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Perceptions of Tax Evasion as a Crime

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Abstract

This paper considers one aspect of the deficit faced by the U. S. economy. It considers the contribution to this deficit made by the taxpayers that do not fully report taxable income and/or do not pay taxes on their income. The gap between what is owed in tax and the amount of tax actually paid is estimated at \$310 billion. What portion can be attributed to underreporting and non filing? The study reported in this paper attempted to measure the perceptions of US citizens as to the seriousness of tax evasions relative to other crimes and violations. The results show that tax evasion ranked 11th among the twenty-one offences surveyed. This means that the average person views tax evasion as only somewhat serious. Compared to other white collar crimes it ranked below accounting fraud, violation of child labour laws and insider trading, and equal to welfare fraud and higher than violation of occupational safety and health laws.

This study was designed to measure the perceptions of U.S. citizens as to the severity of tax evasion relative to other offences (crimes and violations). If tax evasion is not viewed as a serious offence, it may somewhat explain the degree of non-compliance with the tax laws. The current study investigated people's perceptions of the severity of tax evasion as a crime when compared to twenty other offences. The results of the study show that tax evasion ranked 11th among the twenty-one offences surveyed. The results indicate that the average person view

The perceived seriousness of crimes may be measured across countries and cultures³. IVCS Survey polled individuals in 17 countries (including Australia, England, Netherlands, Sweden, Canada, USA, France, Japan and Switzerland) and found that Unrecovered Car Thefts was the most serious offence of those crimes surveyed followed by sexual assault, recovered car thefts and then robbery involving a weapon. The least serious crime was bicycle theft. We included several of these offences in our survey instrument, namely carjacking, robbery and bicycle theft.

In a February 2001 Criminal Intelligence Service Alberta telephone interview study⁴ examined 26 different crimes (but no violations) of which seven (7) overlapped with the current study's focus. Using a 10 point scale (10 being the most serious) the interviewees were asked to rate the seriousness of various crimes. Sexual exploitation of children was ranked the most serious crime (9.53) with murder being slightly less serious (9.39) followed by robbery (8.66). Interestingly, prostitution was viewed as more serious (7.38) than car theft (6.92) or insider trading (6.61). Demographic factors solicited were gender, marital status and age.

In one of the few studies that examined the perception of the seriousness of tax evasion, Song and Yarbrough (1978) investigated taxpayers' perceptions of tax ethics

they prepared their own tax returns and/or if they had ever been audited by the IRS. This study also extends the work of Song and Yarborough (1978) by examining the relative perceived severity of white collar offences such as insider trading, accounting fraud and tax evasion. Another study (Eicher 2002), tested peoples' perception of various crimes, including cheating on their tax return, focusing on potential difference between men and women respondents. When asked "How much, if any, do you think is an acceptable amount to cheat on your income taxes?", roughly 1/3 of both the male and female subjects responded that they cheated a little here or there. 18% of men and 9% of the women said as much as possible, while 49% of men and 59% of women said it is not at all acceptable to cheat on your income taxes. The study found that overstating tax deductions was acceptable to 44% of the males and 36% of the females.

The Eicher study also examined six behaviours of which five have the roughly equivalent offence in our study (speeding, tax cheating, DUI, running a red light, shoplifting). The study found that driving 10 miles over the speed limit was somewhat or very acceptable for 82% of women and 78% of men. Overstating tax deductions was somewhat or very acceptable to 44% of the males and 36% of the females. Shop lifting was viewed as not at all acceptable by 44% of men and 54% of women. This is

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the Speeding at a safe speed or out of control. One subject did not know what jaywalking was and left it blank, and another person did not know what DUI/DWI was and left that factor blank.

In exit interviews with several people, we were complimented for the simplicity of the test instrument. Comments like 'it was easy to use', 'it was quick and simple' and 'other surveys should take lessons from this instrument' were expressed by test subjects.

Sample

The sample included surveys from 364 respondents. The respondents came primarily from California and North Carolina. The sample was made up of 144 from California and 202 from North Carolina. Fifty-eight percent of the sample was male.

RESULTS OF THE SURVEY

Table 1 shows the overall rating of all 21 offences. The rating is the average of all response in the survey. The most serious offences rated by the sample were not surprisingly, Murder, Rape and Child Molestation, while Jaywalking, Illegal Parking and Ticket Scalping were rated as the least serious offences. The average rating for tax evasion was 3.3, which was the eleventh most serious or least serious offence in the survey depending upon your point of view.

TABLE 1: AVERAGE SCORES OF CRIMES SURVEYED

Crime	Overall rating	Ranking
Murder	5.0	1
Rape	4.9	2
Child Molestation	4.8	3
Robbery	4.0	4
DWI	3.9	5
Carjacking	3.8	6
Child Labour	3.8	7
Accounting Fraud	3.7	8
Insider Trading	3.3	9
Welfare Fraud	3.3	10
Tax Evasion	3.3	11
Minimum Wage	3.3	12
Shoplifting	2.8	13
Prostitution	2.8	14
Running a Red Light	2.6	15
Bike Theft	2.3	16
Smoking Marijuana	2.3	17
Speeding	2.1	18
Ticket Scalping	1.8	19
Illegal Parking	1.5	20
Jaywalking	1.3	21

The average rating for tax evasion (3.3) was compared to the three violent crimes in

(2001) and Warr (1989) that white collar offences were rated as less serious than violent offences.

In previous studies white-collar offences as a whole have been compared to violent offences or to property offences. The prior studies have not broken white-collar offences out to various types. In our survey there are six white-collar offences: tax evasion, accounting fraud, violation of child labour laws, insider trading, violation of welfare laws and violation of minimum wage laws. The ranking of tax evasion was compared to the rankings for the other five white collar offences in the survey. Based on the results of the paired t-tests, there was a significant difference in peoples' perception of the seriousness of tax evasion and accounting fraud and violation of child labour laws, but there was no difference between tax evasion and insider trading, violation of welfare laws or the violation of minimum wage laws (See Table 2).

TABLE 2: COMPARISON OF TAX EVASION TO OTHER CRIMES

Tax evasion	Violent crimes	Accounting fraud	Violation of child labour laws	Insider trading	Violation of welfare laws	Violation of minimum wage laws
3.3	4.9*	3.7*	3.8*	3.3	3.3	3.3

* Significant at the .01 level

Of the six white collar offences, violation of child labour laws and accounting fraud were rated as the most serious. However, the rankings of all six white collar offences

TABLE 4: RELATIVE SEVERITY OF VICTIM/VICTIMLESS OFFENCES

Crime/Victim		Crime/Victimless	
Murder	5.0	DWI	3.9
Rape	4.9	Welfare Fraud	3.3
Child Molestation	4.8	Tax Evasion	3.3

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APPENDIX A

Survey Document

We are three professors doing a study on people's perceptions of the seriousness of selected offences. Thank you in advance for taking five or ten minutes out of your busy schedule to share your opinions with us.

Since we are only interested in your opinion, there are no right or wrong answers. So,

1. In your opinion, how serious is each offence listed below?

Item	Description of offence	Not serious	Somewhat serious	Serious	Very serious	Extremely serious
1	Bicycle theft					
2	Welfare fraud					
3	Speeding					
4	Carjacking					
5	Prostitution					

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|---|------------|--------------|
| 12. Are you married? |Yes |No |
| 13. Do you attend church regularly
(at least once a month)? |Yes |No |
| 14. Do you hire someone to prepare
your income tax return? |Yes |No |
| 15. Are you a tax professional
(tax preparer, IRS agent, etc.) |Yes |No |
| 16. Has your income tax return been
audited (by IRS or state)? |Yes |No |
| 17. Have you or someone close to you had
personal experience
with any of the offences listed? |Yes |No |
| 18. Are you male or female? | Male | Female |
| 19. Please indicate the state in which you live? | | |

THANK YOU. Your contribution is greatly appreciated!