TAX AGGRESSION AMONG TAX PROFESSIONALS: THE CASE OF SOUTH AFRICA

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ABSTRACT

This paper investigates the factors that lead to tax aggression among tax preparers in South Africa. While much has been written on the factors influencing taxpayer propensity towards avoidance and evasion, relatively little work has been done to understand the role of the preparers of tax returns in facilitating either compliance, avoidance or evasion of tax. There is a particular shortage of studies of this nature from developing countries.

Since the first democratic elections in South Africa in 1994, a sometimes bewildering array of anti-avoidance legislation has been introduced, in a concerted effort to bring all domestic economic activity into the tax net. This increasing complexity has made it necessary for more taxpayers to take guidance from practitioners, enhancing their ability to influence either positively or negatively the attitudes of taxpayers to tax compliance. An understanding of the factors that influence the tax aggressiveness of practitioners is therefore crucial for policymakers.

The paper isolates the key variables identified by prior research as impacting on the degree of tax practitioner aggression, and translates them to a South African context. They are then used to devise a pilot survey designed to detect various levels of tax aggression. The survey was delivered to tax professionals in South Africa with assistance from the South African Institute of Chartered Accountants. The results extend the current literature on tax aggressive behaviour by tax practitioners, and shed light on the tax compliance dynamic in a time of change.

Keywords: Tax aggression, practitioners, South Africa, developing countries.

1. Introduction

As taxpayers increasingly seek the assistance of tax professionals due to the growing complexity of tax law, tax practitioners have been identified as having a significant influence on taxpayers' compliance behaviour. Erard (1993) argues that tax practitioners have the ability to exert an extraordinary influence on the tax compliance process because their knowledge of the tax system and its nuances far exceeds that of ordinary taxpayers.

While tax compliance research has been evolving for several decades, the role that the tax professional plays in compliance has only come under scrutiny relatively recently (Carnes et al, 1996). In 1986 Jackson and Milliron identified the tax practitioner as a compliance player largely unexplored by researchers. They commented on the ability of preparers to exert either a positive or negative influence on taxpayers in the context of compliance, and called for further research to thoroughly explore this significant relationship (Jackson and Milliron 1986).

Roth et al, (1989) argue that one of the most important influences on compliance behaviour is the community of tax practitioners.

Numerous researchers since 1986 have responded to Jackson and Milliron's call for further research on tax practitioners as a compliance variable. As a result significant advances have been made in the area. Many studies have focused on the tax aggression of practitioners and have examined the different variables that are widely acknowledged as influencing aggression levels. However, the vast majority of the research in this area has been done in the US and Australia. This study aims to investigate the variables that impact on tax preparer aggressiveness in South Africa.

South Africa is an intrinsically interesting jurisdiction in which to examine tax practitioner aggression for several reasons. Firstly, it is a time of great change in the profession. Killian and Kolitz (2004:8) report that the aggressive use of tax avoidance schemes became widespread throughout the 1980s, and that tax reform since 1994 was mainly concerned with closing this tax gap. The process is ongoing. In its 2003 Annual Report, The South African Revenue Service (SARS) estimates that of an estimated 11.3 million individuals economically active in South Africa, only 7.4 million are known to SARS, leaving 3.9 million individuals who are not registered for tax purposes.

The ethical implications of aggressive behaviour are also interesting in South Africa at the moment. A view can be taken that tax evasion is more ethically unsound where the government is a fair one, and the purposes to which the taxes are to be applied meet wide approval. While the apartheid regime which ended in 1994 arguably served only a small minority of the population, the ANC now has a plan for government based on widespread poverty relief, the reversal of universally reviled apartheid policies, and the support of over 65% of the population.[1] These factors mean that taxes levied in South Africa can be widely regarded as "just

[1] Based on results of the most recent general election, April 2004.

taxes"[2] and their evasion considered ethically questionable. Many of those who advocated passive resistance under apartheid are now in government, and the payment of taxes is now regarded by the majority, for the first time, as a valid aspect of their citizenship.

A further point of interest in South Africa is that while the tax authorities have extensive powers to counter tax evasion, they are aimed at taxpayers rather than practitioners. Apart from the indirect commercial consequences of being found involved in tax evasion, no direct penalties are levied on the preparers of fraudulent tax returns.

The remainder of this paper is structured as follows. Section two provides an overview of the existing literature on the variables influencing tax preparer aggressiveness. Section three briefly outlines the South African institutional framework, describes the administration of the survey and explains how the variables were adjusted to a South African context. Results are presented in section four. Section five concludes.

2. Determinants of Tax Aggression among Practitioners

Arguably, tax professionals face a dual agency problem, having a duty to act in their client's interests on one hand while upholding the provisions of the tax code on the other. The morality of advising clients to evade taxes is more complex than a simple decision to evade taxes on one's own behalf, involving professional codes of ethics which generally[3] prohibit or discourage such aggressive advice. It is reasonable to expect that practitioners resolve this dual agency tension in different ways depending on their personal characteristics as well as the external influences presented by an ambiguous tax issue. This study investigates the variables that impact on tax preparer aggressiveness in South Africa. Following Carnes et al, (1996) we

[2] As set out in McGee (1999a).
[3] As described in McGee (1999).

define tax aggressiveness in a relative fashion: being more likely than other tax professionals to take pro-taxpayer positions for the same situation. The literature has identified over a dozen variables impacting on the aggressiveness of the stance taken by a preparer in a given situation.

2.1. Client Payment Status

Taxpayers who have sufficient taxes withheld or prepaid to put them in a non-payment situation are less likely to focus on tax savings. They “don’t miss what they never have” (Westat, Inc. 1980: 11). The obligation to make a large tax payment at some time during a tax year can be an enormous drain on a family budget and can severely affect cash flows where taxes are underwithheld. The requirement to make large payment is seen as more burdensome than receiving a correspondingly smaller refund or the accelerated erosion of a loss carried forward. It is therefore suggested that individuals facing the prospect of large tax payments will seek relief by approaching tax-reporting more aggressively. Individuals expecting a refund of tax overpaid will be more conservative in their tax reporting to avoid jeopardising their refund[4] (Elffers and Hessing 1997).

If preparers consider themselves in a loss situation when their client owes a large tax liability at filing date, the predictions of prospect theory should explain their decisions. Sanders (1986) and Sanders and Wyndelts (1989) found partial support for the application of prospect theory to tax preparers in this way. Duncan et al (1989) tested the relationship between advice to taxpayers and their payment status at the tax year-end. They found it to be

[4] This behaviour is explained using prospect theory (Kahnerman and Tversky 1979). People are not rational decision-makers at all. They will adopt different preferences, depending on whether they expect the events to results in a gain or a loss. When they are expecting profit, they will opt for risk-avoiding behaviour. If, on the other hand, they are expecting a loss, then a completely different approach is adopted; they become risk takers (Elffers and Hessing 1997)

marginally significant in the study, with consultants adopting more aggressive positions if the taxpayer had underpaid and making less aggressive recommendations if the taxpayer expected a refund of taxes paid.

It appears from those studies that year-end status alone plays a minor role in tax accountants' recommendations. However it may be more significant in interaction with other variables, because of the economic incentive that the tax accountant has to satisfy the client (Roberts 1998). Schisler (1994) found that tax advisors are not affected by the client's payment status until exposed to the client's preference concerning the deductions for a specific tax position.

2.2. Client Tax Aggressiveness

Roark (1985); Kaplan, Reckers, West and Boyd (1988), and Duncan et al. (1989) examined the influence of client bias on tax practitioner, with mixed results. All these studies attempted to examine the impact of client bias by manipulating client risk profiles within case scenarios. Roark (1985) found significant results; Kaplan et al. (1988) found non-significant results. Duncan et al. (1989) found that the client's risk orientation was significantly related to the position adopted by the tax consultant but in a surprising counterproductive fashion. The more timid the taxpayer, the more aggressive the consultant, and the more aggressive the taxpayer, the less aggressive the position recommended by the tax consultant. Helleloid (1989) found a similar relationship between client risk preference and tax preparer aggressiveness. Milliron (1988) found that the aggressiveness of clients was the most important factor influencing tax professionals' compliance decisions.

These results suggest that tax professionals may serve to moderate taxpayer behaviour.

2.3. Practitioners Risk Preference

Mason (1987) contends that the direction of information regarding desired tax reporting positions between clients and their tax advisors is unknown. This leads us to an alternative view that practitioners' aggressiveness with regard to tax reporting positions may dominate client attitudes towards compliance (Hite and McGill 1992). Tax professionals who regularly resolve ambiguous issues in favour of their clients risk that the tax authorities will overturn one of these positions and impose penalties on the taxpayer. Therefore, professionals' risk preference should influence the aggressiveness of their recommendations, and we expect those with greater risk propensity to be more aggressive. Milliron (1988) included professionals' risk attitudes as one of 24 possible factors influencing aggressiveness; however tax professionals rated it as a very weak factor. Carnes et al. (1996) found that risk propensity influenced aggressiveness very significantly. Given the highly litigious environment in which tax professionals operate, firms should be aware that professionals' risk propensity affects the aggressiveness of their decisions.

2.4. Age

The direction of the influence of age on practitioners' tax aggressiveness is difficult to predict. Age was not found to be a significant variable in the study carried out by Duncan et al. (1989). There is a dearth of research on the impact of age in the extent literature. Perhaps preparer experience is a more relevant variable when investigating aggressiveness.

2.5. Gender

McGill (1988), Sanders and Wyndelts (1989), and M L Roberts and Cargile (1993) all found that male tax practitioners tend to be more aggressive than female practitioners, while Ayres, Jackon, and Hite (1989) and Cuccia (1994) found no relationship with gender. Cognitive psychologists have reported that males tend to have a greater risk propensity than females for a wide variety of tasks (Carnes et al. 1996).

2.6. Perceived Audit Probability

Theoretically, the perceived likelihood of an audit should affect the professionals' reporting judgements on ambiguous matters. A rational decision maker would be expected to weigh the perceived costs and benefits of alternative reporting positions. Given that audits generally result in some costs for the taxpayer, that taxpayers fear audits and that tax professionals will be concerned with client relations, tax professionals would be less likely to recommend an aggressive tax position for individual clients when perceived audit probability is high than when it is low (Roberts 1998).

Kaplan et al. (1988) experimentally manipulated audit probability and found it to significantly influence the advice rendered by their tax practitioner subjects. The manipulation of audit probability in the Kaplan et al. (1988) study was at levels of 10% and 50%. Duncan et al. (1989) also investigated the influence of audit probability on tax professionals' judgement and found that the change in audit probability from 10% to 25% was not significant. It has been suggested that the reason for the significant impact found in the Kaplan et al. (1988) study may have been that the audit probabilities were varied at more extreme levels by Duncan et al. (1989).

An alternative approach would be to ask practitioners how their returns would be affected by the possibility of audit, rather than manipulating the audit probability in an artificial way.

2.7. Importance of Client

Reckers et al, (1991) defined the importance of the client as value in terms of revenue generating potential for the professional and his or her accounting firm. In the audit literature, it is argued that clients generating large revenues become more economically important to an accounting practice and this may influence auditors' judgements. In the tax area, the effect of client importance has been examined in studies by McGill (1988); Reckers et al. (1991) and Bandy et al, (1994). McGill (1988) reports a significant main effect for client importance. The preferences of more important clients in selected circumstances have a larger influence on tax professionals' judgements than the preferences of less important clients. Reckers et al. (1991) concluded that as the importance of the client increased, the amount of risk the practitioner was willing to accept increased. A rational practitioner should be willing to risk tax authority sanctions only if the compensation for taking such a risk is greater than the cost of the sanctions Reckers et al (1991). This suggests an interaction between client importance and preparer penalties.

Bandy et al. (1994) conducted an empirical study to examine how both client importance and client sophistication influence tax advice and signing decisions. No significant relation was found between either variable and the aggressiveness of the advice given or willingness to sign the return. This result is inconsistent with Reckers et al. (1991).

Based on the inconsistent findings regarding the effect of client importance it is appropriate to re-examine this variable in order to better understand its effect on decisions made by tax practitioners.

2.8. Preparer Experience Level

There is an intuitive belief that the quality of professional judgement and decision-making improves with experience. The relationship between preparer experience and aggressiveness is less clear, and has been investigated with mixed results. Kaplan et al. (1988) examined the influence of number of years experience and the impact of recent experience with the IRS on (what was at the time) Big Eight professionals' recommendations for both ambiguous and unambiguous tax scenarios. The variables were found not to be significant in unambiguous cases but the interaction of experience and audit probability was found to be significant in ambiguous cases, with less experienced subjects affected by a higher probability of audit. Kaplan et al. (1988) suggest that experience may affect aggressiveness in ambiguous settings because tax professionals depend on knowledge structures when making judgements. They reason that it takes many years for tax professionals to develop these knowledge structures since feedback on tax judgements may take as long as three years to occur because of the nature of the tax authority audit process. It may also take a long time for these structures to develop because of the complexity of the tax law. As a result, more-experienced professionals should have better-developed knowledge structures for making decisions in ambiguous settings. McGill (1988) also studied the decisions of individuals working in the tax departments of (at the time) Big Eight accounting firms. He reported that more experienced tax professionals tended to be more aggressive. Ayres et al. (1989), Roberts and Cargile (1993), Cuccia (1994), and Carnes et al. (1996) found little or no relation between number of years experience and aggressiveness. Helleloid (1989) found that experience was marginal significant.

Duncan et al. (1989) suggest that in the context of experience, three different dimensions come to mind in developing an operational measure. They are (1) general experience as measured by the number of years in tax practice, (2) specific experience with the particular type of tax issues engaged in the case scenario provided in the research instrument, and (3) recent experience with the tax authorities over client disputes. Their study considered all three dimensions. The number of years in practice as a tax consultant was not found to be significant in the experiment; however, knowledge as measured by the percentage of the professional’s clients reportedly involved in similar tax situations to the case in the experimental instrument, was found to be significant. The more actively the subjects were involved in advising clients in similar tax situations, the more aggressive positions they adopted. Similarly, those consultants reporting higher percentages of favourable audit experience over the previous two years also adopted more aggressive positions (Duncan et al. 1989). Perhaps the results of this study explain the mixed results found in other studies examining tax preparer experience as a variable impacting on aggressiveness. Bonner and Lewis (1990) have shown in an auditing context that variation in auditors' performance is better explained by difference in knowledge and innate skills than by experience as measured by number of years and that the type of experience may influence performance. Their findings may extend to tax professionals.

2.9. Previous Success in Revenue Negotiations

Recent professional success may introduce a bias into practitioner behaviour. Kaplan et al. (1988) propose that the relevant aspect of tax authority contact is not the extent or amount of the contact but the outcome from the contact, especially recent contact. The outcome provides the preparer with feedback either confirming or contradicting his/her beliefs about the tax system. Kaplan et al. (1988) found that more favourable outcomes were associated with more aggressive positions. This finding is confirmed in Duncan et al. (1989).

2.10. International Practice v. Small Practice

Big Four tax professionals comprise only a portion of all tax professionals in South Africa, however most of the existing tax compliance research has focused only on this group. This is to be expected since Big Four firms have the capacity and willingness to provide a large number of subjects for studies. However, little is known about whether the decision outcomes of Big Four professionals are similar to those of other tax professionals. Only a few studies have investigated the decisions of professionals from both Big Four and non-Big four firms.

Ayres et al. (1989) reported no difference in tax professionals' judgements across firm type. Carnes et al. (1996) found that the level of tax professionals' aggressiveness did vary depending on firm type, although the differences were only marginally significant. Aggressiveness could vary across firm type for several reasons. The training provided by Big Four firms is almost exclusively done internally, while other firms are more likely to send their professionals to training seminars run outside the firm. However, it is not clear if this would lead to more or less aggressive positions (Carnes et al. 1996). The clientele of Big four firms also varies from that of other firms. Big four firms would, on average, be expected to have larger business clients that may be better equipped to challenge the IRS, while smaller clients at other firms may be less willing to risk IRS sanctions (Carnes et al. 1996).

Bain et al. (1997) conducted a survey to investigate the effects of firm type with which the practitioner is affiliated and the experience of the preparer on tax practitioner aggressiveness. The results of the survey indicate that preparers from the local firms rated the client's tax records and social influences to be more important in determining the aggressiveness of their advice than preparers from the then Big Six accounting firms.

2.11. Ambiguity of the Issue

Milliron (1988) examined the ambiguity of the tax issue as one of 24 factors thought to impact on preparer aggressiveness. She concluded that the most important determinants of the aggressiveness of professionals' tax advice are client aggressiveness, penalties and the ambiguity of the item. In addition to Milliron (1988), several other studies (Beck and Jung 1989; McGill 1988; Scotchmer 1989; Klepper and Nagin 1989) also suggest that the degree of ambiguity in tax scenarios affects tax professionals' advice.

Klepper et al. (1991), suggest that tax practitioners play dual roles, depending on the ambiguity of the tax law. In ambiguous tax situations, tax practitioners tend to recommend aggressive positions, in unambiguous matters, they tend to enforce the law.

Carnes et al. (1996) investigated whether preparer-specific factors explain variation in aggressive behaviour among tax professionals for scenarios with varying levels of ambiguity. The authors developed 18 ambiguous scenarios and using tax professionals' judgements of the likelihood that they would take a pro-taxpayer position, these scenarios were categorized based on their level of ambiguity**.** The study demonstrated that several characteristics of tax professionals significantly influence their judgements, but that these effects differ based on the level of ambiguity of the underlying scenario. Most preparer-specific characteristics achieved their greatest level of significance for highly ambiguous scenarios.

2.12. Other Variables

There are a number of other variables, which we feel may impact on preparer tax aggressiveness based on casual empiricism. The client profile of the firm is likely to impact on the level of tax aggression, although the direction of this influence is not clear. On the one hand, the cash flow impact of a tax payment will be more significant for a smaller business, which should lead such taxpayers to focus on the elimination of tax liability. It is likely that client payment status is more important for smaller firms. On the other hand, large multinational corporations are likely to focus quite narrowly on their tax liability because of the interaction with double tax treaties etc. Firms with many such clients are hypothesised to be focused on getting the figures right rather than taking an aggressive position.

It is likely that firms dominated by a large tax practice will be in a stronger position to pursue aggressive positions with their clients. We therefore sought to determine the importance of the tax practice to the firm as a whole.

The congruity between client and preparer risk preferences is likely to depend, *inter alia*, on the closeness of the relationship between client and firm. We hypothesise that where clients are in regular communication with the preparers, this is likely to encourage the preparers to "go the extra mile" for the client in preparation of a return which will reduce the tax liability as far as possible.

Finally, since tax rules change rapidly, the number of years of post-qualification experience may not in itself be a good measure of the proficiency of the preparer. We also sought to measure the degree of exposure to current tax rules and practice. It is also interesting to examine the sources of information used by the preparer. It is likely that those who rely primarily on SARS material, for instance, are less tax aggressive than others.

3. The South African Context

South Africa has a wide definition of tax avoidance, based on the concept of substance over form. S.103 (1) of The South African Income Tax Act 58 of 1962 (The Income Tax Act) is a general anti-avoidance provision, which may be applied where a taxpayer has entered into any transaction which can be considered abnormal, or which has tax reduction as its main purpose. In that case, S.103 (3) allows the Commissioner to determine a taxpayer's tax liability as though the transaction had not been enacted, or in any other manner which is deemed appropriate. In 1996, due to a difficulty in sustaining the definition of "abnormal", the provision was modified by the introduction of a business purpose test, allowing the commissioners to apply S.103 where a transaction did not have a primary commercial motive. In the event of tax avoidance being proven, the Income Tax Act provides for penalties including fines or imprisonment for a period of up to five years (section 104), and additional tax of up to twice the amount properly payable on the amount evaded (section 76)[5].

Despite this, the tax profession remains relatively unregulated. There is no professional tax institute *per se*, with most tax practitioners belonging to the South African Institute of Chartered Accountants (SAICA). Tax practitioners operating outside of SAICA guidelines are not subject to regulatory control.

[5] Killian and Kolitz (2004)

For these reasons a survey of SAICA practitioners was considered the most appropriate way of determining the level of tax aggression among legitimate preparers of tax returns in South Africa.

Following Schisler (1994), a case study approach was adopted for this study. Respondents to a questionnaire were presented with a short scenario, and asked what action they would take in submitting the client's return. Five questionable claims were put forward, with varying degrees of ambiguity and aggressiveness. The respondents were asked what action they would take on each one. Prior to inclusion in the questionnaire, the case study was piloted for realism with a group of post-graduate students specialising in taxation.

The key variables identified in the literature above on tax aggression among practitioners, were addressed in the questionnaire as follows. Client payment status is picked up in two ways. We asked practitioners to indicate whether their recommendations would vary, firstly if the client was not in a taxpaying position, and secondly, if the claims made in full would eliminate the client's tax liability.

Client tax aggressiveness was picked up both by asking if the claim would vary with the clients own attitude to risk and level of tax aggression, and by asking if the return would be affected by a risk of the client leaving if the return was incorrect (conservative attitude) or if the tax payment was considered too high (aggressive position). The tax aggressiveness of the preparer was determined by asking respondents to rate their own attitude to risk relative to the profession as a whole, and by categorising the reputation of the firm as aggressive or conservative.

Age, gender, the impact of revenue audit, and the importance of the client were asked directly in the questionnaire. Previous success in revenue negotiations, internationalisation of the practice, closeness of the client relationship and client profile were also asked directly.

Preparer experience level was determined by professional qualifications, the number of years of post-qualification experience, and by exposure to current tax practice, which was styled as a separate variable.

The importance of tax to the firm as a whole was determined by the specialism of the managing partner, the relative fee income of the tax department, the size of tax department in terms of professionals employed and any industry-specific tax specialisms.

Exposure to current tax practice was picked up by the level of firm support for up to date tax training, the provision by the firm of regular tax updates, and the sources of current tax information consulted by the preparer.

As mentioned above, five questionable claims were included in the case study, with varying degrees of ambiguity, to determine the impact of the ambiguity of the issues on the return.

These variables, and the way in which they were proxied through the questionnaire, are summarised in Table One:

Table 1: Key variables

Variable	Proxy
Client payment status	Asked if client being in non-payment position would affect return
	Asked if return would be different if aggressive claims eliminated liability
Client tax aggressiveness	Asked if action would vary with client tax aggressiveness
	Asked if action would vary with client attitude to risk
	Asked if client concern at incorrect returns would affect return
	Asked if client concern at high liability would affect return
Practitioner risk preference	Asked to rate risk preference vis-à-vis profession average
	Categorize firm reputation as aggressive or conservative
Age	Asked directly
Gender	Asked directly
Perceived audit probability	Asked if likely revenue audit would affect return
Importance of client	Asked if fee income of client would affect return
Preparer experience level	Professional qualifications
	Number of years of post-qualification experience
	Exposure to current practice (see below)
Previous success with revenue	Asked directly
Internationalisation of practice	Asked directly
Ambiguity of issue	5 questionable claims included in case-study
Client profile	Categorized as large corporations, SMEs, or individuals

Importance of tax to practice	Asked if the managing partner is a tax professional Asked the relative fee income of the tax department Size of tax department in terms of professionals employed Asked if tax practice specialized in particular industry
Exposure to current tax practice	Asked if continuing professional education is supported by firm Identify sources of current tax information Asked if regular tax updates provided by firm
Closeness of client relationships	Asked frequency of client communications

The sample consisted of members of the South African Institute of Chartered Accountants (SAICA). The questionnaire was administered online, to facilitate anonymous responses. A link was posted on the SAICA website, and all recipients of the SAICA tax newsletter, Communiqué, were notified of the survey and asked to participate. To maintain internal consistency in the sample, and to avoid the effect of macro-economic factors, a five-week time limit was set for responses.

We received 27 responses to our survey, from a wide variety of tax practitioners from all over South Africa. Basic descriptive statistics and tests for difference in means are presented below.

4. Results

Twenty-seven practitioners responded to the questionnaire, 21 male and 6 female. They ranged in age from 23 to 63, with a mean age of 36. Post-qualification experience ranged from 6 months to 38 years, averaging just over ten years. Respondents rated their personal risk preference as ranging from 50% to 150% of professional average.

The other variables identified as potentially affecting the outcome of a return were coded as dummy variables, generally taking the value 0 if rated as not relevant to the decision, or if not a characteristic of the firm. Frequencies for these variables are given in Table 2:

Table 2: Frequencies for dummy variables

Variable	Coded 0	Coded 1 or greater
Client payment status	22	5
Client tax aggressiveness	15	12
Perceived audit probability	6	21
Importance of client	25	2
Previous success with revenue	8	19
Internationalisation of practice	15	12
Importance of tax to practice	11	16
Exposure to current tax practice	12	15
Closeness of client relationships	9	18
Use SAICA for tax updates	12	15
Use SARS for tax updates	4	23

Contrary to the findings of McGill (1988) and Reckers et al. (1991), but consistent with Bandy et al. (1994), the relative importance of the client in terms of fee income is not reported as affecting the action taken by the preparer of the return by over 90% of respondents. All three of these prior studies manipulated client importance using specific references to the client's income and profession. Indeed the lack of significance for this variable in the study carried out by Brandy et al. (1994) may have been as a result of the weak manipulation of the importance variable. The difference in our results may be due to the fact that practitioners were asked directly whether their recommendations would differ depending on the fee income of the client, without specifying a fee level. Interestingly, most respondents cite the risk of a revenue audit as an important factor to be considered in finalising the claims to be made on behalf of clients. While this was not a formal experimental manipulation of the likelihood of audit, the importance attached to it by preparers in South Africa contrasts with the findings of Duncan et al. (1989) but is consistent with Kaplan et al. (1988)

Over 80% of practitioners said that the payment status of their client was completely irrelevant to their returns, with only 12% reporting that the possibility of all claims eliminating the need for the client to make a payment would be an influence on their decisions. This contradicts prior research giving partial support for the view that consultants adopt a more tax aggressive position if their client is in a payment position at year-end (Sanders 1986; Sanders and Wyndelts 1989; Duncan et al. 1989). However it has been acknowledged in the more recent literature that year-end status alone plays a very minor role in tax accountants' recommendations. It is only when this variable interacts with others that it becomes much more significant (Roberts 1998; Schisler 1994). This may explain our results in light of the fact that subjects were asked whether client payment status would affect their recommendations as an isolated question.

A significant minority (44%) of preparers report that their actions would be influenced by the tax aggressiveness of their clients. This is consistent with Roark (1985) but contrary to Kaplan et al. (1988). It has been argued however that the negative results in Kaplan et al. (1988) may have occurred as a result of the presence of other very strong manipulations as the client preference factor was manipulated between subjects.

Most preparers use SAICA, their professional institute, as a primary source of up-to-date tax information. An even greater majority regularly access information produced by SARS, the South African Revenue Services

Respondents to the questionnaires were presented with the following case history:

Your client is a freelance self-employed web-designer who works from an office in his home designing web-pages for corporate South African clients. He is a new client to your practice, and is expected to generate substantial fees over the coming years as his business expands. Among the expenses he has supplied relating to his business for the year ended 30 April, 2004 are the following details:

· Promotional expenses of R12,450. Included in this is R2,500 spent in entertaining potential clients, mainly at lunch.

· Travel expenses of R34,560, including international flights amounting to R10, 000

· Magazine subscriptions of R2,500 of which R1,300 are trade and business-related magazines, while the remainder are of a personal nature.

· Advertising of R45,940 including an amount of R10,000 in sponsorship of a rugby trophy at his son's school, and a personal golf club membership of R8,000

Cleaning expenses of R12,360 which comprises the salary of the web-designers domestic worker.

There are five potentially controversial claims that could be made on behalf of this client. These, in order of increasing ambiguity, are:

- Personal magazine subscriptions
- Personal golf club membership
- International travel, given that clients are domestic
- Sponsorship of rugby cup
- Employment of domestic worker, given that client works from home

We conducted t-tests to examine how the characteristics of the preparers, and the factors that they identified as affecting their decisions interacted with the likelihood of their making the various claims. Table 3 shows average likelihood to make the claim for preparers in each of the main categories:

Table 3: t-tests on personal and firm characteristics of tax preparers

	Magazines	Golf	Travel	Rugby Cup	Cleaning
Gender – male Gender – female	0.167* 0.444*	0.611* 0.889*	0.611 0.667	0.444 0.444	0.222 0.222
Attitude to risk	0.375 0.273	0.625 0.818	0.875* 0.545*	0.625** 0.182**	0.375* 0.091*
Age	0.444 0.125	0.667 0.625	0.667* 0.625*	0.333 0.625	0.222 0.250
Tax experience	0.385** 0.182**	0.846 0.545	0.615 0.636	0.231** 0.636**	0.231** 0.182**
previous success	0.368 0.000	0.632 0.875	0.684 0.500	0.421* 0.500*	0.263 0.125
international firm	0.182 0.313	0.727 0.688	0.727 0.563	0.455 0.438	0.182 0.250
most clients large	0.235 0.300	0.706 0.700	0.706 0.500	0.412 0.500	0.176 0.300
tax important to firm	0.400 0.083	0.533 0.917	0.733 0.500	0.333 0.583	0.267** 0.167**
many sources of tax info	0.250 0.267	0.667 0.733	0.667 0.600	0.500 0.400	0.167 0.267
close client relationship	0.333* 0.111*	0.722 0.667	0.667 0.556	0.389 0.556	0.278 0.111
Use SAICA information	0.333 0.167	0.667 0.750	0.667 0.583	0.400 0.500	0.200 0.250
Firm aggression	0.316 0.125	0.737 0.625	0.474*** 1.000***	0.421 0.500	0.263 0.125
Exposure to tax ;	0.222 0.333	0.667 0.778	0.722* 0.444*	0.500 0.333	0.111** 0.444**

* difference found to be significant at 10% level
** difference found to be significant at 5% level

*** difference found to be significant at 1% level

The variables above are categorised as follows: attitude to risk is categorised as 1 where tax preparers self-identified as having a higher than average propensity to take risks, and as 0 where they label themselves as less likely than the professional average to take risks. Age is coded as 1 where the respondent is 40 or over, and as 0 where the respondent is aged below 30. Respondents are split by tax experience between those with more than ten years experience and those with less than five.

The results above show that, contrary to previous research, female tax practitioners are more likely to make aggressive claims than their male counterparts, particularly where the situation is less ambiguous. The significance of the difference is relatively low, however, and the gender difference is less marked as the tax claim becomes more ambiguous. The personal attitude to risk of the tax preparer has a predictable difference in more ambiguous situations, consistent with Carnes et al. (1996). Tax experience is the most significant variable, having a significant influence on the propensity to make aggressive in three out of five situations. The importance of tax to the firm as measured by the fee income generated by the tax department, the proportion of professionals who work in tax and the professional designation of the managing partner is a significant factor only in the most ambiguous of situations.

The international spread of the firm appears to have no influence on the claims made by tax practitioners. This is consistent with Ayres et al. (1989) but contrary to Carnes et al. (1996) who reported marginally significant differences. Age, sources of tax information, client profile and the use of information from the SAICA website also have no real impact on the claims made by tax preparers.

Table 4 below shows the relationship between the factors identified by tax preparers as possibly affecting their claims, and the aggressiveness of the claims they actually made in responding to the case study.

Table 4: t-tests on factors identified as significant by tax preparers

	Travel	Magazines	Rugby Cup	Golf	Cleaning
Client payment status	1.000* 0.565*	0.400 0.217	0.600 0.435	0.800 0.696	0.000** 0.261**
Probability of audit	0.584 0.696	0.530 0.295	0.822 0.497	22.039 0.705	0.070 0.195
Client may be aggressive	0.750 0.533	0.250 0.267	0.417 0.467	0.750 0.667	0.333 0.133
Client may be conservative	0.786** 0.462**	0.357 0.154	0.286 0.615	0.714 0.692	0.214 0.231

* difference found to be significant at 10% level
** difference found to be significant at 5% level
*** difference found to be significant at 1% level

Those tax preparers who said that their claims might be affected by the payment status of the client are significantly less likely to have made the most aggressive claim. This suggests that where a massaging of the client's taxable income is imperative, less aggressive methods are preferred. No significant differences on claims emerged between those who are influenced in their reporting by the likelihood of audit or the aggressiveness of the client. Interestingly, the possibility of the client having a conservative attitude to tax is a bigger influence on the claims made than the idea of client tax aggression.

5. Conclusions

Before discussing our conclusions, the limitations of this study should be noted. Our sample size was small, at 27, which makes more advanced statistical techniques impossible at this stage. It should be noted that the tax accountant subjects self-selected by agreeing voluntarily to participate in the study. While subjects were drawn from a wide geographical base, firm-specific training or philosophy may have influenced their responses. The subjects' responses may not generalize across cases based on other tax issues or relating to clients exhibiting different characteristics and needs. These latter concerns are mitigated by the anonymity implicit in the survey mechanism. Despite these limitations, the case approach is useful in studying decision making because of the control the experimenter gains over the independent variables (Campbell and Stanley 1963).

Based on the results from this study, we draw several tentative conclusions. While all respondents claimed a tax deduction for the unambiguous promotional expenses, they had differing levels of aggression when faced with the five ambiguous claims. This finding is consistent with all the studies suggesting that the degree of ambiguity of tax scenarios affects tax professionals' advice (Beck and Jung 1989; McGill 1988; Scotchmer 1989; Klepper and Nagin 1989). However, contrary to Carnes et al. (1996), the ambiguity variable failed to produce any significant differences in tax practitioners' behaviour as the level of ambiguity increased. This may be as result of the very marginal increase in the level of ambiguity of each of the claims included in the questionnaire. However, it may instead lead to the conclusion that the main concern for South African practitioners is whether the tax matter is ambiguous or not. If ambiguous, practitioners proceed to take a view on how aggressively they will approach the matter regardless of the degree of ambiguity involved.

Tax practitioners who rated themselves as being more risk embracing than that of the average tax professional, were generally more likely to claim a deduction for ambiguous items as expected. We expected that the importance of tax to the practice, the level of tax aggressiveness of the firm and the closeness of the client relationship might impact positively on the tax aggression level of professionals. All of these variables showed significant impact on aggression level in one or two of the scenarios detailed on our questionnaire but none impacted on all five claims. We also expected to see the level of exposure to tax practice influence aggression levels. Again, this showed significant influence in some, but not all scenarios. This suggests that tax professionals' judgements should be examined under a wide range of situations since the determinants of aggressiveness appear to vary based on the type of scenario involved.

The study also found little support for the impact of the age and gender of the tax practitioner on their level of tax aggression. No significant influence on preparer tax aggressiveness was exerted by client tax aggressiveness, the importance of the client, preparer experience level, the client profile or internationalisation of the firm. Interestingly, the idea that the client might be tax conservative was more of a concern to tax preparers than the risk that the client might be tax aggressive. This suggests that the fear of overstepping a client's risk profile is more influential than the desire to push the boundaries of client tax aggression.

The lessons for the South African government, and by extension other developing economies are clear. This study found no support for the idea that the perceived likelihood of an audit affects professionals' reporting judgments on ambiguous matters. This finding creates an interesting dilemma for the Government. Tax policy makers have generally assumed that the economic model of taxpayers' behaviour is supported and that increasing Revenue Audit probabilities will draw out additional tax revenue. If such measures do not motivate tax preparers and large numbers of individuals rely on tax preparers for compliance advice, the effectiveness of this approach by the South African Government and tax authority is sharply reduced. Client payment status did not appear to be a very important variable, leading us to conclude that assertive retention of tax by the revenue authority might not be an effective compliance tool in South Africa. Previous success in negotiations with the tax authority is also a weakly significant variable and results in more aggressive tax reporting. As observed by Duncan et al. (1989) tax practitioners' judgements develop from ongoing interaction with the revenue authority and its local personnel. To the degree that local officers of SARS vary in the vigour with which they apply or interpret selected sections of tax law or vary in the disposition of local personnel (confrontational attitudes and tenacity), tax professionals, in rendering advice, may serve to accentuate these regional, district or local office differences.

This research serves to deepen our understanding of the factors influencing tax practitioner aggression levels in South Africa, information that is vital for policy makers striving to improve the tax compliance culture within a rapidly developing economy.

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