

OPINIONS ON THE ETHICS OF TAX EVASION: A COMPARATIVE STUDY OF UTAH AND NEW JERSEY

Robert W. McGee, Florida International University, 3000 NE 151st Street, North Miami, FL 33181, bob414@hotmail.com, (305) 919-5221

Sheldon R. Smith, Utah Valley University, 800 W. University Parkway, Orem, UT 84058, smithsh@uvu.edu, (801) 863-6153

ABSTRACT

The ethics of tax evasion has been discussed sporadically in the theological and philosophical literature for at least 500 years. Over the centuries, three main views evolved on the topic, but the business ethics literature has paid scant attention to this issue, perhaps because of the belief that tax evasion is always unethical. This paper reports the results of an empirical study of opinion in Utah and New Jersey. The arguments that have been made over the centuries to justify tax evasion were ranked to determine which arguments are strongest and which are weakest. Scores were compared between samples to determine whether the responses were significantly different.

Keywords: Ethics, Tax evasion

INTRODUCTION

The vast majority of articles that have been written about tax evasion have been written from the perspective of public finance. They discuss technical aspects of tax evasion and the primary and secondary effects that tax evasion has on an economy. In many cases there is also a discussion about how to prevent or minimize tax evasion. Very few articles discuss ethical aspects of tax evasion, so there is a need for further research which this study is intended to partially address.

This study reports on the findings of a survey that was distributed to business students at colleges in Utah and New Jersey. The survey instrument consisted of 18 statements that reflect the three views on the ethics of tax evasion that have emerged over the centuries. Scores were compared to determine whether the responses were significantly different by state.

Although many studies have been done on tax compliance, very few have examined compliance, or rather noncompliance, primarily from the perspective of ethics. Most studies on tax evasion look at the issue from a public finance or economics perspective, although ethical issues may be mentioned briefly in passing. The most comprehensive twentieth century work on the ethics of tax evasion was a doctoral thesis written by Martin Crowe [1]. This thesis reviewed the theological and philosophical debate that had been going on, mostly within the Catholic Church, over the previous 500 years. A more recent dissertation on the topic was written by Torgler [2], who also touched on some psychological and philosophical aspects of the issue. There have been a few studies that focus on tax evasion in a particular country. Ethics are sometimes discussed but, more often than not, the focus of the discussion is on government corruption and the reasons why the citizenry does not feel any moral duty to pay taxes to such a government. A number of articles have also been written from various religious perspectives.

THREE VIEWS ON THE ETHICS OF TAX EVASION

Over the centuries, three basic views have emerged on the ethics of tax evasion. View One takes the position that tax evasion is always, or almost always, unethical. There are basically three underlying rationales for this belief. One rationale is the belief that individuals have a duty to the state to pay whatever taxes the state demands. The second rationale for an ethical duty to pay taxes is because the individual has a duty to other members of the community. The third rationale is that we owe a duty to God to pay taxes, or, stated differently, God has commanded us to pay our taxes.

View Two might be labeled the anarchist view. This view holds that there is never any duty to pay taxes because the state is illegitimate, a mere thief that has no moral authority to take anything from anyone. View Three holds that tax evasion may be ethical under some circumstances and unethical under other circumstances. This view is the prevalent view, both in the literature and according to the results of some of the surveys.

THE PRESENT STUDY

After reviewing the literature that exists on the ethics of tax evasion, a survey instrument was constructed and distributed to a group of business students at a large college in Utah and three universities in New Jersey in order to learn the prevailing views on this issue. The survey consisted of eighteen (18) statements. Using a seven-point Likert scale, respondents were asked to indicate the extent of their agreement or disagreement with each statement. A total of 379 usable responses were obtained, 202 from Utah and 177 from New Jersey.

Table 1 lists the 18 statements and the average scores received for each statement for both groups. A score of one (1) indicates strong agreement with the statement. Seven (7) indicates strong disagreement. An average score of 2 or less would indicate that tax evasion is always, or almost always, ethical. An average score of 6 or more would indicate that tax evasion is never, or almost never, ethical. Scores averaging more than 2 but less than 6 would indicate that tax evasion is sometimes ethical. The average score for the Utah group was above 6.0, indicating that tax evasion is never or almost never ethical. Of the 18 total scores, 12 were 6.00 or higher, and 6 were between 5.00 and 5.99.

The average score for the New Jersey sample was lower. In the New Jersey sample, 7 of 18 responses were between 4.00 and 4.99 and 11 were between 5.00 and 5.99. None of the mean scores were 6.00 or higher, indicating more receptiveness toward tax evasion. The Utah average was higher in all 18 cases and the overall average was also higher, 6.12 for Utah compared to 5.27 for New Jersey, which provides a strong indication that the Utah group was more firmly opposed to tax evasion. Wilcoxon tests found the differences to be significant in all 18 cases.

One possible explanation for the differences in scores is the different demographics of the two samples. A large percentage of the Utah sample consisted of members of The Church of Jesus Christ of Latter-day Saints (Mormon). The New Jersey sample was taken at three universities in Northern New Jersey that have a mix of Hispanic, non-Hispanic white, Asian and African-American students who are mostly non-Mormon and many of whom are Catholic.

TABLE 1**Summary of Responses (1 = strongly agree; 7 = strongly disagree)**

S#	Statement	Utah. Score	NJ Score	Diff.	p	
1	Tax evasion is ethical if tax rates are too high. (S1)	6.24	5.38	0.86UT	9.792e-07	*
2	Tax evasion is ethical even if tax rates are not too high because the government is not entitled to take as much as it is taking from me. (S2)	6.37	5.59	0.78UT	1.754e-05	*
3	Tax evasion is ethical if the tax system is unfair. (S3)	5.88	4.79	1.09UT	9.13e-07	*
4	Tax evasion is ethical if a large portion of the money collected is wasted. (S4)	5.97	4.92	1.05UT	1.819e-06	*
5	Tax evasion is ethical even if most of the money collected is spent wisely. (S5)	6.42	5.75	0.67UT	0.0001022	*
6	Tax evasion is ethical if a large portion of the money collected is spent on projects that I morally disapprove of. (S6)	6.09	5.3	0.79UT	0.0001409	*
7	Tax evasion is ethical even if a large portion of the money collected is spent on worthy projects. (S7)	6.42	5.62	0.80UT	8.915e-06	*
8	Tax evasion is ethical if a large portion of the money collected is spent on projects that do not benefit me. (S8)	6.39	5.59	0.80UT	3.827e-06	*
9	Tax evasion is ethical even if a large portion of the money collected is spent on projects that do benefit me. (S9)	6.41	5.64	0.77UT	7.654e-06	*
10	Tax evasion is ethical if everyone is doing it. (S10)	6.44	5.75	0.69UT	0.001046	*
11	Tax evasion is ethical if a significant portion of the money collected winds up in the pockets of corrupt politicians or their families and friends. (S11)	5.66	4.71	0.95UT	3.908e-05	*
12	Tax evasion is ethical if the probability of getting caught is low. (S12)	6.51	5.59	0.92UT	2.249e-07	*

13	Tax evasion is ethical if some of the proceeds go to support a war that I consider to be unjust. (S13)	6.41	5.22	1.19UT	7.172e-09	*
14	Tax evasion is ethical if I can't afford to pay. (S14)	6.08	4.81	1.27UT	9.797e-10	*
15	Tax evasion is ethical even if it means that if I pay less, others will have to pay more. (S15)	6.50	5.65	0.85UT	1.126e-06	*
16	Tax evasion would be ethical if I were a Jew living in Nazi Germany in 1940. (S16)	5.26	4.8	0.46UT	0.03548	**
17	Tax evasion is ethical if the government discriminates against me because of my religion, race or ethnic background. (S17)	5.58	4.8	0.78UT	0.0008299	*
18	Tax evasion is ethical if the government imprisons people for their political opinions. (S18)	5.54	4.87	0.67UT	0.003404	*

* Significant at 1% level

** Significant at 5% level

For the New Jersey sample, the strongest arguments to justify tax evasion are in cases where tax funds wind up in the pockets of corrupt politicians, their family or friends, where the government perpetrates human rights abuses, or where the tax system is perceived to be unfair. Other strong arguments included cases where a large percentage of the money is wasted or if there is inability to pay. The weakest arguments tended to be cases where the government spends money wisely or in cases where everyone is evading taxes. Other weak arguments were where the probability of getting caught is low, where expenditures do not benefit the taxpayer or where others must pay more because the taxpayer pays less.

For the Utah sample, the three strongest arguments supporting tax evasion were in cases where the government engages in human rights abuses. Other strong arguments were in cases where tax funds wind up in the pockets of corrupt politicians, their family or friends, where the tax system is perceived as unfair, where the tax funds are wasted or where the taxpayer cannot afford to pay. The weakest arguments were in cases where the probability of getting caught is low, where others would have to pay more because the evader pays less, in cases where everyone is doing it or where the taxpayer benefits by the tax expenditures.

Table 2 compares the rankings for each argument. In most cases the rankings were similar; the strong arguments for one group tended to also be the strong arguments for the other group, and vice versa. However, there were a few arguments where the ranking was different by more than one or two places. Table 3 shows the extent of the similarity or difference in relative rankings.

TABLE 2**Comparative Ranking of Arguments
Strongest to Weakest**

Statement	NJ	Utah
Tax evasion is ethical if a significant portion of the money collected winds up in the pockets of corrupt politicians or their families and friends. (S11)	1	4
Tax evasion is ethical if the tax system is unfair. (S3)	2	5
Tax evasion is ethical if the government discriminates against me because of my religion, race or ethnic background. (S17)	3	3
Tax evasion would be ethical if I were a Jew living in Nazi Germany in 1940. (S16)	3	1
Tax evasion is ethical if I can't afford to pay. (S14)	5	7
Tax evasion is ethical if the government imprisons people for their political opinions. (S18)	6	2
Tax evasion is ethical if a large portion of the money collected is wasted. (S4)	7	6
Tax evasion is ethical if some of the proceeds go to support a war that I consider to be unjust. (S13)	8	12
Tax evasion is ethical if a large portion of the money collected is spent on projects that I morally disapprove of. (S6)	9	8
Tax evasion is ethical if tax rates are too high. (S1)	10	9
Tax evasion is ethical even if tax rates are not too high because the government is not entitled to take as much as it is taking from me. (S2)	11	10
Tax evasion is ethical if a large portion of the money collected is spent on projects that do not benefit me. (S8)	11	11
Tax evasion is ethical if the probability of getting caught is low. (S12)	11	18
Tax evasion is ethical even if a large portion of the money collected is spent on worthy projects. (S7)	14	14
Tax evasion is ethical even if a large portion of the money collected is spent on projects that do benefit me. (S9)	15	12
Tax evasion is ethical even if it means that if I pay less, others will have to pay more. (S15)	16	17
Tax evasion is ethical if everyone is doing it. (S10)	17	16
Tax evasion is ethical even if most of the money collected is spent wisely. (S5)	17	14

In 3 cases the rankings were exactly the same. In 6 other cases the rankings differed by only 1 place. In 2 cases the ranking differed by 2. In 4 cases the difference was 3 places. In 2 cases the difference was 4 and in one case the difference was 7 places. The Utah group ranked the Jews in Germany argument first, whereas the New Jersey group ranked it third. Although the Jews in Germany argument was relatively strong for both groups, it seemed to be much stronger for the Utah group, as evidenced by the fact that this argument was ranked in first place in the Utah sample. There are probably several possible explanations for the difference in rank for the Jews

in Germany argument. One possible explanation is that a high percentage of the Utah sample are Mormon and the Mormon religion was persecuted in the nineteenth century, thus causing them to be more empathetic to the Jewish situation in Germany during Hitler's reign.

TABLE 3

Comparison of Differences in Ranking

Difference	Frequency
0	3
1	6
2	2
3	4
4	2
5	0
6	0
7	1

One thing that is somewhat surprising from the perspective of political philosophy is the fact that the support for the position that Jews do not have a duty to pay taxes to Hitler was rather weak for both groups, in terms of absolute score. On a scale of 1 to 7, where 1 represents strong agreement, the New Jersey group had a mean score of 4.80 for this argument. The Utah group had a mean score of 5.26. This Jews in Germany argument was included in the survey to establish a polar position. The thought was that surely if tax evasion is ever justified it is justified in the case of Jews living in Nazi Germany.

One general explanation for the differences between groups might be sociological and cultural. Perhaps these cultural differences could at least partially explain the reason for the difference in score. Or perhaps not. Any conclusions without further analysis would be purely speculative. Such analysis is beyond the scope of the present research project.

CONCLUDING COMMENTS

There is little moral support for tax evasion, although some arguments are stronger than others. It was also found that different groups place different emphasis on the various historical arguments, indicating that there are cultural dimensions and policy implications to consider. The survey found that opposition to tax evasion is weakest in cases where the government is corrupt or oppressive or where the system is perceived as being unfair. Thus, it may be possible to reduce the extent of tax evasion by reducing government corruption and oppression and reducing the perceived unfairness of the tax system.

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