Abstract WP 56

Throughout the 1990s, tens of thousands of Australian taxpayers invested in mass-marketed tax effective schemes. They enjoyed generous tax breaks until the Australian Taxation Office (Tax Office) told them in 1998 that they abused the system. This study examines the circumstances surrounding taxpayers’ decision to invest in scheme arrangements. It also explores investors’ perceptions of the way the Tax Office handled the schemes issue and, perhaps more importantly, why such a large number of investors defied the Tax Office’s demands that they pay back taxes. Data were taken from in-depth interviews conducted with 29 scheme investors. Consistent with the procedural justice literature, the findings revealed that many of the scheme investors interviewed defied the Tax Office’s demands because the procedures the Tax Office used to handle the situation were perceived to be unfair. Given these findings, it will be argued that to effectively shape desired behaviour, regulators will need to move beyond enforcement strategies linked purely to deterrence. A strategy that aims to emphasise the procedural justice aspects of a regulatory encounter will be discussed.