. I know that's emotive and I know people get cross about it, but I don't think it's their fault. I think that if we're giving them the money and we don't think we should be doing, that's the fault of our rules and not the fault of those people. *F, 49, FG2*

In addition, there was a feeling that it should only be those who truly deserved help that should benefit from wealth distribution via taxation. Interestingly, while it is the wealthy whose tax money is subject to the greatest distribution, in that their tax bills are largest and often they draw least from society, it was often focus group members who were most scathing about the 'scroungers':

I've got here, 'Pay your dues to support those that can't support themselves.' It's not 'won't support themselves' or 'can't be arsed to support themselves'. *M, 51, FG2*

But there should be a fundamental principle that the person at the bottom end of the scale, even if there is abuse, there's got to be some parachute system for those genuine [people], and the system finds it hard to find the genuine person. And the rules are made by people like us sitting in an office. We're not out there. We're not scratching for a living with 6/7 kids, can't pay the rent, can't pay the electric so it's nigh on impossible for a system to look after everyone, there'll always be people that are abusing the system. 1006

This ties in with the vertical equity element of *distributive justice* (Braithwaite, 2003), and again would suggest lower levels of perceived unfairness. However, it would also suggest support for a system of taxation that is more progressive in nature, as this would allow for redistribution of wealth, although this is not necessarily borne out by the data when participants were specifically asked whether they agreed with the concept of progressive taxation, as discussed below.

Indeed, Rawls' concept of redistributive justice as evidenced by the 'greater good', this exact phrase also being identified in the 2000 Fabian Society Study (Hedges and Bromley, 2001), was largely absent from the data here. If the 'greater good' is defined in Rawls' terms, that is suggesting all members of society will be better off if citizens work together towards a common goal, this was not expressed explicitly by participants in anything other than benefits exchange terms. While participants were, in most cases willing, or at least not diametrically opposed, to contribute into a welfare 'pot', there was an assumption that this 'pot' was for the benefit of others; no one suggested they were making a contribution to a pot from which they may have cause to draw, although in the case of the interviewees, it is perhaps likely that they will not need to draw on such a social fund. There was also little recognition that there was a *greater* good over and above immediate wealth redistribution.

There is then I suppose an element of welfare in the taxes we pay, in that people that earn more pay more taxes and therefore enable the State to provide pensions and welfare to those that are not so well off. So there is an element of wealth redistribution inherent in the taxation system. *I013*

However, a minority of participants were able to see beyond the immediate contribution/benefit exchange and to see the wider benefits for society of redistribution:

I do think that there's a sort of contribution to society as a whole... the overall benefit from an educated population and all that kind of stuff I absolutely adhere to. *I012*

Following on from the fair exchange for services and redistribution motivations for paying tax, the third theme that was evident in reasons for paying tax was, in a similar way to how participants found defining citizenship difficult, best conceptualised something of an intrinsic 'knowing' that it was 'the right thing to do':

You're in the club, you're part of a country and you've got to do your share. You've got to... you can't expect something for nothing. *I006*

It goes back to what we were talking about at the start, what is the social responsibility of being a citizen in a country? I just have a personal view that if you are lucky enough to earn the money, you pay the tax in accordance with the rules, and you do it properly. I think that is just one of the ... it is the right thing to do. *I013*

Even if no one was watching, I don't think I could pay nothing. *F, 51, FG1*

It is reasonable to assume that none of the participants in this research had seen Sefton's (2005) analysis, but nevertheless a number of participants in this research used similar terms to those describing the three groups, with terms like being a "member of a club" and helping and supporting others. No participant would, on the basis of data presented, appear to be a

Robinson Crusoe, but further investigation of some of the issues surrounding the classifications are looked at in more detail later. Note that while Sefton's analysis, as adjusted for demographic information, suggested that those with very high incomes and the middle aged (who are the people represented in this research data) were proportionately more likely to be Samaritans than the general population, he also found that those identifying with Conservative politics were more likely to be Robinson Crusoes. While politics has not been a focus of this research, a number of interview participants in particular identified themselves as either Conservative, or as not Socialist.

5.4 Who should pay?

While participants were not specifically asked about who should pay tax, this was also a theme that emerged from the data. Although participants in one focus group did suggest that the wealthy should pay more in tax *just because*, for most people, responsibility for paying tax was tied up with fairness, and the idea that no one was above being taxed:

The more you get out of society the more you should put back into it, in my opinion. People who do best in the world should make the biggest contributions. *M, 56, FG3*

I think it comes back to the basics first. That everyone should pay tax. *M,60, FG1*

However, many interviewees expressed a feeling that they felt social pressure that they should be paying more, just because they have more, regardless of whether or not that was 'fair'.

Yeah, I think wealthy people are often criticised by people who are less well-off that they don't pay their fair share of the tax, take their fair share of the tax burden in percentage terms, but if you're wealthy you spend more money so if you're wealthy you spend, you pay more VAT than anybody else because you're spending more money. *I003*

I do object to the media and the chattering classes saying I don't pay enough. You should be proud of paying tax and I am proud of paying tax and the people who want something for nothing should think about what they would do if they were to get off their butts and do something and make something. 1008

Very often the wealthiest people are using public services the least and are contributing the most in terms of what they do with their income 1012

I don't agree with the idea that the rich should pay more just because they're rich. 1014

As previously identified, what one person finds unfair, another may not, as perceptions of fairness are both subjective and are linked to an individual's acceptance of the tax system, as well as the subjective burden of tax, and individuals' own financial position (Hofmann et al., 2008). It could have been expected that those with the most (e.g., the very wealthy being interviewed), given their far more comfortable position, might not feel as hostile towards the tax system as those with less. However, this was not borne out by the data.

In fact, while pejorative terms were only used in the focus groups by one participant, the words 'penal' or 'punitive' or similar were used by most of the interviewees, not only suggesting that they felt aggrieved at the expectation that they would pay more, but that they were being punished for their success through the medium of taxation. They also felt that 'over-taxing' was a disincentive to aspiring to greater wealth and that those calling for higher taxation of the wealthy were not taking account of the greater risk and personal costs they had endured in order to become wealthy:

You've worked hard and earned it so why should you be penalised because you've done well for yourself. 1005

Then if you're successful, God help you, because we're going to screw you. 1008

And that's where I get back to the socialist philosophy of penal rather than logical taxing ... far happier smacking the rich and actually enjoyed taxing them far more than for any sensible economic reason. *I003*

Well I think if it is too penal then there [are] areas where it is almost a disincentive. *I013*

I think that as it is, if I'm not mistaken, it is the top 5% of earners probably pay a very substantial proportion of the tax bill, which is fine. But I don't think it should be excessive. And I don't go for this 'they're rich, make them pay, make them pay'. I think there is a limit to which people ought to pay. *I011*

Why should I be penalised in terms of taxation because I've worked f***ing hard? Why? *M, 51, FG2*

The only focus group participant who expressed this view had previously self-identified as being at the top end of income range within the focus groups, and would likely have been part of the top 10% of earners. As all of the interviewees would consider themselves 'self-made', despite a number of them also referring to inheriting certain amounts, Kirchler et al.'s (2009) finding in relation to the sunk costs of hard-earned income is relevant as it would suggest that these people are more likely to consider tax evasion as a result. While there was little conclusive evidence of interviewees' entrepreneurialism leading to tax evasion, there was evidence that this contributed to a greater sense of injustice about higher taxation, and perceptions of unfairness have been shown to have an effect on the tax compliance decision taxes (Elffers et al., 1987; Spicer and Becker, 1980; Webley et al., 2010).

The data also showed echoes of Bauman's (2000) theories on individualism, where (largely) the interviewees felt deprived of their 'right to profit'.

It isn't so much a matter of redistribution of wealth, it's that they just don't like people having wealth in the first place and I think that is a difference. *I003*

Now that to me is a nonsense. Nobody is going to live in a country where they lose 98% of all their income. That is to the extreme of what I regard as unfair. I think you want to have a taxation system that maximises the revenue taken, and sometimes our taxation system gets politicised. What was it, the famous quote 'Squeak the rich till their pips' or whatever it was? *I013*

However, most of the focus group participants did not express a view that the levying of taxes restricted their rights in any way, certainly not in terms of a right to generate (and retain) their own wealth; indeed when talking about tax avoidance, there was in some cases a sense of aspiring to have sufficient wealth to be able to benefit from such activities. In one focus group, one participant expressed dismay at the amount of an annual bonus that was removed in tax, but the other group participants were more prosaic about the impact of taxation:

Male 1: However, the tax system was there when you made the choice to follow to go into a higher earning capacity.

Male 2: Yes, you could have turned the money down.

Male 1: So by choice you've moved into that situation and you've worked harder and you do see a benefit by being there, but you did have a choice that you could have not gone into the next realms of it and therefore not fallen foul of that system which was already in place. *FG2*

The right to profit concept also highlights issues of social justice. While interviewees sometimes felt aggrieved at their tax 'losses', none mentioned any social justice rights of others to share in wealth generation, and some suggested that instead, that others should feel fortunate that the wealth was being generated at all:

I employ people here. I put some money into this business. I'm an investor, in fact, but, you know the fact is without the investors, they wouldn't have a job. Without me... /008

However, this view was, perhaps unsurprisingly, not expressed in focus groups, where the idea of social justice was, in some cases, identified as a societal necessity.

Because if you already earn so much for yourself... people in that bracket tend to want to increase that more and more. Why should they get the chance to do that without paying back into the pot? That's not the question exactly but I think that it depends on the percentages obviously, but in general I think people should pay. You know really high earners should pay. I know the dangers, it doesn't even work, but they should. From a moral point of view. *F, 43, FG3*

5.4.1 Vertical equity, progressive taxation and fairness

Unsurprisingly, the feeling of inequity expressed by the interviewees continues into their opinions on progressive taxation. Most interviewees offered a grudging acceptance of an element of progressivity, but only within certain parameters. Acceptance of progressivity was highly dependent on rates and levels, sentiments which were also echoed in the focus groups, as evidenced above, although focus group participants were often more focussed on the bottom end of the higher rate threshold.

I think conceptually it's the right idea, but it just depends on the tiers and the levels. *M,53, FG3*

Agree with the idea that the poor should pay less because they can't afford it and therefore to balance that out you're going to have a higher rate for the richer. /014

Progressive is a smart, political term for it but it's actually punitive. /009

Interestingly, many of the interviewees also mentioned the alternative to progressive taxation, a flat-rate system. While it was generally accepted that this would not be appropriate, it was not discounted out of hand. Furthermore, interviewees refuted the regressivity of consumption flat-rate taxes such as VAT, as they validly claimed that those with the largest incomes would spend the most (and therefore contribute the most in absolute, if not proportional terms) and that those without the means to pay for goods would not have to contribute.

Most focus group participants were also broadly in favour of a progressive system, although some of the participants who had self-identified as having above-average income were more vociferous in offering tempered or alternative views of progressive taxation. However, in general, when discussing the difficult circumstances of some of the vignette scenarios, most people were happy that they personally should pay more than those with less than they had, showing an implicit acceptance of progressivity, even if the rate was more contentious (as discussed below). This finding is in line with the results of the 2004 BSA survey, which, when combining views over a number of questions on the subject, showed that nearly nine out of ten respondents favoured tax and spending policies which are redistributive in nature, even if they had answered differently when asked their views on redistribution directly (Sefton, 2005).

That said, there was an awareness, and implicit acceptance of the redistributive nature of taxation, particularly from the interviewees:

You know, 40%, I don't have a problem with, at least I keep a decent chunk of what I earn and the redistribution of that wealth after that is huge. 1008

There is then I suppose an element of welfare in the taxes we pay, in that people that earn more pay more taxes and therefore enable the State to provide pensions and welfare to those that are not so well off. So there is an element of wealth redistribution inherent in the taxation system...I think it is part of being a responsible society that we do help those that are not so well off. But again it comes back to one's concept of what is fair taxation. And I think there comes a point when we have experienced in the past where taxation just gets ridiculous. /013

However, as shown above, the acceptance of redistribution as an equitable concept in line with ideas on redistributive justice depends on whether those suffering the redistribution accept it as fair. As explored above, perception of fairness is subjective, but one element of fairness that seemed to show an impact on inclination to pay was that of the sensitivity to tax rates.

5.4.2 Inclination to pay

Acceptance of the equity of taxation is important in understanding inclination to pay tax, but by far the most cited reason when asked about inclination (either positive or negative) was to do with the rates of tax.

For both interviewees and focus groups, a 50% rate of tax was seen as a very significant barrier, with many expressing the view that rates increasing over this amount would significantly impact on inclination to pay, and to avoid or evade tax. Some further expressed the view that increasing the rate to above 40%, given a national insurance rate of over 10%, would be too much. Many participants, in both interviews and focus groups, recalled the very high taxation rates of the late 1970s as an example of a failing tax system. Therefore even

where participants were not facing the prospect of paying these rates themselves, they still felt that such high levels of taxation are unfair and therefore unacceptable.

Other ideas that have previously shown to have an impact on inclination to pay, such as hypothecation, were not significant factors here, with participants focussing more on the inequity of 'scroungers' not paying their 'fair share' being the most commonly mentioned influence after tax rates.

I think there's a psychological barrier once you get towards 50% - when you're earning and more than half of it is going to someone else. *M, 42, FG3*

I think people have a natural, just a natural feeling that anything over 50%, most of the people I speak to, most of the rich people I speak to are happy to pay tax up to 50%. Once it gets beyond that then I think it becomes actually the opposite, you know, I think it starts racking people off. *I003*

My opinion is when tax goes over 50% threshold, i.e., NI and tax at higher rate, I think that's unfair, because that takes away my moral obligation to work. Because I think that if anybody takes more than half then that is unfair. *I006*

You know, 50%, paying half of what you earn away, is a massive dilution of what you earn and I just think that's too high. *I008*

To me the highest rate of tax should not exceed...well...say 40%, but certainly not 50%. *I011*

As previously noted, in 2010 the incumbent Labour government introduced a top rate of tax of 50% payable only by those with taxable income over £150,000. After much political discourse, this rate was dropped to 45% two years later, and these are the two rates that are largely mentioned when discussing the 'tipping point' of inclination. Indeed the Fabian Society report in 2000 suggested that if a 50% rate were introduced it may need to be reduced to 45% for fear of a 'brain drain' in the UK.

While 50%, and to a lesser extent 40%, rates were mentioned by interviewees (the additional rate of tax was assumed not to be relevant to any focus group participant), the 45% rate was not discussed so frequently, and then in many cases it was as a comparison with 50%.

I think if you get to 50% it does sound an awful lot more than 45% and for people to think that half of everything they earn goes is a lot. 1004

I think with taxation, if it goes over 50% I sort of shudder but can understand 40% or 45%. 1007

I objected when it went up to 50% because that was blatant politicking just before an election and now, of course, when the Tories, as it happens, brought it down to 45%, 'Oh, look at this, pandering to the rich, paying your rich mates'. The fact is, the rich mates, for want of a better term, are paying a really fair share. More than a fair share. 1008

However, no participant actually mentioned any permanent change of behaviour when the additional rate of income tax was 50% rather than 45%. Indeed a number of them mentioned that, for a variety of reasons, they would not consider leaving the UK in any case. One mentioned that he had, some years ago, previously left the UK for tax purposes but had found he preferred living in the UK so returned and paid the additional tax due.

When the 50% additional rate of income tax was introduced on 6 April 2010, it was the first increase in the highest rate of tax in the UK for over 30 years. This meant there was some uncertainty as to how far behavioural factors would influence the tax yield. Nevertheless HMRC estimates were that the rate increase would increase tax revenues by approximately £2.5 billion (HMRC, 2012b).

However, an HMRC report published in 2012 to coincide with the reduction of the rate to 45% concluded that the behavioural effects on the estimated tax yield were far higher than expected, thereby providing justification for the rate reduction (HMRC, 2012b).

It is important to note that, although the 50% rate took effect from 5 April 2010, an additional tier of taxation in the form of the additional rate of tax had been announced in the 2008 Budget, with a view to this taking effect from 5 April 2011. This announcement was for a 45% additional rate, but Budget 2009 (HM Treasury, 2009) increased that rate to 50% and accelerated its introduction by 12 months. What this did mean, however, is that taxpayers had considerable advance notice of the rate increase, such that those in a position to do so could legitimately adjust their incomes such that they paid a lower amount of the additional rate tax. Such measures included forestalling, effectively accelerating payment of income (for example, dividends) such that they fell within the 2009/10 tax year and were subject to a maximum of 40% tax, and by delaying pension contributions until after 5 April 2010 such that there were greater amounts available to reduce taxable income levels in the 50% tax tier. The effect of these behavioural machinations was considerable: HMRC estimated in 2012, from examining self-assessment data, that between £16bn and £18bn of income was forestalled from 2010/11 into 2009/10 (HMRC, 2012b).

What this meant was that, in 2012, HMRC estimated that the tax yield from the 50% rate was reduced by at least 83% from initial estimates, claiming that self-assessment data suggested a yield of just £1bn with even the possibility that the yield could be negative. This again supported the new Coalition government's decision to reduce the rate to 45% as it was believed the behavioural effect of 45% would be lower than that of a 50% rate. It is also worth

noting that, assuming the yield was £1bn and the forestalled income was the lower estimate given of £16bn, at a loss of tax at 10% (being the difference between a 40% rate and a 50% rate), this gives a total of £2.6bn, which suggests that the only effect on the tax yield from the 50% rate was the temporary forestalling.

In 2016, the Survey of Personal Incomes data including figures from 2013/14 Self-Assessment data were published (HMRC, 2016c) and the then Chancellor, George Osborne, noted that these figures showed an increase in tax take of £8bn from additional rate taxpayers in 2013/14. This was attributed to the reduction in rate from 50% to 45%. However, when taking into account the effects of forestalling, and in delaying income until the rate dropped again, other commentators suggested these figures may not be reliable.

Certainly there was no evidence found in this data that the wealthy participants would have left the UK as a result of the rate rise, (although they may 'shudder'). It is accepted that they may have engaged in forestalling measures in 2009, but this question was not directly asked. If the over-riding consensus of participants was that 50% was a cut-off point for perceptions of fairness in tax rates, it seems more likely that any differences in tax receipts figures during the 2010-2013 period are temporary.

It may also be that perceptions relating to tax rate fairness are subjective depending on the prevailing rates. As *I011* put it:

"At the time the UK tax rate was 83% - I'm forgetting the excesses which could push it up to 98% - when Maggie I think it was, or Geoffrey Howe, reduced it to 60%, those particular clients said to me 'No, no, no, I'm not interested in that any more, I'm quite happy paying 60%' - I don't think that's the figure they would have gone for today - but 'compared to 83% I think that's fair I'll pay that'.

Interestingly, in both interviews and focus groups, the discussion centred around tax rates - specifically marginal tax rates, rather than effective rates - rather than looking at the effect of thresholds. Recent income tax policy has not raised the higher (40%) rate of tax, as this would be politically unpopular, but has instead reduced the threshold at which taxpayers start paying higher rates of tax. This means that, according to HMRC official figures, an estimated 4.4m people will be paying higher rate tax in 2016/17, up from just over 3m people five years earlier (HMRC, 2016c). The higher rates of tax are also only payable on the portion of income above the threshold, and an increasing annual allowance (where income is effectively charged at 0% tax) means that individuals' effective rates of tax will be lower than the marginal rate. However, the data here reinforce the idea that people are more concerned with marginal rates and the principles of tax policy, rather than necessarily their own particular circumstances. This idea of contrasting what should happen with practical reality is revisited in Chapter Seven, when looking at what people believe should be done, as opposed to what they actually do.

5.5 Summary

In response to RQ1, about whether people accept a social obligation to pay tax, the data suggest the following.

It would seem that, in broad terms, people do accept an obligation to pay tax. For some this is an unavoidable cost of enjoying the benefits of being a UK citizen, and for others it is unavoidable because they are a UK citizen. However, in general, the obligation to pay tax is accepted as a principle fundamental to living in the UK and enjoying the rights and benefits of being a citizen.

The obligation is understood within the frame of an exchange for services, but that is not its whole purpose. People accept that an element of taxation is going to help other people as well as to support the provision of services, including those they will not use. People are, however, less inclined to pay taxes if they think other people are not paying, or that people are getting more benefit from the system than they 'deserve'. This idea is explored more fully in the idea of 'no negative contribution' as part of RQ2. People also accept the obligation to pay tax as being part of who they are as a UK citizen, in much the same way that they understand their citizenship obligations. It is the 'right thing to do'. However, few participants identified a 'greater good' to society afforded through the medium of taxation.

While the wealthy do bear a greater burden of the total tax take as an inevitable part of a progressive system, a structure which is accepted by both those paying tax at higher rates and those who do not, the overriding consideration for determining where the tax burden should fall heaviest is determined by equity and feelings of fairness.

The wealthy showed concern over elements of taxation that could be considered punitive, rather than merely contributory: this was perceived as unfair and demotivating and impinging on participants' rights to profit from their own endeavours. Tax rates were by far the most important factor influencing inclination to pay tax, which is again tied into the understanding of what is fair and what is not fair. While the overriding principle is that everyone should pay tax, it was also accepted that there will be some people at the bottom of the income scale who will not pay tax. This issue is further explored in RQ2, and the issue of those who do not pay tax by avoiding it is further considered in RQ3.

Chapter 6: Citizenship and tax activity

6.1 Research Question 2: Can citizenship be implied by tax activity?

RQ2: **Can citizenship be implied by tax activity?**

- a) Is payment of tax, specifically income taxes, necessary to satisfy the obligations of citizenship?
- b) Are those who do not pay income taxes classed as lesser citizens?
- c) Are those who work, yet do not pay income taxes owing to the level of their income, classed differently from those who do pay income taxes?

Having explored whether and how far citizenship is involved in tax-paying behaviour, can tax activity imply citizenship or, conversely, can non-tax paying behaviour act as a contra-indication?

As part of the research, participants were asked directly whether certain tax paying activity, or the lack thereof, affects citizen status, as well as being asked their opinions more indirectly through the use of vignettes describing individuals undertaking various tax- and citizen-related behaviour.

However, it was important to try to define what people understood as 'tax'. As discussed earlier, the definition of a tax as levy for which nothing is directly received in return is not necessarily what people understand to be a tax.

6.2 What is tax?

During the interviews and focus groups, participants were asked to name some taxes to underline the point that, although most people use the terms 'tax' and 'income tax' synonymously, in fact 'tax' can cover a wide range of levies and duties.

Although many participants' first thoughts were about income tax, upon further examination a number of other taxes and duties was cited. Alongside other direct taxes such as capital gains tax, corporation or business tax and inheritance tax, a surprising number of participants spontaneously mentioned VAT, and those that did not were prompted to consider it. Other items mentioned included SDLT, stamp duty, excise duties and national insurance. More unusually, council tax, fuel duties and road 'tax' were mentioned, as well as one participant referring to government-imposed levies, for example, those on disposal of certain waste items, as a 'tax'.

Figure 6.1: Vignettes

Tracey is a waitress and a single mum with two children. She is very good at her job and earns good tips, although her pay is at minimum wage, so she does not earn enough to pay tax over the personal allowance. She does not declare her tips on a tax return.

Sarah has been unemployed for 3 months, and has had 15 interviews in that time. She occasionally gets one day's casual work at her local children's play centre. She does not tell the jobcentre as that day's pay could wipe out her jobseekers's allowance/ESA benefit payments for the whole week. When not looking for a job, Sarah volunteers at her local hospice, caring for and talking to patients.

Geoffrey runs a large and profitable contracting business and employs 50 people. Certain of his clients pay for their work into an offshore bank account, and Geoffrey spends this money when on one of his many exotic holidays each year. The taxman does not know about Geoffrey's other account.

Colin runs a manufacturing business. The economic downturn has hit him hard and many of his customers are also taking longer to pay. Colin has been adjusting his sales figures downwards for the past few years in order to minimise his tax liability so that he doesn't have to lay off any of his workers.

Susan is a wealthy individual. She pays a large accountancy firm £40,000 to implement some tax planning that is accepted by HMRC as within the law, but that comprises actions that she would not otherwise have taken, had she not been attempting to save tax. She saves herself approximately £400,000 in tax.

However, despite preparing participants to think of tax in wider terms, when discussing the vignettes (repeated in Figure 6.1 above) later in the interview or focus group, in many cases it was clear that, when referring to someone of low or little income, 'tax' is understood to mean income tax.

That is not to say that all participants slipped into this habit; some specifically contested the notion of someone paying 'no tax', regardless of its impact of citizen status, as people were always paying some tax, and by doing so contributing to the UK tax take.

There's a prerequisite to paying tax. Earning. *M, 52, FG2*

She is working, she is spending money. Yes so she is making a contribution. *I013*

Well she'll be paying VAT on the things that she's buying. She is contributing something" *I005*

6.3 Is paying tax a necessary part of being a UK citizen?

Marshall's theory of citizenship centres on the rights of social citizenship being an inescapable bargain as part of which responsibilities that fall on citizens need be fulfilled. While working (and doing so with gusto) is the paramount responsibility put forward, paying taxes is also described as a responsibility. How therefore are those who may work but who may not pay a great deal of tax, specifically income taxes, considered in the context of a responsible citizen?

As part of collecting data, interview participants were asked whether those who did not pay tax were considered different citizens from those who did pay. Inherent in the question was that the 'taxes' in question were direct, income taxes, although as mentioned, sometimes this was challenged. Participants were deliberately asked about 'different' citizens rather than the subjective terms of good, bad, responsible or irresponsible. While the question was intended to uncover answers in respect of both those citizens who are not required to pay (income) taxes as well as those who choose to avoid or evade them, this was deliberately left vague to see how participants would answer.

Only one respondent immediately responded in respect of low earners. All other participants either queried which group of people they ought to be thinking about, or immediately assumed they were considering those taking deliberate action to pay less or no tax.

No participant felt that low earners were different citizens and that all agreed they were entitled to full citizenship rights; some even expressed confusion that such people could be considered different citizens.

How can you have a problem with someone who doesn't earn enough to pay tax? *1011*

No, not in the slightest bit [different]. That's what the tax system's for, is to help. I don't have any problem with that. /008

I don't think you can categorise people being a good citizen or a bad citizen based on the amount of tax they pay. There is a lot of people that don't pay much tax at all, but provide enormously in terms of society or what they do, just not measured in that way. /013

This is in line with Robespierre's thinking, outlined in Chapter Three, that the level of tax paid does not affect the level of citizenship enjoyed. However, his point about proportional contribution is also relevant below (Heater, 2004). This is also in line with Lister et al.'s model of *universal status*, meaning that everyone (who wants to be) is, at least initially, considered a citizen (Lister et al., 2003).

6.4 'Scroungers'

However, while payment of tax is not necessarily a requirement of being a citizen, there was negative feeling towards 'scroungers'. Focus group participants tended to identify this group and engage in 'othering' language earlier than the interviewees, relating back to the idea that they were responding to defining a 'good' citizen, rather than a citizen per se. The language used by both focus group participants and, to a far lesser extent, some interviewees, showed that, after making consideration for welfare, and looking after those less fortunate, there does need to be some kind of contribution for people to be considered 'full' citizens, or citizens doing their 'fair share'.

If they're intentionally not working though, because they just don't want to then that does make them a different citizen, of course it does. Because they're not taking responsibility for their country. You know, we have to do it - I don't want to get up

every day and go to work, so why should I pay for someone to sit on their backside and not do it because they don't want to. Not because they can't, because they don't want to. *F, 46, FG3*

Then there are the ones who sort of have never worked and have no intention of working, I'm afraid I don't regard them as, you know, I regard them as the parasites. *I014*

Specifically, when looking at those considered scroungers, participants showed a keen sense of injustice. To refer back to the neo-classical economic theories such as those of Allingham and Sandmo (1972) identified in Chapter Two, where people feel others are acting as 'free riders' this is perceived as unfair and not 'cricket' for the other people who are carrying the additional burden of those not working. Again, this is not directed at those who are in dire straits, but those who are perceived to have a choice whether to contribute or not, and who chose not to do so.

No, I still wouldn't pay any more tax. What I would do is I would make those people [pay] that are currently not paying tax or in gainful employment and bloody could be. *M, 52, FG2*

If the taxpayer got a benefit from it rather than the people who *don't* pay it. Do you know what I mean? It seems the working people pay the most tax and the non-working people who benefit more than the visible benefits to me. *F, 46, FG3*

I think people get angry as people generally have a sense that what everyone benefits from, everyone has to contribute. *F, 43, FG3*

If they're simply in the black economy and avoiding tax that way, that's not right, because they're still getting the advantages that the state gives them through the payment of tax by other people. I think they're basically spongers, some people

sponge on the state by taking benefits, but other people sponge on the state by not paying their tax. *I015*

While economic theory assumes an amoral tax decision, here participants identify a moral choice made by certain 'others' which renders them 'scroungers'. The issue of morality was specifically raised in respect of tax avoidance, as discussed in Chapter Seven, where the issue of morality was directly juxtaposed with legality. When discussing the requirement to contribute, or at least not make a negative contribution (see below), the issue of morality was not discussed for the simple reason that there was never any question that making a contribution was not the moral choice. This was made more interesting by the fact that only one participant saw a correlation between non-/ negative contribution and tax avoidance.

That is what you pay tax for, and you talk about a moral obligation, that's what you're expecting any government to do, is to look after that band of people, which is nigh on impossible, because there's always someone who abuses the system, but that's no different to someone legally trying to minimise their tax, it's no different. You've got to work the system at both ends. *I006*

Pemberton et al. (2014, p. 33) have noted that the poor are aware of the "pejorative identities that media and political discourses ascribe to them" and that many such people take steps to dissociate themselves from such assumptions. Nevertheless the potential for stigma and negative effects on self-esteem, and for social harm, remains strong and is supported by notions of non-contributory citizenship. However, defining what a contribution was required to be, particularly for these 'other' groups, was more nuanced. It was also notable that the contribution requirement was refined, as discussed below, into terms of not making a negative contribution, i.e., not taking from a pot to which one has not contributed. This would therefore seem to exclude those with independent wealth, such as inherited wealth, from the

definition of scroungers used here despite the fact that they also make a moral choice not to make a (significant) contribution.

6.5 'Negative contribution'

In fact, alongside recognition of non-financial contributions (considered further below), the main theme that emerged from both interviewee and focus group data was the idea of not making a negative contribution, and this further refines the 'contribution' element of how citizenship is understood, as there is a number of cases identified where no contribution is not vilified in the same way as negative contribution.

This theme developed largely from the use of the vignettes (reproduced at Figure 6.1, on p. 226). The first two vignettes were deliberately structured to feature individuals who may not be making a large financial contribution, but who were making non-financial contributions. While this was intended to instigate discussion on the validity of the non-financial element of contributory citizenship, it was also clear that a lack of contribution (or lack of an accepted contribution, see below) was accepted by many, provided that there was no 'negative contribution' either.

Tracey is a waitress and a single mum with two children. She is very good at her job and earns good tips, although her pay is at minimum wage, so she does not earn enough to pay tax over the personal allowance. She does not declare her tips on a tax return.

By way of example, the first vignette (Tracey) involved a low-paid worker who was beneath the threshold for paying income tax and who was raising children. Even though there was little financial contribution, it was the fact that she was not taking, rather than the fact that she was not contributing that seemed to be most important to participants from both groups. Most

accepted, and excused, the point that Tracey was illegally not declaring extra earnings. However, most people did not appreciate the fact that, as a low earner with children, she would very likely be receiving tax credits to top up her income, as this was not specifically mentioned in the vignette, but was clarified if such elucidation was sought.

It's swings and roundabouts. She doesn't take and she doesn't give back. *F, 51, FG1*

It's a valid choice, exactly because you're not ...taking anything out of the system. *F, 65, FG1*

She's not sitting at home saying 'it's not worth me working, I'll sit here and let the government look after me'. *I006*

I don't have sympathy for somebody who is not trying and is not putting anything back in at all, but is just taking benefits. *I013*

So if she's taking stuff out then I'd say no, she isn't making a contribution, it's worse than that. *I014*

Interestingly, two of the focus groups contained someone who fell into the 'working but not paying income tax' category and in one of the groups this facilitated lively discussion. One participant spoke about how she would not want someone who consistently did not work and did not pay tax to be entitled to the same level of state pension as she would be, which is now the case under the new flat rate rules (assuming the non-working person has met state requirements to qualify for the social security stamp through claiming benefits). When challenged on this point by the non-worker, the original participant decided that it was acceptable in this particular case as this person was doing voluntary work and was "a good egg". However, this highlights the point that, while perhaps people would not want civil rights removed from those showing a negative contribution, it is one of the things that ties into the

feelings of equity discussed above, that negative-contributors ought not necessarily be entitled to all the benefits of citizenship and that they are a lesser class of citizen.

As discussed above, this modifies the broad model of universal status identified by Lister et al. (2003) into a universal status conditional model, where citizens can become a lower class of citizen by not adopting socially acceptable behaviour and also echoes the sentiments of Rousseau's social contract, where those acting against the general will are potentially subject to sanction (Rousseau, 1762).

6.6 Non-financial contributions

In order to determine therefore whether a person is making a negative contribution or not, it is important to establish whether non-financial elements can count as a contribution.

Although Marshall (Marshall and Bottomore, 1987) describes the duty to pay taxes as paramount in the rights/responsibilities exchange in respect of citizenship, Marshall himself allowed that the other duties of being a citizen are "vague" and comprise a "general obligation to live the life of a good citizen" (p. 45). As a result there is potential for the recognition of non-tax-paying contributions, but what these are, and how these are understood by citizens warrants further exploration.

Almost all participants were happy that someone doing volunteer work was making a contribution as a citizen, and most were also happy that working (even if not earning sufficient to pay income tax) in gainful employment was also making a contribution, and ties in with the previous assertion that those with low pay were not considered 'different' citizens in any way.

Some participants viewed raising children in and of itself a contribution to society, although others saw this as a personal choice, something that society would support but that this was more of a temporary reprieve from contribution rather than being a contribution itself. While there are not sufficient data to draw definite conclusions, it is interesting that the focus group discussions suggested that it was largely women who felt that raising children was an effective contribution and that men did not necessarily agree, even when they were themselves single parents.

No participants seemed to suggest that running a business and employing people was a contribution in citizen terms.

She's waitressing, bringing up a child, you know, doing valuable stuff, her contribution as a citizen is nothing to do with her paying tax. *I009*

Yes, she is, she's got a good job and she's working hard and she's providing services to other people and she looks after her family, of course she's making a contribution, contributions are made in many other ways than paying tax. *I010*

They make no financial contribution - we'll avoid the evaders - but those who are not earning sufficient or have allowances or whatever else it is that may push them below the tax threshold does not mean that they are not contributing to the fabric of society does it? *I011*

Yes so she is making a contribution in different ways, we all make contributions in different ways. Just because she is not earning much money, she might be helping out at a charity at the weekends or doing other really good things to society that isn't recognised in terms of pay. *I013*

Female 1: They are [contributing]. They're helping.

Male 1: In other ways.

Male 2: It's not a financial contribution, it's a time contribution.

Male 3: It's not all about tax.

Male 1: Helping out and volunteering. That's part of citizenship, isn't it, to me. *FG3*

This analysis raised interesting points. While the data did not suggest that alternative contributions were a required part of citizenship, thereby not supporting the claims of proponents of active citizenship (Isin and Nielsen, 2008), it does, however, suggest that the Marshallian view that paying tax is paramount is outdated. Returning again to Robespierre's proportional contribution (Heater, 2004), and the discussion of those championing the cause of those less able or excluded from making a financial contribution (Isin and Turner, 2007, 2002; Lister, 2003), modern understandings of citizenship accept a range of alternative contribution, so long as it is a genuine contribution.

As Sefton (2005) summarised when looking at the BSA 2004 data, the amount of taxes paid is not important: what matters is that individuals have contributed "what they could in their particular circumstances" (2005, p. 26).

6.7 Summary

In response to RQ2 as to whether citizenship activity be implied by tax-paying behaviour, the data suggest the following.

Despite Marshall's thinking that the paying of tax is a citizen's paramount duty, in fact it appears that citizens themselves consider other factors of equal importance in terms of responsibility and in making the required contribution as part of the obligations of a good

citizen. Paying tax is not a requirement of being a full citizen, nor of being entitled to full citizenship rights.

However, views are more mixed on what does constitute citizen contribution. While activity, whether voluntary work or gainful employment is accepted as sufficient, raising a family was not necessarily seen in the same light; inactivity as a consequence of family responsibilities, however, is at least tolerated by citizens. However, while activity, either through working or paying tax, is not *necessary* in order to make a contribution, it is necessary for those who do not evidence activity to prove they do not fall into 'negative contribution'. In fact, not making a negative contribution was found to be more important than making a contribution at all.

Those who are seen to be 'takers' are considered as not fulfilling their 'good citizen' obligation, and while they are entitled to the same civic rights as all other citizens, there is a feeling that these types of citizen ought not to be entitled to all the same benefits as 'proper' citizens, owing to their lack of contribution.

Chapter 7: The acceptability of tax avoidance or tax evasion

7.1 Research Question 3: Is tax avoidance or evasion acceptable given the obligations of citizenship?

RQ3: Are there acceptable levels of tax avoidance/tax evasion behaviour taking into account the obligations of citizenship?

- a) Are those who choose to avoid tax classed differently from those who meet their 'full obligation'?
- b) Is there a point at which a 'full obligation' can be considered met, beyond which tax avoidance behaviour is considered differently?
- c) Are there circumstances in which personal tax avoidance is considered socially acceptable?
- d) Are there circumstances in which tax evasion is considered socially acceptable?

RQ2 (above, in Chapter Six) looked at lack of contribution through paying tax owing to low pay or personal circumstances. Although the data suggest that the actual payment of tax is not considered necessary in order to benefit from the full rights and benefits of citizenship, is this assertion still valid when people are not paying (all of their) tax not owing to personal circumstances, but instead because they choose to avoid or evade it?

7.2 Tax avoidance or tax evasion?

Although the interviewees seemed very clear on the difference between tax avoidance and tax evasion, there was still some confusion seen among focus group participants:

But you say 'get away with it'. You get away with evading tax. Avoiding tax is legitimate. *F, 65, FG1*

Male 1: No, because it's legal avoidance.

Male 2: All tax avoidance is legal! *FG2*

Owing to this issue, the difference between tax avoidance and tax evasion was discussed in more depth in the focus groups.

7.3 'Acceptable tax avoidance'

However, once the difference had been clarified, the issue of what constituted 'acceptable' tax avoidance was explored. For focus group participants, who, it was assumed, were less sophisticated in terms of knowledge and awareness of tax avoidance measures, a tool was used (included at Appendix One) to see whether it was possible to come to a group consensus on the line between 'acceptable' and 'unacceptable' tax avoidance.

The tool used was produced by Channel 4 in response to a comment by Lord Fink (Channel 4 News, n.d.) that "everyone" is involved in tax avoidance, describing his own 'simple family trusts' as "vanilla". However, to take his point that tax avoidance can be seen on a spectrum, Channel 4 decided to illustrate the different 'depths' of tax avoidance as being different flavoured ice creams. The simplest was vanilla, and comprised duty free shopping, while other

flavours covered investing in ISAs, or using capital gains tax allowances and the biggest ice cream was The Full Monty, which included secret accounts and money laundering.

The interviewees were much clearer on tax avoidance and if it was legal then it was *prima facie* acceptable. However, the morality of tax avoidance was far more contested, even if the respondent's personal opinion was felt to be at odds with the 'accepted' point of view.

... they are evading their responsibilities. The thing that really, really worries me about all of that is [an acquaintance of the interviewee] might tell somebody, there'll be people who know what he's done ... Then it becomes endemic, systemic in society, this is the right thing to do, you have a duty, as you do in Italy, to screw the tax system. You start doing that and you start punching holes in society all over. *I015*

I can see why people might say 'that's not fair on the rest of us' but the rest of us could have done the same and I think that if we set a taxing system that allows something, it cannot be immoral to take advantage of it. If you see what I mean. I can see why you might not like it and might find it distasteful, but it's not actually wrong. There are people who would disagree with that I know. *I011*

Whether morally you think it is right or not I think is something completely different. And I think you could take citizens and corporate citizens separately to that ... Personally I have always taken the view that those types of tax avoidance schemes are wrong, and I have never invested in any of those things, because I just think they are inherently wrong, but that is just my personal view. *I013*

While focus groups did come to a consensus on the 'line' of tax avoidance/evasion using the tool, and all three focus groups independently reached similar conclusions, later discussions using the vignettes showed that this line was not as fixed as the participants themselves might have believed. In discussion, the placing of the line was related to moral reasoning on what

the 'right' thing to do would be. In an abstract situation, the location of the line is more black and white. However, when faced with decisions involving real people and real lives, while moral reasoning was still used to determine the position of the line, the 'right thing to do' changed its position in the minds of the participants. The line is therefore simultaneously moveable and fixed.

The interviewees also showed flexibility in accepting deviant behaviour, although the same tool was not used with interviewees, as it was felt to be too simplistic. In terms of tax avoidance, many felt that legality took precedence regardless of personal moral opinion. While some did express their own personal moral objection to certain types of tax avoidance behaviour, as detailed above, most felt that the line was where the law stood and that even if they personally would not feel morally comfortable, other people had the right to behave that way if they chose, as that was the law.

As a result, while the morality of tax avoidance behaviour was debatable, in general, all participants were happy that whatever their 'official' view or opinion on tax avoidance, it was acceptable as it was legitimate behaviour, and had been made so by the laws of the land by which good citizens should abide. The solution put forward was not to try to change the minds of those so inclined, nor was there an appetite (or a perceived practical application) for citizen penalties: instead the answer was considered to be a simple one.

7.4 Change the laws

What many people felt would be the best solution to 'acceptable' tax avoidance would be to change the laws in order to render all but globally acceptable avoidance outside the law, such that 'unacceptable' avoidance would therefore become evasion.

Of course, the complexity of tax law did not escape all participants, but the concept of changing the law is very much in keeping with the current legislative direction, moving towards more General Anti Avoidance Rules (GAARs) as well as Targeted Anti Avoidance Rules (TAARs), which are the simplest ways of trying effectively to stifle taxpayers 'bad intentions'. In addition, the recently introduced system for reporting tax avoidance schemes (DOTAS) now allows HMRC to be made aware of avoidance activities, so that the provisions exploited can be changed such that the 'loophole' no longer exists.

This will, of course, not prevent or block every instance of avoidance, and as discussed above, there is a spectrum of tax avoidance which means that one person might consider a number of family trusts as 'vanilla', yet another person might find that highly 'pina colada'. Nevertheless it is interesting that avoidance behaviour, even if considered personally distasteful, or as something in which only the rich can indulge, is accepted as legal and therefore, generally not anti-citizen behaviour.

We should start with the tax laws. We should start by changing, if it's a bad law, then change the law. *F, 52, FG1*

That is down to the government to close any loopholes that are there. She's within the law. You may not like her, but she's within the law. *F, 65, FG1*

I think the fault lies with government ... so just change the laws to stop them doing it rather than whine about it. *M, 42, FG3*

I don't think it's good. I think you're working within the law and I think the government needs to accept that and it needs to make sure that the law is structured in a way ... I mean, there is no way in this world ... I mean, I've been in structured tax planning and there's no way in this world would I have done it if the law had been clear. The law

was clear in the other respect and that was that what we did was legitimate, therefore I think it's okay. /008

As long as it is within the law unfortunately then yes that is acceptable. But that is where I come back to the point that we need to get the rules right and make taxation fair. But at the end of the day, there will always be somebody who is trying to avoid ... they will go to all sorts of lengths to avoid the rules and the taxes, because they don't have that same moral acceptance of responsibility, so very difficult to impose that moral sense of responsibility on people. /013

But on the other hand if it's legal, fair game, you know that's the government's fault for having such a ridiculous set of tax laws. /014

7.5 Anti-citizen behaviour?

Only one of the vignettes shared with participants (Susan) contained a situation of pure tax avoidance, carefully structured to be in the perceived grey area between 'acceptable' and 'unacceptable'. The avoidance was accepted by HMRC as within the law but comprised actions the imaginary person would not otherwise have taken were she not looking to avoid tax.

While people's personal opinions of the morality of the tax avoider's behaviour varied in line with the findings above, most people agreed that the avoider was within her own rights to avoid tax and that it did not affect her citizen status in any way. Again, the legality of the action conferred legitimacy on it, despite any misgivings on moral grounds.

So there is a line somewhere in that, and of course that line is policed by HMRC and we all live with that because that's the only way to draw a line, as opposed to everybody's individual moral judgement on what bill's reasonable, and it's hard. /012

If she is obeying the laws of the land, then she has a right if she wishes to spend that money and to do that. I don't necessarily agree that it is the right thing for the country

to enable people to do that. But that comes back to making sure the rules are right, to stop people doing that. *I013*

She's a worse citizen, well no, actually hold on, I'm neutral on this stuff, I think if the government left loopholes open then remember Lord Denning, every person has a right to organise their affairs to minimise the tax they pay. I don't see it's her fault. *I014*

Additionally, interview participants were asked about the concept of a full obligation. In simple terms this was the idea of capping (income) tax contributions once citizens had paid 'enough' into the pot.

Interview participants were, perhaps surprisingly, not keen on this idea. For some, they just expressed a feeling that a percentage was more appropriate or fairer; others extrapolated their own wealth up to that of the oligarchs and envisaged how much less tax these people would be paying, if this were to be the case.

No, no, no, I think it has to be percentage terms because, you know, a million pound in tax to someone like Abramowicz is only a very small percentage of his income so you know, no, it has to be quantified in percentage terms, definitely. *I006*

Not if my income is 20 [billion], certainly not, no, no, no, of course not. *I010*

No. No. I think if I earn £100m I should expect to pay tax on £100m, not stop at £2m. Interestingly I think it's Switzerland isn't it who will do deals with people like that ... I don't really approve of that. *I011*

No, I don't at all. I think it should be a percentage of what you make and I'm happy with that. *I008*

Instead, interviewees felt that a full obligation was met by simply paying all the tax the law required, although this also then brought back ideas of equity and, in particular, sensitivity to

tax rates. This definition also, of course, permits tax avoidance which is, by definition, paying the tax required by law.

7.6 Do as I say ...

However, despite any moral objections to tax avoidance, there was an element of 'do as I say, not as I do' evident within the focus groups. While they accepted that there was a general obligation to pay tax, and often that they were not wealthy enough to be able to avoid tax, by hiring advisers, for example, there was also a sense of missed opportunity.

Most focus groups accepted that, if they had the opportunity, they would avoid, or evade tax, or facilitate tax avoidance or evasion, likening it to telling a little white lie, or a minor traffic infraction. This is a triumph of self-interest over the greater good, and breaks the terms imposed on citizens by citizens, that of being a good citizen as, and as part of, obeying the laws of the land. However, as their misdemeanour would be, as they saw it, small when compared with 'proper' tax avoiders and evaders, that may be more acceptable, or at least easier to accept.

I think the thing is, it's not right, and it's not fair, but we'd all do it. *F, 47, FG3*

I do want to pay the right amount of tax; I say I do but then the other week I was organising an event ... and I rang this woman and she said, 'Well, if you give me cash I'll let you have the place for £600'; it would have been £1,400... if I want to pay the right amount of tax, I should have said, 'I'm sorry, I want to pay the right amount of tax'. *F, 49, FG2*

That's really what I'm saying; it's a question of scale. They get away with lots of money. We can't get away with lots of money because we don't earn enough. *M, 65, FG2*

We have a lot of that in today's society where speeding, talking on the phone; all those kinds of things, is someone else's wrongdoing, but I'm alright if I'm doing it. *M, 47, FG2*

I think it'd be a very brave person in this room who said that if someone came to me and said 'you've got some whizzbang accountant who'd be willing to reduce your tax rate to 10% of what you'd normally pay' you probably wouldn't say that, you'd say 'I'll have a bit of that'. *M, 42, FG3*

Note that no focus group participant suggested they would seek to pay no tax, rather that paying for the occasional service or doing the occasional job 'cash in hand' was minor and socially acceptable, even if wrong. While responses here may have been tempered by the group dynamic, there was also no sense that participants would have sought to brag about 'fiddling' the system. Participants accepted and valued the system, but simply allowed self-interest to take over on occasion.

Interviewees in general accepted the legitimacy of tax avoidance, so there was no element of confessing to having done something wrong by engaging in the practice, although some interviewees did voluntarily talk about schemes and planning they had used previously. Two interviewees did, however, confess to tax evasion (although both had been caught and fined).

Interestingly, a number of interviewees expressed a change in their opinions and perspectives on tax avoidance behaviour over time. Whereas they had indulged a greater appetite for paying less tax previously, they now felt more accepting of their obligations and had little or no desire to chase 'unacceptable' avoidance. Whether this is owing to age, to a greater sense of responsibility, to the changing tax administration climate, or other factors, is unclear.

I think my views have changed as I've got older, I think when I was younger I used to think that if I could avoid paying tax that would be of benefit to me in a selfish way and I suppose when I first started business tax, tax was quite punitive ... But now I think my

views have changed, probably because the tax regime is more reasonable, but I think if people make money in their country, and in this case, this country, they should pay their fair share of tax, after all the country has to run on something, everyone talks about the government paying for something but it isn't the government, it's us. 1004

So tax is very much a part of that now, you know, it's sort of, as you get older you've done it for so many bloody years you get used to it don't you? 1007

7.7 Is tax evasion ever acceptable?

Of course, tax evasion is never legally acceptable as it is against the law, and one crucial element of being a 'good citizen', which is accepted by most, is that you abide by the laws of the land, which in the UK includes paying tax as prescribed. Naturally, most people would presumably agree that tax evasion is illegal and not open to subjective opinion.

The idea of minor, occasional, opportunistic tax evasion has been discussed in Section 7.6 above, with participants accepting that they would bend the rules slightly for themselves, but that the principle of tax evasion remained undesirable in society.

However, through the use of the vignettes (repeated below), it was possible to obtain some nuanced views on tax evasion in other 'real-life' situations.

Figure 7.1: Vignettes

Tracey is a waitress and a single mum with two children. She is very good at her job and earns good tips, although her pay is at minimum wage, so she does not earn enough to pay tax over the personal allowance. She does not declare her tips on a tax return.

Sarah has been unemployed for 3 months, and has had 15 interviews in that time. She occasionally gets one day's casual work at her local children's play centre. She does not tell the jobcentre as that day's pay could wipe out her jobseekers's allowance/ESA benefit payments for the whole week. When not looking for a job, Sarah volunteers at her local hospice, caring for and talking to patients.

Geoffrey runs a large and profitable contracting business and employs 50 people. Certain of his clients pay for their work into an offshore bank account, and Geoffrey spends this money when on one of his many exotic holidays each year. The taxman does not know about Geoffrey's other account.

Colin runs a manufacturing business. The economic downturn has hit him hard and many of his customers are also taking longer to pay. Colin has been adjusting his sales figures downwards for the past few years in order to minimise his tax liability so that he doesn't have to lay off any of his workers.

Susan is a wealthy individual. She pays a large accountancy firm £40,000 to implement some tax planning that is accepted by HMRC as within the law, but that comprises actions that she would not otherwise have taken, had she not been attempting to save tax. She saves herself approximately £400,000 in tax.

Where tax evaders were low-earners, or the amounts were small, people were far more forgiving of tax evasion (see Tracey above). Similarly benefits fraud was also seen as a 'grey area' where participants felt the subjects were contributing in other ways (see Sarah above). Few were able to extrapolate the situations up to the point where a company executive decided not to declare (or to pay tax on) a million pound bonus. Interviewees were even less likely to have an issue with small and low earner tax evasion, as "people have to live".

Interestingly, some participants acknowledged the conflict in their own responses, between the abstract and the situational questions. When discussing the vignette of Sarah (above), one focus group participant said:

If you would have not mentioned her personal circumstances and just said, 'What do you think about people who cheat benefits,' I'd have been banging on the table. *F, 51, FG2*

However, this participant went on to say that she actually had a great deal of sympathy for the person in question, that she understood the reasons for the 'undesirable' behaviour and that she wanted to change the system, rather than vilify the individual concerned. Many other participants remarked upon how presenting them with real-life scenarios caused them some difficulty in answering. They found it easier to express definite opinions on things like tax avoidance and evasion as abstract principles, rather than when considering attitudes towards others. This could suggest that work looking at attitudes towards the tax compliance decision that does not locate the questions in some kind of real-life frame may be missing out on important data: taxpayers do not make their tax-paying decisions in a vacuum.

When looking at the later vignettes, which suggested larger amounts of tax were involved, people were less forgiving of larger scale tax evasion. The vignette pair of Geoffrey and Colin (see above) was deliberately designed to explore whether having a 'good reason' affected the social acceptability of tax evasion. Of course, the reason for tax evasion should be irrelevant, and these two vignettes were, essentially, identical forms of tax evasion in real terms, but the one with honourable motives (Colin) was considered more favourably by many. Other participants, however, were sceptical of the stated 'good reasons' for the tax evasion.

He is breaking the law, therefore he is living outside the law and living outside the law does not make you a good citizen. *M, 52, FG2*

Well, he's employing [people], but that's not a mitigation there. No, if you evade, then it doesn't matter what you're doing, you're breaking the law. You may as well steal money from somebody. *1008*

The fact that he even spends his money on cocktails, I mean actually should be totally irrelevant to whether or not he's paying tax. *1009*

Male: His intentions are right but his actions are wrong.

Female: It sits heavily with people, doesn't it? It's still illegal, isn't it... A line has to be drawn in the sand somewhere... and the line, I feel, has got to be whether it's legal or not. *FG2*

He's protecting his business. I think that's good because if he had to lay off the staff, they wouldn't be paying tax, so I can't how it is [wrong] really ... I mean theoretically it's evasion but it's not if you go into it deeper. He's producing more tax than they're losing. *I005*

I can see the point but, you know, if you've got rules you've got to abide by the rules or not abide by the rules. If rules are there you've got to abide by them. Or you don't. *I006*

They're all very good examples and very good questions, they've all got moral and ethical sides to them of course. I'm probably quite brutal but you shouldn't do it. I know he's going to have to lay off people, but if we all found routes round then eventually you're going to end with a government not having money, not being able to pay these people support because there's nothing coming in, taking it to extremes. *I015*

Most participants did, however, acknowledge that they appreciated that tax evasion in principle was illegal but they were, in certain circumstances, willing to accept the delinquent behaviour if there were other factors contributing which made the participants feel that the subjects were still deserving of support. As discussed above, payment of tax per se was not considered a deciding factor in assessing citizenship. However breaking of the law (without good reason) was more likely to impact on citizen status.

Note that, linking back to the concept of *Universal Status Conditional*, identified in Chapter Five, unless participants felt that the behaviour was lacking in any justification, as was generally the case with the vignette of Geoffrey, there was a general reluctance to discount

people immediately as being poor citizens; circumstances and intentions were very relevant in assessing the conditional part of the *Universal Status Conditional* model, with only those engaging in 'negative contribution' behaviour regarded differently.

7.8 Summary

In response to RQ3, the data suggests that tax avoidance and tax evasion behaviour are not considered in isolation, but are looked at as part of a whole 'good citizen' assessment.

People are not happy with the idea of a cap of tax, and feel that an obligation cannot be quantified in absolute monetary terms, but do consider that paying the 'right amount' of tax constitutes meeting a full obligation. That said, small 'misdemeanours' against a full obligation are acceptable, in terms of self-interest.

While tax evasion is always illegal, it is sometimes accepted. Despite illegality and failure to pay taxes having a potential impact on 'good citizen' status, things are taken 'in the round', and other factors can outweigh these infractions.

Tax avoidance has little or no effect on citizen status: the payment of tax itself is not considered a deciding factor in assessing good citizenship. Participants felt that laws should be changed such that tax avoidance becomes tax evasion if it is not considered acceptable.

While the HMRC definitions of tax avoidance (as discussed in Chapter Three) are complicated, focus group participants were able quickly to reach consensus on what constitutes acceptable tax avoidance with the use of a simple scale tool. They further felt that they were not influenced by the media portrayals of tax avoidance as immoral. Interviewees rejected the

idea of tax avoidance as immoral, with many voicing the opinion that morality is not relevant to tax law.

However, attitudes towards tax avoidance and tax evasion are also fluid and can be very dependent on circumstances. Attitudes expressed as general terms may not reflect genuine decision making processes of individuals when looking at tax avoidance or tax evasion behaviour. Tax compliance decisions are not made in a vacuum and presenting participants with background information and context, as in the vignettes, may actually obtain different answers from when asking the same questions in abstract form.

Chapter 8: Conclusion

The starting point for this thesis was to explore whether the ideals and modern conceptualisations of citizenship could be used to explain or understand further the tax compliance decision. In summary, the data suggest that understandings of citizenship have a lot to contribute when considering the tax compliance decision for individuals in the UK.

Three research questions were developed, to explore further whether conceptualisations of citizenship affect the tax compliance decision and to understand further what other personal reasons may affect that decision. RQ1 looked at whether there is a social obligation associated with taxation and whether this can best be understood within the context of the rights and responsibilities of social citizenship. RQ1 looked at not only at what citizenship means to individuals, but also at the tax compliance decision itself, asking people why they personally pay tax and if they felt an over-arching obligation to contribute separately from their legal requirements. RQ1 also looked at whether the tax compliance decision is fuelled by notions of a benefit exchange or whether individuals pay tax 'for the greater good'. This research question also discussed where the obligation to pay tax lies, and whether that obligation rests more heavily on the shoulders of certain taxpayers.

RQ2 sought to explore in more depth the contribution element of social citizenship, as part of the rights and responsibilities exchange first formalised by TH Marshall in 1949. While the payment of tax as a contribution has been described as fundamental and of paramount importance in citizenship, this research question challenged whether tax was necessary, or whether other contributions were deemed acceptable in satisfaction of the obligations of

citizenship. RQ2 also asked whether those who did not pay taxes, or those who did not make suitable alternative contributions, were considered as different citizens.

Finally, RQ3 looked at the social acceptability of tax avoidance and tax evasion, and whether, in the context of paying tax as an obligation of citizenship, those who choose not to pay taxes in any way are considered different citizens. This question also explored the idea of a 'full obligation' to determine whether there is a point at which a full obligation in terms of citizenship can be considered fulfilled, meaning that tax-paying behaviour beyond that point might be considered differently.

8.1 Review of literature

In order to address the research questions, it was necessary first to explore how tax is defined, and understood, and to frame the tax compliance decision in the context of an individual choice of either tax evasion or tax avoidance, the latter in itself being a poorly understood and flexibly defined term. Moving from neo-classical economic theory around why people do not pay tax, this thesis considered in greater depth the reasons why people choose to pay tax, to include examining the effect of social and behavioural norms and the various conceptualisations of tax ethics, before looking at the important concept of perceived fairness.

What the literature suggested was that many of the ideas and concepts that have been shown to affect the tax compliance decision are already potentially included within an over-arching sense of civic duty, of what it means to be a citizen. The research further established that there is scope for to explore what it is that makes us pay tax, over and above tax morale or social norms or even the interaction of the two. In seeking to explore whether any part of the tax

compliance decision is part of a commitment to the greater good, the research posited that fulfilling the rights and responsibilities of social citizenship could be an important element of why people pay tax. However, the literature was not clear on whether a sense of citizenship over-rides perceptions of fairness, or tax ethics, or normative culture, and of what relative importance these concepts have in the tax compliance decision.

It was then necessary to consider how citizenship is defined, and understood, in order to gauge whether conceptualisations of citizenship are important in the tax compliance decision.

The thesis considered the idea of citizenship in more depth, exploring the development of themes in conceptualisation of citizenship and following the idea of a financial contribution as an obligation of citizens through to more recent formalisations of the rights and responsibilities of social citizenship. Contemporary citizenship was also examined, to include citizenship testing and the concept of active citizenship, where contribution is made through activity. Recent empirical work in the area was also explored, including work describing modern ways in which citizenship is interpreted and some work linking the payment of tax to the contribution requirement of citizenship.

Given the two main themes of this research are those of tax and citizenship, it was also important to consider how these interact in modern UK society. While the UK does not use citizenship as a base for liability to taxation (some non-UK citizens are required to pay tax and some UK citizens face no such requirement), the bases upon which liability to UK taxation is levied were considered in detail, together with consideration of the detailed rules relating to residence and domicile. However some countries, notably the USA, do use citizenship as a base for taxation, and some of the issues arising from this basis of assessment were also

explored, before looking at some qualitative work that has been undertaken within the UK trying to ascertain whether a link between taxation and ideas around citizenship can be established.

8.2 Research approach

The aim of this research was not only to explore whether modern conceptualisations of citizenship were important in the tax compliance decision, but also to try to determine how far this relationship extends, as well as exploring other factors which might affect the tax compliance decision. Thus the research approach adopted was to use qualitative methods to increase understanding rather than just knowledge.

This approach fits with the subjective, interpretivist ideology that was identified as being in alignment with the researcher's view of reality.

The research instruments (included at Appendix Five) were designed to be inductive in nature. Although the questions were framed and informed by the literature, the data collection was exploratory, rather than confirmatory in nature. There were some distinct ethical considerations given the sensitive nature of the topic and the potential for self-incrimination. To allay concerns, a set of vignettes was used to explore participants' attitudes towards tax avoidance and tax evasion in a number of real-life situations. This approach not only generated rich data but was also identified by participants as making them rethink their position as opposed to that presented when answering more general and abstract questions.

The methods used included both interviews and focus groups and two distinct sets of participants were recruited. The interviewees were all within the 'top 1%' in terms of wealth

and/or income; and the focus group participants were a largely homogeneous group of middle-aged, middle class individuals.

Sampling was not intended to be representative, and owing to difficulties in recruiting participants, particularly from the very wealthy who are described as under-researched, a snowball sampling technique was used, together with access provided by gatekeepers, as appropriate. In total, 15 interviewees and 18 focus group participants (over three focus groups) formed part of the study. The data collected were transcribed and analysed with the help of computerised data analysis software.

8.3 Results

In line with previous empirical studies, the concept of citizenship is fungible, fluid and can be positioned from multiple standpoints simultaneously. This finding is remarkably similar to how the acceptability of tax evasion and tax avoidance can sometimes be perceived as being malleable and on a spectrum depending on the specific circumstances.

However, the research data did highlight some themes in modern conceptualisations of citizenship, to include ideas of good (and bad) citizens, and those who might comprise a lower class of citizen. Paying tax is generally accepted as an obligation of being a UK citizen but while tax is a contribution for citizenship purposes, it is not crucial: what is crucial is making an acceptable contribution, although tax can evidence such a contribution. Furthermore, while those making no contribution are not necessarily considered as different citizens, those who are seen to be making a negative contribution may be considered differently. Acceptable contributions to fulfil citizenship obligations do not have to be financial.

Redistribution through taxation was accepted as an unavoidable element of taxation, although most participants saw this purely in terms of redistribution of wealth and welfare rather than appreciating the greater good to society through redistributive justice.

The wealthy did understand obligations of citizenship even though they may enjoy fewer benefits, and all saw the value in paying tax, although their perceptions of fairness were significantly linked to marginal rates of tax. Nevertheless, despite many describing 50% as a significant barrier rate for them, reducing the top rate of income tax from 50% down to 45% may not have been necessary: no participants suggested they had acted any differently, or would have continued to do so, had the rate remained at 50%. The wealthy appear to feel more aggrieved by perceived injustice and penal treatment by the tax system. This may be a particular issue within this participant group as they are all entrepreneurs and may therefore feel more strongly on this issue owing to their perceived additional time and effort employed in generating wealth and income. This has important policy implications for HMRC, not only in terms of rate sensitivity, but also in terms of what motivates, and demotivates, this group of taxpayers.

The research also found that, on the whole, participants accepted an obligation to pay tax with no need for further coercion or persuasion, but that focus group participants in particular were more concerned with those who were seen as making a negative contribution, the 'scroungers', rather than identifying with their neighbours, as has been past focus of HMRC behavioural communications.

While tax avoidance and tax evasion were still confused within the focus groups, they were able to reach consensus on what constituted 'acceptable' tax avoidance. Interviewees

generally felt all tax avoidance had to be considered acceptable even if they might personally shy away from engaging in it. As mentioned above, the acceptability of tax avoidance and tax evasion presented as being on a spectrum depending on personal circumstances is similar to how being a good/bad citizen is also fungible. However, you can still be a citizen if you are a bad citizen, and you can still be a citizen if you avoid, or evade, tax.

Importantly, however, whether behaviour is acceptable or not depends on the personal circumstances leading to the behaviour, and on the manner in which the question is posed. The use of vignettes in this research was intended to help increase participants' understanding and also to avoid potential ethical pitfalls owing to the sensitive nature of the subject. However the use of vignettes also represented findings in their own right. While participants' responses to abstract questions about tax avoidance or tax evasion behaviour may have given one answer, the use of vignettes often generated a different answer. This has important implications for tax compliance research, as the manner in which research question are asked may materially affect the responses obtained. This research demonstrated that such decisions are dependent on the context of the decision in question.

8.4 Original contributions to knowledge

Chapter One outlined the overall aims of this research project, with the purpose of making an original contribution to knowledge in the identified areas. After having completed the research, it is important to assess how far these aims have been achieved in this thesis.

As detailed earlier, researching the very wealthy, defined for the purposes of this thesis as those in the top 1%, was described as a near-impossible task. However, with the help of the

gatekeepers identified in Chapter Four, despite a tight sampling frame it was possible to recruit and interview 15 participants from within a fraction of 1% of the population who were willing to participate in order to complete the interview section of the data collection.

While 15 interviewees are not necessarily representative of the population within the 1% (and the limitations of the work are discussed below), they provided sufficient data to achieve data saturation and support the validity of the results and conclusions drawn therefrom.

As a result, the qualitative interview data within this thesis represent a significant contribution to knowledge **in and of itself**, owing to the fact that a valid data sample made up of this 'hidden' and under-researched group of individuals was obtained. This work represents a significant achievement in both accessing and in collecting valuable data from a source that most research fails to reach.

The data comprises a rich dataset, with many of the participants explicitly expressing their enjoyment of the process and their interest in the subject matter. Most interviewees were open and expansive in their responses to questions, with many taking the opportunity to offer supplementary views and opinions over and above those subjects forming a specific part of the research instrument: some even offered information on tax evasion behaviour that was certainly not sought, nor anticipated. As a result, not only are there additional rich data available that have not been included in this thesis, but the process of obtaining and conducting the interviews offers an alternative perspective to that identified by Barnard et al. (2007) who suggested that the wealthy would be deeply reluctant to take part in research. When research is presented in a certain manner, with participants approached by the most

appropriate person, this thesis found that the wealthy have much to offer as research subjects.

Second, the scarcity of empirical work on citizenship has been partly relieved by the research in this thesis. Specifically, the research supported previous claims that understandings of citizenship are fluid in nature, dependent not only on the individual's conceptualisation of citizenship but also on the context in which the topic is raised.

However, in keeping with the broad themes that informed Lister et al.'s (2003) five models of citizenship and Sefton's (2005) three models of social behaviour in relation to wealth distribution, some common themes that emerged were of belonging or membership, as well as the 'rights and responsibilities' exchange characteristic of social citizenship. This research also suggested, however, that the new empirical data within this thesis could be used to develop Lister et al.'s *universal status* concept further by incorporating the idea of a negative contribution as discussed in Chapter Five. Here, while citizens are universally accepted as such, simply by virtue of membership of the community, group or nation, this status can be jeopardised by a negative contribution (see below) which would mark the individual as a lower class of citizen than those who do not engage in such anti-citizen behaviour. The analysis describes this as the *universal status conditional* model.

This thesis also contributes to original knowledge through a more nuanced exploration of the contribution requirement of social citizenship. The thesis concluded that contribution need not be monetary (e.g., by paying taxes) and that the contribution requirement can be flexible depending on individuals' personal circumstances. However, what was of most importance in understandings of being a 'good citizen' was the concept of a negative contribution. It was

accepted that some people may not make any contribution, even long-term, but this was less damaging to an individual's citizen status than even a brief period of negative contribution - not contributing, or net taking from the system when a citizen could have made a contribution.

Finally, the use of vignettes, which were originally designed to allay ethical concerns about sensitive information and to present a way of obtaining a greater depth of understanding of the acceptability of tax avoidance and tax evasion behaviours, has also offered insight into research approaches to subjects like taxation, where abstract principles may be considered in a different way from real-life scenarios. Many participants commented how the use of vignettes made them think about issues already discussed in a different way. If looking to explore how individuals themselves might act in a tax compliance decision situation, therefore, it would seem important to collect data based on a similar decision making process such as the use of vignettes, rather than assuming that individuals will apply abstract principles to their own situation. This research suggests that tax compliance decisions are not made in a vacuum and that context is necessary to obtain the fullest data on how such decisions are made. Research on tax compliance behaviour that does not provide contextual setting may not present a true picture of how respondents might actually react in real-life settings.

8.5 Limitations

One of the inherent limitations of qualitative work is the small sample size which means there is little potential for generalisability of results. However, as this work was intended to explore and gain a greater understanding of individuals' influences in making a tax compliance decision, the work is not intended to be representative of all individuals facing that decision, although common themes and ideas were identified and analysed.

Issues of adequate validity or reliability are also a criticism of qualitative work, owing to its subjective nature. However, while it is difficult to apply conventional standards of reliability and validity to qualitative research, this work has attempted to address these concerns as far as possible, by ensuring a sufficient sample size to obtain data saturation and by using a well-defined sampling frame.

As previously mentioned, all of the interviewees considered themselves as 'self-made', or entrepreneurs, and as identified in Chapter Two, some researchers have found that the effort exerted to earn taxable income may be considered in compliance decisions. What this suggests is that hard-earned income is more likely to be evaded in a tax compliance decision than investment income, and it may also have impacted on the responses of the interviewees, particularly on grounds of perceived fairness and marginal rate sensitivity, given that they were entrepreneurs and all felt their wealth was hard-earned.

8.6 Further research

While the focus of this research has been on the very wealthy and those somewhat less so, particularly given the potential for low-income citizens to be treated as an underclass, further research could be undertaken with the unemployed and also with those who may work, but who do not pay tax. This work could explore whether they feel they are, or that they are treated as, different citizens (cf Lister et al., 2003), particularly given that previous work in this area has identified a sense of 'dislocation' within this group, with participants saying they have been "made to feel like 'number' rather than a 'citizen'" (Pemberton et al., 2014, p. 34).

Additionally, had time and resources permitted, the research could have been extended to participants in Scotland. This would specifically attempt to identify any differences in

interpretations of citizenship from a different component nation state, and would also explore issue arising from devolution considerations, as well as the specific tax charging provisions that have been devolved to Scotland.

Alternatively, the scope of the research could be widened by extending and triangulating the research into mixed methods by using a quantitative instrument, such as a survey. The vignettes in particular would lend themselves to inclusion in a questionnaire and a Likert scale could be used to rate tax transgressions in order of severity, for example.

Finally, with recent news that pregnant women may be asked to show their passport in order to obtain NHS treatment (The Independent, 2016c), interviewees were asked their opinions on NHS tourism, and this work could be expanded and developed further.

Appendix 1: Tax avoidance tool

Channel 4 News, n.d. Lord Fink: "Everyone is involved in tax avoidance". Available at: <http://www.channel4.com/news/lord-fink-everyone-is-involved-in-tax-avoidance>.



Appendix 2: Focus Group Participants

All participants in the focus group were introduced to each other so they knew each other's names. However, for confidentiality purposes these names are not used in this thesis.

Instead, participants are identified by the use of a formula that identifies the participant's gender, age (obtained from consent/demographics form) and to which focus group the participant belonged. For example, a 62 year old male from Focus Group 1 would be identified thus:

M, 62, FG1

Where a conversation between group members is reported, where a speaker changes that speaker's identity is noted with gender, and if another speaker of the same gender is reported these are identified numerically. Finally the focus group identifier is added. For example:

Male 1:

Male 2:

Male 1:

FG2

Appendix 3: Interviewee pen pictures

Interviewee 001 is 61, is divorced and has no children. He currently resides outside of the UK (and outside of Europe), as this is where his business is based, and owns two residential properties outside of the UK, and none in the UK. He considers himself to be non-UK resident but he believes himself to be UK domiciled.

Interviewee 002 is 63 and has lived in the Birmingham area all of his life. He is married and has one child and three grandchildren. He owns other homes in the UK, but not outside the UK, and has continued a family business, although he now has other business interests as well. He is UK resident.

Interviewee 003 is 67 and lives in the wider Midlands area. He is married with two children and four grandchildren. He owns other homes in the UK and in Europe. He established a business that was bought by a UK multinational 'blue chip' company some years ago, so is notionally retired, but maintains some other business interests. He is UK resident.

Interviewee 004 is 71 and lives on the south coast of England. He is divorced but has a long-term partner, two children and five grandchildren. He owns two homes in the UK, but none abroad. He established his own business and took it 'public' before selling out and retiring at 52. He is UK resident.

Interviewee 005 is 63 and married with two children and six grandchildren. He owns two residential properties in the UK and one in Europe. He established his own family company before selling it some years ago, although he retains significant business interests. He is UK resident.

Interviewee 006 is 65 and married with two children. He owns two residential properties in the UK and one in Europe. He established his own family company before selling it some years ago, although he retains significant business interests. He is UK resident.

Interviewee 007 is 71 and married with three children and some grandchildren. He lives in England and currently owns no other homes, although he has previously owned other homes in the UK and in Europe. He inherited a family company but has developed significant businesses of his own. He is UK resident and rarely leaves the UK.

Interviewee 008 is 71 and had a peripatetic childhood before going to boarding school in the UK at age 11. He lives near London, has another UK home but none abroad, is married and has three children and some grandchildren. He started working in a professional career, and rose to board level. He then started his own business and sold it at age 60, when he retired, although he retains a number of business and charitable interests. He is UK resident.

Interviewee 009 is 59 and is married with two children and two step-children. He lives in London and has another home in the UK but none abroad. He inherited "a little" wealth but his current level of wealth is self-generated. He is UK resident.

Interviewee 010 is 75 and married with two children and five grandchildren. He lives in London and has no other homes in the UK, although he does have a home in the USA. His wealth is "mostly" self-generated, but he is now retired. He is UK resident.

Interviewee 011 is 72 and married, with four children. He lives in London and owns another UK home as well as a share in an inherited European home. He considers his wealth is all self-generated. He is UK resident.

Interviewee 012 is 57 and lives in London, but owns two other homes in the UK, none abroad. She is married and has no children. She had no inherited wealth and works in a high-profile public sector role. She is UK resident.

Interviewee 013 is 53 and married with one child. He lives in the Home Counties and has another home in the UK and one in Europe. His wealth is all self-generated and he is semi-retired. He is UK resident.

Interviewee 014 is 59 and married with no children. He has two homes in the UK and none abroad. His wealth is all self-generated and he continues to work, but only about one day per week. He is UK resident.

Interviewee 015 is 72 and divorced with two children. He has a home in the UK and one in Europe. His wealth is self-generated, although he did inherit some wealth he passed it to his children. He is retired and UK resident.

Appendix 4: Vignettes

Tracey is a waitress and a single mum with two children. She is very good at her job and earns good tips, although her pay is at minimum wage, so she does not earn enough to pay tax over the personal allowance. She does not declare her tips on a tax return.

Sarah has been unemployed for 3 months, and has had 15 interviews in that time. She occasionally gets one day's casual work at her local children's play centre. She does not tell the jobcentre as that day's pay could wipe out her jobseekers's allowance/ESA benefit payments for the whole week. When not looking for a job, Sarah volunteers at her local hospice, caring for and talking to patients.

Geoffrey runs a large and profitable contracting business and employs 50 people. Certain of his clients pay for their work into an offshore bank account, and Geoffrey spends this money when on one of his many exotic holidays each year. The taxman does not know about Geoffrey's other account.

Colin runs a manufacturing business. The economic downturn has hit him hard and many of his customers are also taking longer to pay. Colin has been adjusting his sales figures downwards for the past few years in order to minimise his tax liability so that he doesn't have to lay off any of his workers.

Susan is a wealthy individual. She pays a large accountancy firm £40,000 to implement some tax planning that is accepted by HMRC as within the law, but that comprises actions that she would not otherwise have taken, had she not been attempting to save tax. She saves herself approximately £400,000 in tax.

Appendix 5: Research instruments

Interview Plan

[Researcher to introduce herself, thank participant and describe some details of PhD, personal background as appropriate. Explain there are no right or wrong answers and that no personal information on individual compliance is requested]

1. Could you please tell me a little bit about yourself?

[prompts]

	<u>Wealth*</u>	<u>Income</u>
a) Age	£1.4 - £2.5m	£150k -£250k
b) Marital status	£2.5m - £5m	£250k-£500k
c) Family	£5m - £10m	£500k- £1m
d) Work/source of wealth (if appropriate)	£10m - £20m	£1m+
e) More than one home? Abroad? UK Resident?	£20m - £40m	
f) UK Citizen/ UK passport/ other passports	£40m+	
g) Has the above changed over time?	* including net real estate	

2. What does being a UK citizen mean to you?

[Is tax spontaneously mentioned and in what context?]

[explain 'contested concept' and if necessary prompt with the concept of benefits and duties]

[introduce concept of 'greater good']

3. How far, in your opinion, is payment of tax one of the duties, if any, imposed on being a UK citizen?

[if not covered above, or expand if is]

[prompts - if not why not? Is trust in Govt an issue?]. If yes, why? Explain reasons?]

- 3.1 And what taxes do you pay personally?

[Clarify income taxes/all/consumption taxes/wealth taxes. Check spontaneous mention of taxes other than income tax, specifically VAT]

4. Why do you pay tax?

[prompts - many have no choice under PAYE but where there is scope for avoidance, isn't there an element of choice?]

[idea of social norms vs enforced compliance vs 'the right thing to do']

[equity]

5. What do you think would make people more inclined to pay their taxes?

[if it was earmarked for specific use, e.g. NHS?]

[see also Q10.1 for further exploration of this topic]

- 5.1 What else might make you more inclined to pay tax?

- 5.2 What else might make you less inclined to pay tax?

6. What about people who don't pay tax - in what ways might they be considered 'different' citizens from those who do pay tax?

[different = good or bad? Don't pay = can't pay? Don't earn enough? Avoid paying tax?]

6.1 In which ways might your answer change depending on whether those not paying tax do not earn/have enough to pay, or whether they are taking action to reduce liabilities?

6.2 Do you think there ought to be 'citizenship penalties' for those not paying tax/ their full obligation, and if so, what might these be?

7. I'm going to ask you how far you understand some key concepts in taxation policy to gauge what people's underlying knowledge is on tax principles - do you know what [marginal rates of tax, tax credits, personal allowance] are?

- a. Can you tell me how you understand the concept of progressive taxation and whether you agree with the underlying principle?
- b. How far do you think people in general understand tax principles? Do you think this is enough?
- c. Do you think tax should be taught in schools? As part of which subject?

[explain concepts as appropriate]

[gauge level of acceptance of progressivity. Query equity of regressive taxes like VAT]

8. (if not covered in 7a above) Do you think those with more have an 'obligation' to pay more in taxes? How can this obligation be quantified?

[if yes, what type of obligation? Legal/moral/social? If no, why not]

9. Can you quantify what would comprise a 'full obligation' and describe at what point might this be considered met?

- a) If yes, does this change the acceptability of tax avoidance behaviour?
- b) If no, are you happy to continue paying tax as far as you are legally required to do so?
- c) If no, are you happy to continue paying tax as far as you are morally required to do so?
- d) Do you feel pressured to pay more tax than the law requires, and if so, how is this pressure applied/perceived?

[where can a line be drawn?]

10. Is there a spectrum of acceptability of tax avoidance behaviour? Offer vignettes.

[where can a line be drawn?]

- 10.1 Example of NHS tourists. Is this tax avoidance? Is it anti-citizen behaviour?

[Researcher to recap main points discussed and any positions drawn, and to ask participant if there is anything else they would like to say.]

[Advise participant that this is the end of the interview and ask participant if they have any questions. Thank participant for their time.]

Focus Group rationale

[Researcher to introduce herself, thank participants and describe some details of PhD. Identify other participants by name labels. Explain 'ground rules' for focus group and there are no right or wrong answers and that everyone's opinion is valid and useful, although lively discussion is encouraged]

1. What do you think today's session is going to be about?

[assess preconceptions, etc.]

2. Now I'd like to explore what being a UK citizen actually means. Work in pairs with some 'post it' notes to think of 3-5 words that, in your understanding, reflect the meaning of a UK citizen.

[some discussion, compile results at the end, see if we can come to a consensus]

3. Introduce basic concept of rights/responsibilities, ask for examples of both in relation to UK citizenship.

[if not covered, introduce idea of tax as a responsibility - yes/no?]

[prompts - if not why not? Is trust in govt an issue? If yes, why? Explain reasons?]

3.1 And what taxes do you pay personally? [Write on board? Call out]

[Clarify income taxes/all/consumption taxes/wealth taxes. Check spontaneous mention of taxes other than income tax, specifically VAT.]

4. Why do you pay tax? Discussion.

[prompts - many have no choice under PAYE but where there is scope for avoidance, isn't there an element of choice?] [fear of discovery/penalty?]

[idea of social norms vs enforced compliance vs 'the right thing to do']

[equity] [will people admit that they wouldn't pay if they could get away with it?]

5.

- a. What else might make you more inclined to pay tax?
- b. What else might make you less inclined?

6. What about people who don't pay tax - in what ways might they be considered

'different' citizens from those who do pay tax? *[difficult if people there don't pay or good for discussion?]* Specifically refer to role of media influencing them.

[Offer newspaper headlines]

[different = good or bad? Don't pay= can't pay? Don't earn enough? Avoid paying tax?]

a) In which ways might your answer change depending on whether those not paying tax do not earn/have enough to pay, or whether they are taking action to reduce liabilities?

b) Do you think there ought to be 'citizenship penalties' for those not paying tax/ their full obligation, and if so, what might these be?

7. Key concepts in taxation policy [marginal rates of tax, tax credits, personal allowance, progressive taxation]

a. How far do you think people in general understand tax principles? Do you think this is enough?

b. Do you think tax should be taught in schools? As part of which subject?

c. How do people understand the concept of progressive taxation and do they agree with the underlying principle?

[explain concepts as appropriate]

[gauge level of acceptance of progressivity. Query equity of regressive taxes like VAT.]

8. (if not covered in 7a above) Do you think those with more have an 'obligation' to pay more in taxes? How can this obligation be quantified?

[if yes, what type of obligation? Legal/moral/social? If no, why not]

9. Is there a spectrum of acceptability of tax avoidance behaviour? [ice creams]

Offer vignettes [pre-prepared on a board/signs]

[where can a line be drawn?]

a) Example of NHS tourists. Is this tax avoidance? Is it anti-citizen behaviour?

[Researcher to recap main points discussed and any positions drawn, and to ask participants if there is anything else they would like to say.]

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