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# Individuals' Knowledge of the Irish Tax System & the Impact on Tax Compliance

By

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## **ABSTRACT**

Tax knowledge is an asset which brings numerous benefits to the holder and to the society in general, being a vital component for a reasonable level of compliance. In the absence of such knowledge, taxpayers and tax authorities are impacted simultaneously, making it more difficult for both parties to exercise their roles efficiently. The literature brings a continuing debate about what the individuals' level of taxation knowledge is and the various ways which it can impact taxpayers' behaviour.

The core objectives of this research project are to assess the degree of knowledge possessed by individual taxpayers living in the Republic of Ireland and how it can be a barrier for compliance. Likewise, this aims to explore the obstacles at comprehending the taxation system, the key role that tax authorities play in this context, and what impact threats and penalties may have on taxpayers.

It was employed a mixed methods approach to gather the evidence required to respond the overall question. Questionnaire and interviews were carried out to evaluate how much taxpayers know. According to data collected, individuals consider the tax system very complex with a very technical language despite information related to it being easily accessible.

The overall conclusion is that individual taxpayers possess a low level of knowledge, mostly driven by the lack of financial knowledge in schools and complexity of the system itself, which reduces the ability and hence the degree of compliance.

## **CHAPTER 1 - INTRODUCTION**

It is undisputable that tax is one of the most unpopular subjects across the globe, either because it is binding or because it can be an especially complex subject for most taxpayers. On account of that, Revenue Commissioners are often seen as villains, taking “too much” of people’s earnings away. However, the reasons behind such unpopularity might go beyond these two factors. The unfamiliarity with the tax system for instance, as well as society’s often disregards of the idea that tax is a necessary burden, proven to be crucial for any economy sustainability.

### **1.1 Background of the research**

Curious by nature, I have always been the type of person that questions “what and why” about most concepts. Before studying Accounting and Finance, I did not possess a substantial knowledge in taxation and perhaps for the same reasons as most people. However, during this new path in last few years the researcher also became a small investor therefore, a deeper understanding of taxation was no longer optional. The author was left unquiet by the questioning about how much people know about tax and the reasoning behind it, which led to the need for further investigation on the subject.

### **1.2 Rationale for the study**

The outcomes of this research might be useful to researchers who are keen to take this study to an even deeper perspective, as well as base for tax authorities to comprehend taxpayers’ needs and therefore possess the basis to provide adequate services and information for a well-informed society and knowledgeable taxpayers. Besides future accountants considering working as personal tax advisors, may rely on these findings to explore this market niche and provide service to those who are still reluctant at comprehending the tax system.

The core purpose of this research is to assess what percentage of the population possesses sufficient knowledge of the tax system to honour their obligations and claim their rights. It is also an aim to explore the reasons why the remaining percentage lack such knowledge. Further, this project aims to present what are the means found by the portion who do not know how to proceed to comply or whether they are not complying at all.

The overall question that this research project is trying to answer is: “Individuals’ knowledge of the Irish tax system and impact on tax compliance”.



### **1.3 Statement of the research objectives**

Aiming to facilitate the research and improve on analysing the problem, the question was broken down into themes and sub-research questions.

### **1.4 Themes**

1. Information Availability
2. Potential Obstacles
3. Authorities' Role
4. Tax Compliance
5. Risk of Punishment

### **1.5 Sub-research questions**

1. How easy is to find tax information?
2. What is considered tax obstacles to tax comprehension?
3. What is the relationship between authorities and taxpayers?
4. How important is tax knowledge for compliance?
5. Does threat of penalties force people to comply?

### **1.6 Information gathering and data collection**

Visioning the purpose of this study, the chosen approach was constructivism. The collection of data was based on in depth semi structured interviews and literature review for qualitative data and a series of closed end questionnaire for quantitative information. Random taxpayers volunteered to respond a series of questions and disclose what their familiarity with taxation system is.

### **1.7 Expected outcomes**

In order to have a deeper understanding of the amplitude of taxpayers` knowledge, this study will focus mainly on individuals under the PAYE system where, most of the work to comply is done by the employer. Despite not having to do most bureaucratic procedures, it is not clear whether all or at the very least, most of the population currently habiting the Republic of Ireland have an acceptable grasp of their rights and obligations relating to levies and taxes compliance.

It is expected that survey with the public and interviews with focused groups provide support to better understand what causes such aversion and contributes to the current level of knowledge. By the end of this project, it is expected to clarify whether taxpayers think that the

Irish system is unfair, confusing and if the government has been making efficient use of the tax collected to help the country's development. Findings may be the source of information to revenue commissioners in the future development of the taxation policies and the ease which they are presented to the contributing public.

## **CHAPTER 2 - LITERATURE REVIEW**

Tax knowledge is a crucial component of tax compliance (Kasippilai, 2000). A vast literature may be found around the numerous probable incentives for tax compliance on self-assessment tax systems; moral, ethical, and financial aspects have been some of the hypotheses. Further, the impact that taxpayers' knowledge level might have on the degree of compliance is likewise addressed by late and contemporary literatures. However, little has been discussed around what degree of tax knowledge which in fact is possessed by the most abundant category of taxpayer, the salaried workforce. Factors which may influence the magnitude of such knowledge have been similarly overlooked over the years. The few papers tackling the topic suggested that employees' knowledge is minimal, and this creates complications to comply with obligations and rights, however, reasons behind this suggested low level of understanding continues unexplored.

### **2.1 Information availability**

Access to information is believed to be one of the factors affecting the tax knowledge and the perception of the taxation system by a population. Availability of information decreased uncertainty for taxpayers (Robbins, et al., 2015) as well absence of proper communication creates uncertainty and leads to many individuals not to filing a tax return (Vossler & McKee, 2016).

Developed nations are believed to provide the taxpayer with more information than developing ones. Several services are provided to support taxpayers in Ireland through the ROS, amongst them can be found ROS Liaison Officers, the ROS Helpdesk and Frequently Asked Questions on the ROS website (Robbins, et al., 2015). In Brazil text and information relating to tax system have low level of readability and is a scarce resource. Taxes systems tend to use long sentences and words which require taxpayers to have a high-level education (Martinez & da Silva, 2019). Language provided in the taxation system was found to be exceedingly technical and

simplification could be achieved by shortening sentences, making use of a more popular words, and applying a more accommodating language rather than legal terminologies. (Lewis, 1982)

Although paying taxes is never seen as a pleasant situation for taxpayers, tax transparency and a greater level of information is thought to reduce the aversion to paying tax (Capasso, et al., 2020).

Findings suggested that when tax authorities supply taxpayers with sufficient information, they are more likely to comply with their tax obligations on account of that they acquire a greater level of knowledge and therefore perceive the system as fair (Alm, et al., 2011). Similarly, it is suggested that as service quality improves, satisfaction with the facility and intentions to reuse the service are expanded (Asubonteng, et al., 1996). Walsh (2012) proved that changes in the information supplied to taxpayers could positively influence behaviour.

By unanimity, all authors agree that an increase in tax knowledge has positive effects on compliance. Walsh & McKee findings support one another on the fact that the level of information availability can impact taxpayer's behaviour. More recent studies such as Martinez & da Silva (2019) suggested that tax systems are generally difficult to read and agree with Capasso, et al. (2020) that an easier access to information would improve compliance. However, none of the authors approached how the access to information can impact the level of tax knowledge, therefore this gap is aimed to be addressed by this study. The ease to obtain information around any subject can positively influence its comprehension, which should not be different for taxation.

This literature provided the insight on how the availability of information can be crucial to a higher knowledge and act as a support for compliance. Based on that, I will question participants how they perceive the tax content availability and the technical scale of the language used on those content.

## **2.2 Potential obstacles**

It has been confirmed by many researchers that tax systems are often perceived as complex. A study carried in New Zealand (Saad, 2014) found that there is a shortage in tax knowledge among taxpayers and therefore they perceive tax system as complex. It is said that participants admitted having only a broader knowledge of the tax system and those who had to file tax return for instance, sought professional help. Most interviewees including self-assessors, employees and even students admitted that the tax system is too complex for taxpayers to

comprehend it. The study also suggests that tax knowledge and tax complexity are seen as influencing aspects towards non-compliance amongst taxpayers' comportment (Saad, 2014). Moreover, this complexity may arise in many different forms: compliance complexity, (Niemirowski & Wearing, 2003) rules complexity (Carnes & Cuccia, 1996) procedural complexity (Cox & Eger, 2006).

Another obstacle to taxation knowledge is the lack of financial literacy. It is believed that this sort of education is a required subject, once that most people are not well informed about finances in general. Improving the level of financial literacy would assist the prevention of non-compliance as well as support management of personal finances (Opletalová, 2015).

It was stated by Eriksen & Fallan (1996) that the education level is a contributing factor to the understanding of the tax system, particularly concerning tax laws and regulations. Likewise, this study confirmed that tax knowledge has a very close connection with taxpayers' capability to grasp the regulations and policies of taxation, as well as their competence to comply with them. Gender was said to be another determinant of the level of tax knowledge by Eriksen & Fallan (1996). Male students are more exposed to tax knowledge in a way that makes them reconsider more easily their mindsets towards their own tax affairs, whereas female students are more exposed to tax knowledge in a way that makes them reconsider their stance towards other people's tax affairs (Eriksen & Fallan, 1996). On the other hand, it was believed that males and females have similar attitudes towards taxation (Jackson & Milliron, 1986) and (Kasipillai & Jabbar, 2006). Ethnicity was found not to have significant impact on attitudes towards taxation (Kasipillai & Jabbar, 2006). Cultural aspects were found to also impact the tax knowledge; Males, higher income earners and persons that have attended tax related courses were found to be the most knowledgeable groups (Palil, 2011). Younger and lower income taxpayers were declared to be less knowledgeable of tax concerns (McKerchar, 2002).

Several obstacles were found to influence tax knowledge. The educational background as a variable is agreed by Eriksen & Fallan (1996) and Opletalová (2015) whereas the complexity of the taxation systems were seen as most relevant impediments by Carnes & Cuccia (1996) and confirmed by (Niemirowski & Wearing, 2003) and Cox & Eger (2006). Gender which was found as to bring difference in tax knowledge by Eriksen & Fallan (1996) was later debunked by Jackson & Milliron (1986) and Kasipillai & Jabbar (2006) saying that males and females has similar tax knowledge. Lastly, Kasipillai & Jabbar (2006) asserted that ethnicity has no influence on taxation knowledge or attitudes towards it.

The arguments of the authors are around the several barriers which may prevent taxpayer to have a better understanding of tax systems, hence a higher tax knowledge, based on that, I will be asking participants questions related to their perception of the tax system and what impediments are seen by them as preventing such understanding. By the end of this study, it is expected that new contributions and perspectives are brought on where complexity, ethnicity, gender and/or level of income are thought to impact taxpayer' level of knowledge.

### **2.3 Authorities' role**

Tax knowledge was advocated to considerably influences tax compliance, and the level of tax knowledge varies amongst taxpayers (Palil, 2011). It is evidenced that supplying a larger group of society with more tax knowledge helps to prevent tax evasion and improves tax behaviour, therefore, teaching fiscal laws and fiscal knowledge as a mandatory part of high school might enlarge knowledge and consequently increase compliance (Palil, 2011).

The attitude that authorities assume towards taxpayers are found to be extremely relevant. If an approach of "cops and robbers" is adopted for instance, taxpayers tend to comply only if they are forced to. Whereas in a "service and clients" approach, taxpayers tend to perceive fairness in the taxation system and comply willingly (Kirchler, et al., 2008). When analysing countries, findings suggested that the higher the level of education and tax fairness perception, the lower is the incidence of tax evasion (Richardson, 2006). Moreover, Mukasa (2011) argued that government and tax authorities should enhance its assistance offering and accountability for the taxpayers to perceive a reasonable exchange with policies makers.

All authors are in accordance that governments and tax authorities should work together to provide taxpayers with financial education and this education would bring greater knowledge. Based on findings, it is also believed that the government and tax authorities played a substantial part on how taxpayers perceive the system. This sense of perception is thought to influence the eagerness to learn taxation rules hence to comply with tax regulations. For instance, Palil (2011) argued that financial educations in schools is vital to financial knowledge and therefore governments should make it compulsory, complementing the study of Richardson (2006). Kirchler, et al. (2008) claimed that the relationship between taxpayer and tax authorities was determinant to an elevated level of compliance. Authors seem to believe that all countries have interest in improving tax knowledge among taxpayers, which may not be the general rule. Some salaried lower income earners in developing countries can be sometimes kept in the dark, on account that their taxes are collected by third parties regardless

of their level of knowledge. The issue is: how about their rights? How should they claim them if they do not know how to do it or even if they have them? There is a thought that most taxpayer are not supported by policy maker and not all governments are interested in increasing the level of tax knowledge. These theories are to be proven or demystified by this research.

These statements lead me to ask questions around the relationship between authorities and taxpayers and participants insights on whether/how implementation of taxation as a subject in high schools may influence the degree of knowledge.

## **2.4 Tax compliance**

Chattopadhyay & Das-Gupta (2002) acknowledged that compliance with tax laws includes true reporting of the tax base; accurate calculation of the tax liabilities; appropriate filling of tax returns and payment of the sum due as tax on time.

A study indicated that participants perceived the tax system as fair in general, and that an increase in tax knowledge does not have a significant effect on this perception (Tan & Chin-Fatt, 2000). *“Tax knowledge was found to have a positive and significant relationship with tax compliance as well as perceived tax fairness did with tax compliance”* (Mukasa, 2011, p. 87). Nevertheless, the connection between tax knowledge and perceived tax fairness was observed to be low (Mukasa, 2011).

An enhanced tax knowledge contributes for an improved perception of fairness (Kirchler, et al., 2008) and (Lewis, 1982). When this knowledge lacks, taxpayers tend to seek tax preparers and some groups were found to use professional support more frequently when doing their taxes. Higher income individuals, married persons, self -employed and elder taxpayers are more likely to seek assistance (Long & Caudill, 1987). Loo, et al. (2009, p. 181) stated: *“Acquiring tax knowledge had significant effects on compliance behaviour”*. Andreoni, et al. (1998) affirmed that the bureaucratic structure of tax authorities and systems affect its functioning.

An absence of agreement is noted amongst the authors regarding taxpayers’ knowledge standard and the perception of tax fairness. Tan & Chin-Fatt (2000) found that in general, taxpayers do not think that tax systems are unfair regardless of the level of knowledge, however, inconsistent with these findings Mukasa (2011), Kirchler, et al. (2008) and Lewis (1982) argued that perception of fairness increases as the level of knowledge is improved.

The manner which taxpayers perceive the taxation system, as well as whether this perception is somehow connected to the knowledge concentration taxpayers possess is to be investigated in the survey and interviews to be carried on this paper.

## **2.5 Risk of punishment**

Compliant taxpayers were found to avoid tax when they are threatened with penalties (Mohdalia, et al., 2014). Findings demonstrate that taxpayers do comply motivated by financial considerations such as audit and penalties as well as non-financial factors such as morality, shame, and empathy (Alm, 2018). Tax compliance behaviour may be influenced by the way that the taxpayer's neighbour behaves themselves. There is a greater likelihood that a person will report, stop reporting, or even start cheating on their taxes if he/she believes that people around them are doing the same (Alm, et al., 2017). It is stated that high exposure probability and the risk of consequences and penalties being severe and costly should discourage taxpayers from not complying (Wenzel, 2004). Taxpayers are compliant because they are oversensitive to the likelihood of being audited. This combined with the elevated penalty in detected noncompliance act as an incentive to be in accordance with taxation policies (Alm, et al., 1992).

Standing lonesome, the study by Mohdalia, et al. (2014) found that threat of punishments and penalties have no effect on taxpayers that are eager to comply, on the contrary, those taxpayers tend to stop complying if submitted under these conditions. On the other side, is extensively agreed by the remainder authors of this section that the risk of getting caught and having to face severe consequences for lack of compliance do force taxpayers towards compliance.

These perceptions lead me to question the sample whether the severity of legal implications have influence on the level of compliance among taxpayers in Ireland as suggested by most researchers or whether it is based on other factors.

## **2.6 Summary**

Many aspects have been considered and concluded to impact compliance by most authors, still, the reasons behind the poor level of knowledge presented by a major part of taxpayers are not addressed, especially in Ireland. Further, what sort of assistance taxpayers who lacks such knowledge but still want to claim rights and be in accordance with regulations seek is a path to be further investigated. Therefore, a comparison between foreigners and Irish taxpayers is expected to provide data on what factors may contribute to the current level of comprehension and how this affects compliance behaviour.

## **CHAPTER 3 - RESEARCH METHODOLOGY**

The core purpose of conducting this research was to reach an understanding of the level of knowledge that individual taxpayers possess on the Irish tax system. Previous research carried out around the world on the matter have shown that the population in general has little knowledge of the taxation system which they are regulated by Saad (2014). To verify whether this is a reality for the population living in Ireland and consequently test this level of knowledge, it was required to collect data on individual taxpayers. Information about their understanding of simple information presented on their payslip and tax certificate, their knowledge on tax return filing, obstacles that may prevent understanding the taxation system and what means are used by them to comply with regulations despite the level of knowledge were the pillars of this study.

### **3.1 Research Philosophy**

For the purpose of this research, it was adopted the Onion Research Method by Saunders, et al. (2019). This method provides the layers to be used when designing a research methodology. When looked from outside, each part of the Onion method describes an extra certain stage of the search method.

When conducting research, there are several possible philosophies to be adopted from. The chosen one defines generally the way that the researcher perceives the world. For this research, the author is convinced to have been constructivist in his ontology and to have adopted and inductive approach in his epistemology.

Epistemology is the study of hypotheses about knowledge, as well as what embraces appropriate, factual, and legitimate knowledge and how we may carry it to others, whereas Ontology deals with the nature of reality, which poses alarms about the researcher's beliefs about how the universe functions and the devotion to particular points of view (Saunders, et al., 2019). In other words, these ontological expectations impact how the research goals are interpreted and analysed.

Reasons for such belief comes from the fact that it was offered to the sample the opportunity to respond according to their lived experience despite they are being asked questions based on the themes revealed through secondary data. There is openness in the research instrument to allow their standpoint, therefore the researcher is delving to comprehend the topic through the lens of the sample. This may be the case because it is believed that the world might be made



up of various experiences. Thus, answers that are deeper in insight can be developed, which allows validity to derive from the depth in the responses rather than in the quantity of respondents.

### **3.2 Methods**

The sample chosen for this study was based on taxpayer ranging from 18 to 60 years of age. The intention was to gather information from taxpayers of different age, educational background, and nationalities. This sampling method permitted that the relation between characteristics of a taxpayer and the amount their level of understanding of a tax system were analysed. Further, it allowed to compare the level of knowledge between Irish citizens and foreigners living in the country.

As this study required the use of surveys and interviews, it was involved the use of different tools, procedures, and materials. Google Forms were used to survey participants and gather the quantitative data. The qualitative data on the other hand, was collected through Zoom Meetings and face to face interviews. Interviews were recorded and then transcribed using a detailed application to be afterwards analysed with a visual approach.

It was aimed to measure variables such as the number of people who needed assistance when filing a tax return or claiming a relief. Further, the perception of fairness of the tax system according to the level of knowledge possessed by the taxpayer and the number of participants that could read and understand the content of their payslip and tax certificate. The basic knowledge of rate bands and cut-off were also variables evaluated in the research.

### **3.3 Sampling techniques and Sample size**

This research counted on a mixed method approach to collect the primary data. Surveys assisted in the collection of quantitative evidence whereas interviews brought about the qualitative portion of information.

Online survey to obtain quantitative information on the level of knowledge that taxpayers possess on the Irish taxation system, was available from June to August 2022, hosted on the Google Forms platform, with 17 multiple choice questions (tax return filing, revenue support, readability of tax regulations, information availability and other aspects related to complying with tax matters) with predictable 7 minutes to answer, reaching a total of 65 participants.

The qualitative data was obtained through 3 small relevant interviews which were conducted with focused groups. (An older Irish person, a younger Irish taxpayer, and an adult Brazilian taxpayer) with 15 open questions, for instance: Do you know how to file a tax return? What are the obstacles at understanding a tax system? How important is tax knowledge for compliance? Applied in July 2022, through Zoom Meetings, taking an average of 15 minutes to be completed.

As the research is based on a subject that affects the whole society, participants were reached through social media such as WhatsApp, Instagram, and Facebook and through approaching people at workplace, colleges, and universities. The collection of primary data was carried out by own means therefore, no reliance on third party for this purpose was employed.

The relevance of this sample is due to the contribution with key elements required to assist responding the overall research question. The different ages, nationalities, and educational backgrounds contributes to the diversity of the participants, assisting with the accuracy and authenticity of the research.

### **3.4 Interviewees Coding**

<b>Participant</b>	<b>Code</b>
Interviewee 1	IT1
Interviewee 2	IT2
Interviewee 3	IT3

### **3.5 Explanation analysis method**

Aiming to conduct the analysis of this project, the triangulation of the data from the literature research, the interviews, and the questionnaire was thoroughly conducted. By performing such triangulation, the researcher expected to enhance the reliability of the findings and avoid the structural bias brought by single viewpoints. Thus, the significance of collecting data through different methods. Thematic analysis was used to the qualitative portion of the data gathered, which permitted the researcher to recognize common characteristics or topics on the interviews. Once pointed out, these topics were utilized to facilitate the triangulation of the data with the literature and questionnaire. The questionnaire itself was prior triangulation analysed using charts provided by the platform Google Forms.

### 3.6 Thematic Coding

Theme	Interview
1. Information availability	<p><b>IT1</b>- It's not hard to get the information, you can call the revenue, watch on YouTube, check website.</p> <p><b>IT2</b>-The information is all out there when you search, it's easy enough to find this, to understand it is what I find difficult, maybe it's the terminology or the wording behind it that I find difficult.</p> <p><b>IT3</b>- Somebody at my age it's easier to go in and talk to people directly, it's not difficult to find.</p>
2. Potential obstacles	<p><b>IT1</b>- I never study it, ourselves, if everyone sits down and read, we create our problem, if we study is not hard to understand, I understand basic information, they use different words, people that have no graduation, not enough English, older people.</p> <p><b>IT2</b>-we're not taught in school, might be to do with the language, too technical, the system is very complicated.</p> <p><b>IT3</b>- Terminology might be difficult, need to spend some time reading through it, the main obstacle I think is people, maybe if they had more knowledge or information.</p>
3. Authorities' role	<p><b>IT1</b>- Fair, support from the government, money working back to you, can't complain the amount we pay.</p> <p><b>IT2</b>- Getting charged at the higher tax rate, don't come out with that much in the end, I don't think it's fair, financial education would be helpful.</p> <p><b>IT3</b>- I don't think it's fair, it can be simplified a bit better</p>
4. Tax compliance	<p><b>IT1</b>- I have done it myself, never needed assistance, next year I will need help with tax.</p> <p><b>IT2</b>- I used help before, I would get assistance again.</p> <p><b>IT3</b>- I use the revenue app and I submit, needed to call into their office to clarify some tax issues, overall, I think yeah, I would be able to do the returns.</p>
5. Risk of punishment	<p><b>IT1</b>- everyone pays because it is a rule, most of us we pay because we have to, people are afraid of the consequences, morale.</p> <p><b>IT2</b>- I'm not 100% sure of the threats or the legal action that can be taken, I wouldn't put down anything that wasn't true, maybe it's just an ethical thing, I would not provide false information</p> <p><b>IT3</b>- It's the right thing to do, has to do with the morale.</p>

It is worth noting that the scarce number of studies on individuals' knowledge of taxation systems in Ireland may be a study limitation; once that literature review is a vital aspect of any study, serving as foundation to the researcher and assists defining the scope of previous studies in the field. Moreover, since that nonprobability sampling is utilized, the findings may not be as valid for the entire population. Furthermore, the participants were chosen in a self-selection manner, which may lead to distorted responses, once that some people are not as eager to volunteer as others.

### **3.7 Ethical Section**

As expressed by Editage Insight (2019) "*Practising ethical guidelines while conducting and reporting research is essential to establish the validity of your research*". The researcher must follow ethical guidelines in order to ensure the safety of all involved, besides ensuring an authentic and error-free research.

Participants in this research project were given the freedom to withdraw at any time, the right to maintain confidentiality to protect their identity, the right to answer as many questions as they wanted, the total guarantee of absence of experiencing any sort of stress or harm. Surveys and interviews provided full description of the reasons and objectives of the research, time, and date, expected duration, authorisation, use of easy to comprehend language. Disclosure of general aspects of the project and answer to any queries related to the matter was also supplied.

## **CHAPTER 4 - FINDINGS & DISCUSSION**

### **4.1 Introduction to Findings and Discussion**

As previously mentioned, both survey and interviews were conducted with a total of 68 participants, all of which lived and were under some sort of tax obligation in Ireland at the time. It is believed by the researcher that the data collected was satisfactory to comprehend the themes, and to guarantee that it was the case, the triangulation between primary and secondary data was performed.

### **4.2 Information Availability**

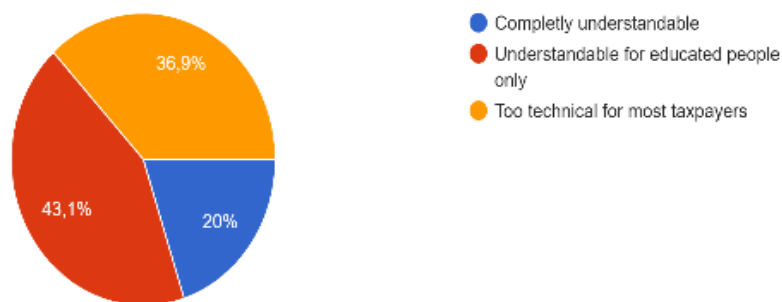
Information is crucial for the completion and familiarity of any task and subject. As it was highlighted in the literature, the availability of financial information plays an imperative role

to taxpayers' broader knowledge but also to reduce the impact on tax compliance. (Robbins, et al., 2015), (Vossler & McKee, 2016). It was also found that information and text relating to taxation systems possess low level of readability and are scarce, when available often requires taxpayer to have a high level of education to comprehend it due to too technical terminologies (Martinez & da Silva, 2019), (Lewis, 1982). Based on data collected, 80% of quantitative data said that tax information is relatively easy to find in Ireland and thus it is available, whereas 100% of interviewed participants agreed that it is very accessible contradicting (Martinez & da Silva, 2019). All participants agreed that this availability brings massive importance to a vaster knowledge however, such availability does not take away the complexity in which guidance is supplied. It is safe to assume that access to information has major impact on taxpayers' knowledge level, confirming the literature (Robbins, et al., 2015), (Vossler & McKee, 2016); except for the fact of secondary data indicated that information is scarce.

**Figure 1**

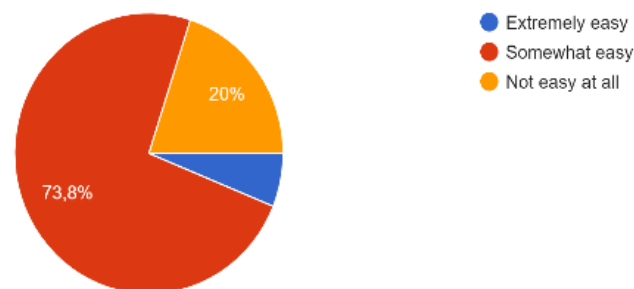
12. How do you find the language/structure in which the website is presented?

65 respostas



13. How easy is to find information about the tax system in Ireland?

65 respostas



### 4.3 Potential Obstacles

As any other area in the world, the level of knowledge that taxpayers possess is dependent on the potential obstacles on its way. It is believed by many that a shortage in tax knowledge is what brings the perception of complexity, but it is also discussed that the complexity itself that reduces the level of knowledge.

The literature suggests that the lack of financial literacy is one of the biggest obstacles to this sort of knowledge and that finances should be considered a mandatory subject in school (Saad, 2014). It also suggests that the complexity in which the tax system is presented is seen as a barrier by the taxpayers, once that such complexity may evolve in various distinct ways: compliance complexity (Niemirowski & Wearing, 2003) rules complexity (Carnes & Cuccia, 1996) procedural complexity (Cox & Eger, 2006).

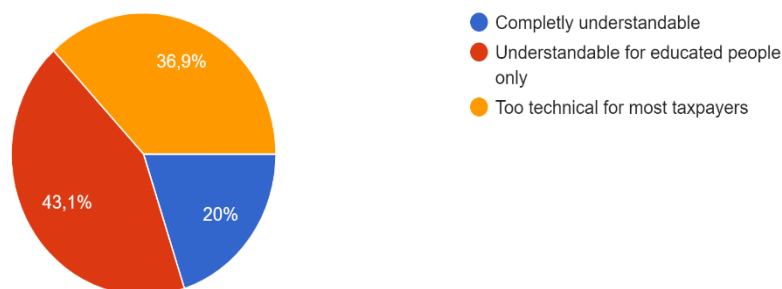
Primary quantitative research revealed that participants believe that the complexity in which the information is provided, and the lack of financial literacy are the major impediments to a high knowledge level thus confirming the literature (Carnes & Cuccia, 1996). The qualitative data on the other hand, suggested that taxpayers' lack of interest on the subject is the main cause of a low degree of knowledge, as stated by IT1 and IT3. The IT2 agrees with literature (Carnes & Cuccia, 1996) in relation to complexity and lack of financial literacy.

Overall, taking into consideration the size of the sample and the evaluating the outliers, it can be said that the literature (Niemirowski & Wearing, 2003), (Carnes & Cuccia, 1996) and (Cox & Eger, 2006) is confirmed, validating the idea that taxpayers are prevented to grasp a larger awareness of the tax system in general due to its complexity.

**Figure 2**

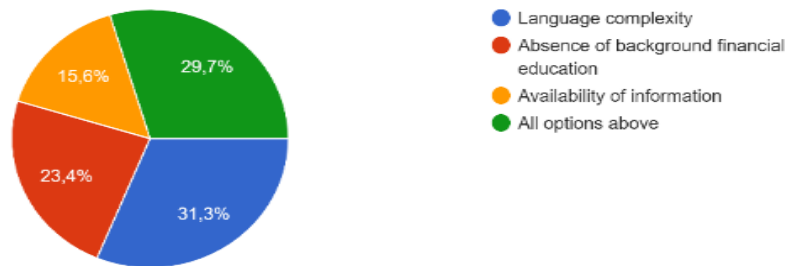
12. How do you find the language/structure in which the website is presented?

65 respostas



### 9. What do you consider to be an obstacle that prevent you from understanding the tax system?

64 respostas



#### 4.4 Authorities' Role

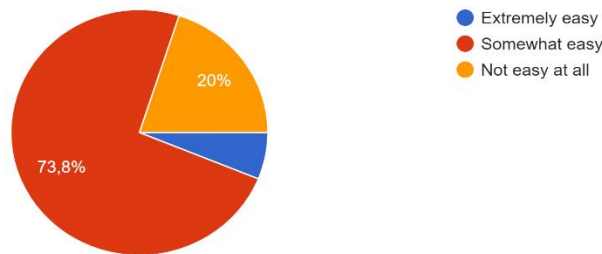
The approaches that authorities assume towards the familiarity that taxpayers have with their taxation system can be somewhat unusual, yet it can cause a substantial effect. Literature showed that implementing fiscal laws and fiscal knowledge as a mandatory part of high school might enlarge knowledge and consequently improve compliance (Palil, 2011). This responsibility lies on the government and educational authorities (Richardson, 2006). It likewise suggested that the attitude that authorities assume towards taxpayers are found to be extremely relevant. If an approach of “cops and robbers” is adopted for instance, taxpayers tend to comply only if they are forced to. Whereas in a “service and clients” approach, taxpayers tend to perceive fairness in the taxation system and comply willingly (Kirchler, et al., 2008). The results of primary data support the literature on the fact of relationship between authorities and taxpayers can play a significant role in compliance.

Confirming the literature (Kirchler, et al., 2008), primary data as displayed in the figures below suggested that the relationship between authorities and taxpayers helps knowledge diffusion and contributes to an advanced and more efficient tax compliance. It was stated by IT1 and IT2 that governments should introduce financial education in high school in order to better prepare taxpayers to cope with taxation matters and to acquire an enhanced personal finance management.

### Figure 3

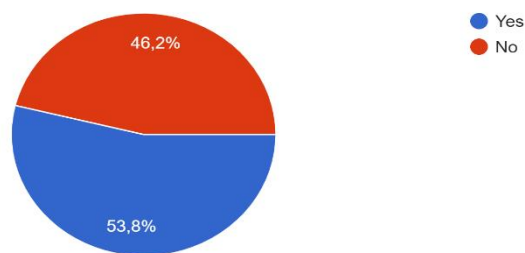
13. How easy is to find information about the tax system in Ireland?

65 respostas



11. Do you consider the revenue a supportive body?

65 respostas



## 4.5 Tax Compliance

As previously stated, compliance is directly linked to the level of knowledge that a population possess. Literature found that in countries with high financial literacy, taxpayers tend to perceive tax systems as fair and therefore compliance is not an issue (Mukasa, 2011) and (Lewis, 1982). It was also found that when there is lack of knowledge, taxpayers tend to seek assistance from tax preparers (Long & Caudill, 1987).

All participants, affirmed to have sought or will seek professional help to deal with taxation matters such as claim reliefs and file tax return. Only 29.2% declared to be able to be able to comply without any sort of assistance, in accordance with the literature (Long & Caudill, 1987). Opposing the literature on the other hand, which suggested that taxpayers perceive tax system as fair in general, primary research revealed that only a small portion of the population sees the system as fair, the vast majority disagree with the tax terms and charges at some extent. Lastly,

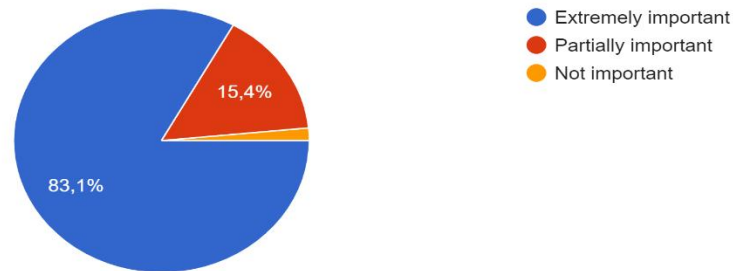


85% of participants agreed with the literature on the suggestion that familiarity with the tax system is vital for tax compliance, and the remainder 15% thinks it is at least partially important.

**Figure 4**

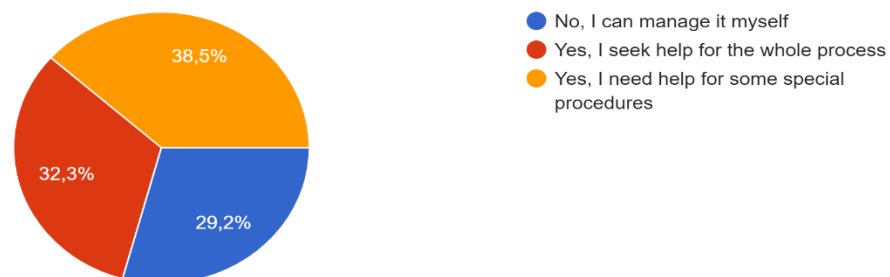
14. In your opinion, how important is tax knowledge to compliance?

65 respuestas



15. Do you need assistance when complying with your tax matters?

65 respuestas



#### 4.6 Risk of Punishment

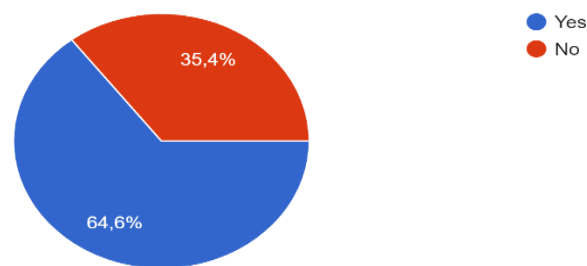
The severity of the risk may be a very subjective aspect as well as the likelihood of being caught and punished. Apart from Mohdalia, et al. (2014) who found that threat of punishment does not affect compliant taxpayers, on the contrary, it has the opposite effect, the literature suggested that taxpayers do concern about penalties and other financial and non-financial forms of punishment for lack of compliance (Alm, 2018). Further, it was stated that high possibility of exposure and the probability of unwanted outcomes and penalties being severe and costly force taxpayers to comply with regulations (Wenzel, 2004). This altogether with the high penalty in identified noncompliance act as an incentive to be in accordance with taxation policies (Alm, et al., 1992).

The primary data gathered through survey is in accordance with the literature (Wenzel, 2004) where 65% of participants responded that the risk of being punished has a substantial impact on compliance. Besides, 84.6% revealed that the greater the punishment in case of noncompliance, the greater the effort to comply. The interviews however, suggested that taxpayers comply because they think it is the right thing to do, based on morale and ethics, despite there may be penalties or not. By comparison, with the size of qualitative and quantitative statistics, the primary data validates the literature on the basis that the taxpayer is forced to comply based on the fear that punishment may be too severe and harmful too either their bank account or social image.

**Figure 5**

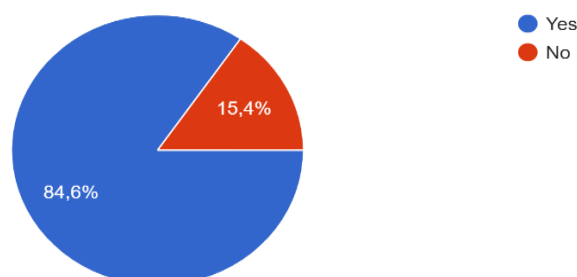
16. Do threats of penalties force you to follow regulations?

65 respuestas



17. Does the severity of the punishment matter?

65 respuestas



## CHAPTER 5 - CONCLUSION

In conclusion this research has debated the importance of tax knowledge for compliance, attempted to disclose the reasons for the current level of knowledge but, most importantly has discussed how little people know about their current tax system.

The results showed that people only have knowledge of the very basic information about their tax charges, rights, and responsibilities. This lack of knowledge leads them to often regard the system as unfair and therefore, be reluctant to comply, which result in loss for the whole economy of a nation. It was found that in most cases taxpayers seek professional assistance to ensure that they are in order with tax regulations mostly because they are afraid of the consequences that may arise, rather than a moral standpoint. However, there were still a minority number of taxpayers revealing to comply because it is “the right to do”.

Overall, this research demonstrated that the level of knowledge that individual taxpayers possess is considerably low, notwithstanding the facilitated access to information. I do believe that this research will aid policies makers and society in general to understand the significance of this sort of knowledge and support all in the search for clarity. These findings leave us with the sensation that society has now an indication of what to alter and consider when choosing new manners and incentives for financial knowledge propagation in the insatiable quest of a brighter, more knowledgeable future.

### 5.1 Limitations

Amongst the barriers faced by this research, four obtruded and thus brought greater impact to its conducting:

- Representativeness of the sample: On account of being non-rewarded research, and perhaps the current busy lifestyle, it was difficult finding people keen to respond to the questionnaire and to give interviews.
- Nature of research: The fact that the project was carried out at undergraduate level, limited the resources to a more accurate result.
- Difficulty at finding tax advisors to interview: the first idea was to also interview personal tax advisors to assist understand what are the most common doubts that taxpayers bring to them, however, the lack of professionals eager to provide this sort of support acted as a limiting factor.

- Scarcity of literature on the specific topic: It was not possible to locate many sources of literature relating specifically to individuals' taxation knowledge, thus triangulation was somewhat constrained.

## **5.2 Recommendations**

For the development of literature and building of knowledge on the matter, I recommend that future researchers explore new paths and strategies when attempting to assess the degree of familiarity that taxpayers possess on the Irish taxation system, for instance:

- A deeper analysis of the level of knowledge that younger adults possess on taxation and personal finance.
- Research to identify the best practice to teach students and taxpayers' general finance.
- Further analysis on possible ways to simplify language and structure complexity of tax systems.

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## APPENDICES

### Appendix 1: Informed Consent Form

Research study title: **Taxpayers knowledge of the Irish Tax System and the Impact on Compliance**

Purpose of research: Identify the level of knowledge that taxpayers under the PAYE system has on the Irish taxation system.

Dear \*\*\*\*\*

You are being invited to take part in this research study as you have had experience in the Irish taxation system. This research study aims to gain an understanding of the challenges and issues that affect taxpayers' level of tax knowledge.

This research is being carried out by Jose Milton Rodrigues Sabara as part of a Degree in Accounting and Finance in Independent College Dublin. The study is being conducted under the supervision of Prof Andrew Deegan and Dr. Daniel O'Sullivan (School of Business ICD).

- I.....voluntarily agree to participate in this research study.
  
- I understand that even if I agree to participate now, I can withdraw at any time or refuse to answer any question without any consequences of any kind.
  
- I understand that I can withdraw permission to use data from my interview within two weeks after the interview, in which case the material will be deleted.
  
- I have had the purpose and nature of the study explained to me in writing and I have had the opportunity to ask questions about the study.
  
- I understand that participation involves...[outline briefly in simple terms what participation in your research will involve)
  
- I understand that I will not benefit directly from participating in this research.

- I agree to my interview being audio-recorded.
  
- I understand that all information I provide for this study will be treated confidentially.
  
- I understand that in any report on the results of this research my identity will remain anonymous. This will be done by changing my name and disguising any details of my interview which may reveal my identity or the identity of people I speak about.
  
- I understand that disguised extracts from my interview may be quoted in my research project .
  
- I understand that if I inform the researcher that myself or someone else is at risk of harm, they may have to report this to the relevant authorities - they will discuss this with me first but may be required to report with or without my permission.
  
- I understand that signed consent forms and original audio recordings will be retained in [specify location, security arrangements and who has access to data] until [specific relevant period – for students this will be until the exam board confirms the results of their dissertation].
  
- I understand that a transcript of my interview in which all identifying information has been removed will be retained for [specific relevant period – for students this will be two years from the date of the exam board].
  
- I understand that under freedom of information legalisation I am entitled to access the information I have provided at any time while it is in storage as specified above.



- I understand that I am free to contact any of the people involved in the research to seek further clarification and information.

----- 08/07/2022

Signature of participant

Date

Signature of researcher

I believe the participant is giving informed consent to participate in this study

Jose Milton Rodrigues Sabara 08/07/2022