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# The influence of education on tax compliance

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A THESIS
Presented to the

Honors College at Southern University
Baton Rouge, Louisiana

In Partial Fulfillment of the Requirements for the
Honors College Degree

by

Trina N. Ruth
December, 1996

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Honors College

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**CERTIFICATE OF APPROVAL**

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**HONORS THESIS**

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This is to certify that the Honors Thesis of
Trina Ruth
has been approved by the examining committee for the thesis requirement
for the Honors College degree in Accounting, December, 1996

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An Abstract of a Thesis

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This thesis will explore the effect that education of income tax laws would have on the increase of taxpayer compliance. It will attempt to show that with proper education and information about their income tax reporting an increase in compliance would be the result.

The research that will be used for data and statistical purposes will be in the form of a survey. The survey targets Beauty Salons, Barber Shops, and Beauty Schools. This survey will serve as the medium to research the notion of how much income taxpayers actually report. Other social and economical factors such as age, sex, race, marital status, educational level, and number of dependents in a household will also be used to determine how these factors effect income reporting.

Experimental data and research articles from magazines, books, journals, and government documents have also been used in this study. This information will be used to discuss the educational aspect of the hypothesis. This research will attempt to show that with education, tax compliance seminars and programs, this would in turn increase tax compliance and decrease the amount of money spent for federal audits and collection processes.

I would like to thank Professor Mary Alice Gray Darby for serving as my academic advisor, for without her, this thesis would not have been possible. I would also like to think Dr. Andrews for his assistance with my statistical analysis. To Dean Beverly Wade and the Honors College Staff, thanks for four years of friendship, advice, and encouragement.

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**Figure**

# Chapter I
# BACKGROUND OF THE STUDY

## Introduction

"Education is the key to success." This phrase has been widely used, but it accurately describes the objective of this thesis entitled, The Influence of Education on Tax Compliance. The theme of this thesis is to show that the knowledge that an individual taxpayer has about tax laws, is directly related to income reporting. It intends to show that if proper education were available to taxpayers, taxpayers would be more inclined to comply with government tax laws and regulations. A survey targeting Beauty Shops, Barber Shops, and Beauty Schools was used for this research. The survey's objective was to show why people comply or fail to comply with federal income tax report requirements. The survey suggests that certain influences such as age, education level, marital status, and sex all play an important role in determining the level of taxpayer compliance. Of all the other influences that may conform with noncompliance, education is the greatest of all factors. Education can break the cycle of noncompliance among taxpayers. Education is the key to reaching compliance of taxpayers in their income tax reporting.

## Statement of Problem

The concern of this thesis is why people comply or fail to comply with income tax reporting requirements. It is the intent of this thesis to test the hypothesis that the main reason for noncompliance of tax laws is a lack of knowledge concerning tax laws and regulations. Of the many different factors that may affect the desire to report income honestly, one main factor is the taxpayer's perceptions about the fairness of the tax system. First, there are perceptions about the fairness of the tax code itself and about whether it allocates tax burdens equitably amongst different social groups, such as rich and poor or old and young. Second, there are perceptions about whether others are able to "play the system" better than oneself, either through illicit evasion or legal avoidance, thereby reducing their relative tax burdens. A final issue is how taxpayers form their perceptions of the reporting behavior of other taxpayers, they suggest that they rely on a variety of sources, including aggregate statistics, reference group comparisons, and the media.

## Importance of the Study

Noncompliance with tax laws and regulations often results from a lack of education. This deficiency is directly related to the fact that most taxpayers aren't aware of tax laws. This study is to show that if taxpayers were more aware of tax laws and regulations they would be more incline to abide by these laws and report more of their income. Compliance with tax laws would also cut down the costs of federal audits and collection processes. Lastly, this study will show that tax compliance is also greater when taxpayers perceive some benefits from a public good funded by their tax payments. Changes in fine rates appear to have little effect of tax compliance behavior.

## Definitions of Terms Used

**Taxpayer Compliance** - Compliance with income tax reporting requirements involves accurate reporting of taxable income, accurate claims of subtraction such as income adjustments and itemized adjustments deductions, correct computation of tax liability, and timely filing of the tax return. These tasks require reading and arithmetic skills, record-keeping effort and judgements that challenge the capabilities of many taxpayers.

**Taxpayer Noncompliance** - The overreporting and underreporting of tax liability. It includes both deliberate underreporting that is punishable by criminal sanctions and underreporting due to misinformation, misunderstanding,

negligence, or some other cause.

**Internal Revenue Service(IRS)** - The Internal Revenue Service is a governmental agency that regulates tax income reported and tax laws and regulations.

**Taxpayer Compliance Measurement Program (TCMP)** - The Taxpayer Compliance Measurement Program was begun by the IRS in 1962. It was created to measure taxpayer compliance.

# CHAPTER II
# LITERATURE REVIEW

## Internal Revenue Service Targets Noncompliance

In an effort to aid the Internal Revenue Service (I.R.S.) in determining the factors of noncompliance, the I.R.S. has added changes to their system that will ensure the identification of causes of noncompliance with tax codes(Practical Accountant, 1995). The I.R.S. pointed out that it will develop and maintain database and retrieval systems accessed through automated local area networks. The purpose of these systems will be to combine information from sources inside and outside the I.R.S., such as data on motor vehicles, businesses licenses, currency and banking, and commercial database information into a centralized processing network for each district, service center and region. These databases would be available for use by all I.R.S. functions on a need-to-know basis. The new system will approach businesses from a unified perspective to provide one-stop information to compliance personnel within a local area and, thereby greatly reduce the need for separate contracts with various outside sources. This database system is currently exempt from certain provisions of the Privacy Act and no amendments to the rule releasing this system from certain provisions of the Privacy Act is already being made to the system

**Strategies for Implementing Compliance**

Compliance 2000 (Practical Accountant, 1995), is a program developed to aid in the implementation of taxpayer compliance. Compliance 2000 will emphasize taxpayer education with a more focused use of enforcement resources. It will address making the tax system easier for taxpayers to comply with voluntarily, but still recognizing that with the service's best efforts, some people will not voluntarily respond. Another goal of Compliance 2000 is to identify and address causes of noncompliance. The categories of individuals to be covered by the system include self-employed persons, businesses and others who don't file employment tax returns or those who may be involved in tax evasion schemes. The system implementation is scheduled for January 30, 1995.

**Types of Assistance Provided to Taxpayers**

The I.R.S. has provided some form of assistance to taxpayers since the early 1940's(Stathis, 1987). The assistance has evolved from providing tax information over public address systems in federal buildings to the current program, in which assistance is provided over the telephone, at walk-in offices and through correspondence and special community programs. The overall objective of the I.R.S.' taxpayer assistance program is to encourage voluntary compliance with tax laws by informing taxpayers of their responsibilities and by

providing the guidance and assistance that will assist them in meeting their obligations. Through its various activities, the I.R.S. assists taxpayers inquiring about tax laws, their accounts, and I.R.S. notices and procedures.

The I.R.S. provides a similar range of taxpayer assistance services to the approximately four million U.S. citizens and military personnel residing abroad. The I.R.S. provides this assistance in fourteen(14) foreign cities during the tax filing season. Taxpayer assistance is also provided overseas by the I.R.S. with the cooperation of the Departments of Defense and State.

**The Taxpayer Compliance Measurement Program**

The Taxpayer Compliance Measurement Program (TCMP)(McCormally, 1993) was begun by the I.R.S. in 1962. The main objective of this program is to correct any discrepancies between taxpayers' reports and the TCMP auditor's assessments as a measure of noncompliance. This measure is used both in developing statistical rules for selecting tax returns for audit and in producing aggregate non-compliance estimates. The TCMP randomly selects 50,000 tax returns from all income levels every three years. Each return undergoes a total, line-by-line audit. Once selected there is no way to escape. From the TCMP data, the I.R.S. gets a more accurate picture of the tax cheating problem. Not only does the program indicate what proportion of people cheat and by how much, but the methods they use. Among the most popular are failing to report

income-wages, dividends, interest, tips and the like-and exaggerating deductions, including business and moving expenses, interest payments, local taxes and others. Based on this information, the I.R.S. develops and refines a series of mathematical formulas that its computers use to select for auditing. The tax returns that are selected are most likely to be fraudulent. The formulas are among the I.R.S.' most closely guarded secrets; few employees have gotten close to them. They are kept locked in file cabinets and are closely watched.

**Complexity and Compliance Costs**

An important issue to the tax lawyer is the certainty, or predictability, of the tax law(Blumenthal & Slemrod, 1992). To the tax collection agency, complexity in large part relates to the administrative cost of raising revenue, or the enforceability of the tax law, and in particular relates to the encouragement that some tax provisions provide for the use of complicated schemes to avoid tax payments. For the taxpayer, the critical aspect of complexity is the time and expense involved in completing the tax return, or compliance cost, including not only complying with the filing requirements, but also identifying and documenting the deductions, credits, and reductions in taxable income to which the taxpayer is entitled.

Complexity of a tax system cannot usefully be defined independently of the characteristics of the potential taxpaying population. The difficulty of a step

in the tax filing process depends on the cognitive skills of those who must complete the step. Similarly, the total cost of tax collection is an outcome of the interaction between the complexity of the tax system, the preferences of the potential taxpayers, and other characteristics for the tax system. How much time and money are spent on tax matters depend on how much individuals value time spent on their tax affairs, how risk-averse they are, and their marginal tax rate. The administrative cost, compliance cost, and costs borne by third parties for example employers operating the with holding system make up the total resource costs of collecting taxes.

**Literature**

The modern literature begins with the work of Wicks(1965, 1996), who enlisted a group of University of Montana economics students to mail surveys to their parents about the costs of filing state and federal returns. He concluded that compliance activities claim an average of thirty-two percent of state and eleven and a half(11.5)percent of federal tax revenues. Those with the highest compliance costs were the self-employed and people engaged in professional, managerial, and sales occupations.

Slemrod and Sorum(1948) surveyed two thousand Minnesota households by mail concerning their experience complying with both federal and state tax laws. They found that on average a taxpayer spent 21.7 hours on tax matters,

or approximately two billion hours in total; the combined time and money costs amounted to five to seven percent of income tax revenue. The survey data showed that costs generally follow a U-shaped pattern as a fraction of income. Self-employed respondents in this study also experienced considerably higher-than-average compliance costs; holding other demographic factors equal, the self-employed spent thirty-five more hours; sixty-nine more dollars, and had over four hundred dollars in total resource costs than the reference group of employees.

Commissioned by the I.R.S. to study compliance costs, Arthur D. Little(1988), conducted two national taxpayer surveys, one a daily study of time spent in 1983 by 750 individuals and the other a retrospective mail questionnaire sampling approximately 6,200 taxpayers. Drawing on a more complete sample, the Little results were nevertheless broadly consistent with those of Slemrod and Sorum, suggesting that the total burden on individuals was 1.59 billion hours.

None of these studies, taken above permits a direct examination of how compliance costs respond to a change in the tax structure. An indication of how Americans think, TRA 86, affected their compliance costs is afforded by the results of a 1990 results of a 1990 Gallup Poll(Newport 1990). Forty-eight percent of those polled believed that the system in 1990 was as complicated

as it was before the law was passed, while thirty-one percent believed that it had become more complicated. Only twelve percent thought it had become simpler.

**Methodology**

During the week following April 15, 1990, 2000 Minnesota households were mailed a questionnaire surveying demographic and tax status information and their expenditures of time and funds on the filing of federal and state income tax returns. The households were selected randomly by a professional sampling firm, Survey Sampling Inc., using telephone listings and voter registration; the sample was not stratified. The mailing included a cover letter introducing the researchers and explaining the rationale for the study, and a postage paid return envelope. To assure comparability, the content of both the letter and the questionnaire was almost identical to that of Slemrod and Sorum's earlier study.

There was one substantive change worth mentioning, specifically the addition of a category of time taxpayers spent complying : the time spent in arranging financial affairs to minimize taxes. As a follow up each household received a reminder postcard about one week later. The effective response rate (neglecting 86 questionnaires which were refunded as"undeliverable") was 43.4%.

The survey instrument requested that the household member who was most familiar with filing income tax returns respond to the questions. The demographic data collected included gender, age, marital status, education, occupation, and race.

As was true in 1982, the sample of respondents was not representative of all U.S. taxpayers. In order to make the results more representative of the U.S. taxpaying population, the Slemrod-Sorum procedure of weighing the sample was followed. Of the 826 questionnaires returned, 76 were from non-filers who furnished no useful information about compliance costs. Forty-two of the remaining questionnaires were eliminated, 38 because of incomplete data and 4 on the basis of inconsistent responses, resulting in a final sample size of 708.

**Results**

Presented in a series of tables(Blumenthal & Slemrod, 1992) which describes the relationship between compliance costs and a number of demographic variables collected in this survey, comparing these with those of the 1982 survey(without testing for statistical significance). Then, we run multiple regressions to disentangle the joint effects of these variables and to investigate differences in their effects in 1982 and 1989, using standard statistical inference.

The weighted frequency distribution of time and expenditures for professional assistance on compliance activities is shown in Table 1 (See appendix). As in subsequent tables, beneath each entry in parentheses is the corresponding figure from the 1982 survey. All dollar figures are adjusted to a 1989 base.

We find that on average, a taxpayer devoted 27.4 hours of his own time to tax matters, compared to 21.7 hours in 1982. On average a taxpayer in 1989 spent $66 on professional assistance, compared to $45 in 1982. Note that because 49% of the households did not hire an advisor, those who did had an average expenditures of over $132 per taxpayer. The distribution of both hours and expenditures is similar in both years, with the median being significantly lower than the mean. For both components of compliance cost, on 1989 a much larger fraction of individuals are in the upper tail (30.9% in 1989, compared to 22.9% in 1982, spent more than 25 hours, 26.5% in 1989 compared to 19.7%in 1982, spent $75) or more.

Tables 2,3, and 4 (see appendix), offer snapshots of compliance costs broken down by several demographic variables.

Table 2, shows weighted average compliance costs by income.

Table 3, explores the relationship between educational attainment and compliance costs.

Table 4, shows compliance costs presented by age, gender, and employment.

## Conclusion

The total cost of any tax system necessarily includes the resources expended on collecting the revenues. While some of the "collection" costs are brought directly by the tax-administering agency, taxpayers shoulder much of them, in guise of the time and money they spend filing returns and complying with(or avoiding) the rules. From the taxpayer's view, there are many obstacles to lower costs: multiple forms with pages of confusing directions, the need to keep complex and detailed records and to understand the personal impact of a code with threats alternative economic behaviors differently, the consequences of making a mistake or being late, and the trouble and expense of hiring competent assistance. Simplifying the income tax would lower these barriers and lower the necessary investment of taxpayer's time and expenditures in complying with the regulations.

## Economic Models of Tax Compliance

Conventional models of tax compliance emphasize that taxpayers make strategic tax reports, underreporting income to the extent that this behavior is financially rewarded. In contrast to this view, considerably empirical evidence(Erad & Feinstein, 1994) suggests that many taxpayers are inherently honest, reporting truthfully regardless of the incentive to cheat. In this study a game-theoretic model of tax compliance that includes both honest and potential dishonest taxpayers. It will show that including honest taxpayers significantly alters the model, leading to much-improved empirical predications and somewhat different and novel policy implications.

## Framework of Model

In economic models of tax compliance it has traditionally been assumed that taxpayer reporting behavior is driven primarily by the incentives of the tax system. According to this framework(Erad & Feinstein, 1992) taxpayers choose how much income to report on their tax returns by solving a standard expected utility-maximization problem that trades off the tax savings from underreporting true income against the risks of audit and penalties for detected noncompliance.

The purpose of this study is to challenge what is believed a widely held view; that honest taxpayers, although they may exist, do not significantly influence most aspects of tax compliance systems, including policy formulation.

It hopes to demonstrate that in fact honesty does matter and that it is important to account for the presence of inherently honest taxpayers when formulating models of noncompliance.

**Solution of the Model**

A full solution of the model (Erad & Feinstein, 1994). requires not only the solution of either equation for the risk-neutral taxpayer case or the comparable equation for the risk-averse taxpayer case; it also requires the specification of the appropriate boundary conditions and a choice to satisfy the budget constraint. In addition, it is necessary to address the possibility of pooling by dishonest taxpayers at the boundaries of the reporting region.

This study has been to show how incorporating honest taxpayers into the tax compliance game substantially alters the equilibrium solution of the game and improves its fit with empirical facts. The aim of the research is to move the theoretical literature on tax compliance closer to meaningful empirical implementations and policy formulation. It also hopes that the model will bridge the gap between the economic literature on tax compliance and the sociology and psychology literatures on noncompliance.

**Experimental Data Used**

The fundamental difficulty in empirical work on taxpayer compliance is the absence of detailed and reliable information on individual compliance choices

(Alm, Jackson, & McKee, 1992). This study uses data from laboratory experiments to estimate individual responses to tax penalty, and audit rate changes, as well as to changes in government expenditures. The empirical results confirm some theoretical predictions and compare qualitatively with other empirical work. Taxpayer reporting increases with greater audit and penal rates; however, these responses are not large. Compliance is also greater when individuals face a lower tax rate and when they receive something for their taxes.

**Theories of Tax Compliance**

The standard theory of tax compliance is based on the work of Allingham and Sandmo(1972). An individual is assumed to have a fixed endowment on income I, and must choose the amount to report to the tax authorities. Declared income D is taxed at the rate t. Unreported income is not taxed, but the individual may be audited with the probability p. at which point a fine, f ,is imposed on each dollar of unpaid taxes. The individual chooses D to maximize the expected utility of the evasion gamble. This theory suggests that there is a demand for declared income represented by the formula:

$$D = D(I,t,p,f).$$

## Experimental Results

The empirical results indicate that tax compliance increases in income and audit rates and decreases in tax rates(Alm, Jackson,& Mckee, 1992). Experimental methods arguably can contribute significantly to policy debates, as long as some conditions are met; the payoffs to subjects must be salient, better subject decisions yield higher subject payoffs, decision costs must be commensurate with the payoffs, and the experimental setting must capture the essential properties of the naturally occurring environment that is subject to investigation.

It therefore appears that there are additional policy instruments beyond the standard prescription of greater enforcement actions that government can enact to achieve its desired degree of compliance with tax laws. In fact, some of these standard instruments(greater penalties) may be largely ineffective in increasing tax compliance. In general, government should pursue a range of approaches in its efforts to promote tax compliance.

# CHAPTER III
# EDUCATION AND COMPLIANCE

## I.R.S. and Tax Education

In the area of taxpayer education the I.R.S. entered into cooperation agreements with thirty-two(32) non-profit organizations to conduct Tax Counseling For The Elderly and 20,000 volunteers helped over 965,000 elderly taxpayers(Hershey, 1993). Approximately 39,000 volunteers helped over 800,000 taxpayers through Volunteer Income Tax Assistance(VITA). Three TV Tax Clinics assisted nearly eight million viewers and Print and Electronics Media Releases carried an estimated advertisement value of thirty-five million dollars.

## Tax Advisors and Tax Compliance

Tax preparation and related financial advice has become a large industry in the United States(Sanford,1990). A much-quoted round number is that nearly half of all federal tax returns are prepared with the help of third parties are much larger than those to individually prepared returns. This supports the notion that the enlistment of third-party preparers and advisors will aid in the war on noncompliance.

Services provided by third parties include filling out forms, resolving the taxpayer's uncertainty about tax treatment of ambiguous or confusing tax

issues, planning tax payments or investments to minimize tax liability, and representing taxpayers before the I.R.S. in case of an audit.

The advice from tax preparers would then deter taxpayers from voluntary or involuntary tax noncompliance. Because of the threat of an audit taxpayers will seek tax advisor's advice on tax related uncertainties.

# CHAPTER IV
# THE SURVEY

## Methodology

To conduct my study I circulated one hundred(see appendix) surveys by hand to Beauty Shops, Barber Shops, and Beauty Schools in the Baton Rouge area. Individuals participating in the survey were asked to answer all questions as accurately as possible and respond to "additional comments" as necessary. The participant were assured that the information contained in the survey would be kept strictly confidential and used for statistical purposes only. Participants were given a self stamped addressed envelope and a week deadline to complete and return their surveys.

## Model

Sixty percent(60%) of the surveys were returned by the deadline to make up a sample size of 60 participants in total.

To distinguish the groups studied(Beauty Shops, Barber Shops, Beauty Schools), a numerical value of 1, 2, and 3 were assigned to each profession respectively. The technique used to analyze the survey was to assign each factor a numerical value. Questions that contained a yes/no response was assigned a zero/one numerical factor respectively.

To distinguish other social and economical factors such as age, sex, race,

educational level, marital status, job status and how much income reported a ranking numerical values were used as follows:

**Age**

| Numerical Value | Age Group |
|---|---|
| 1 | 20 - 30 |
| 2 | 31 - 45 |
| 3 | 46 - 50 |

**Sex**

| Numerical Value | Gender |
|---|---|
| 0 | Female |
| 1 | Male |

**Race**

| Numerical Value | Race |
|---|---|
| 0 | African American |
| 1 | White |
| 2 | Asian |
| 3 | Other |

**Educational Level**

| Numerical Value | Level |
|---|---|

| | |
|---|---|
| 1 | Some High School |
| 2 | High School Graduate |
| 3 | Some College |
| 4 | College Graduate |

**Marital Status**

| Numerical Value | Status |
|---|---|
| 1 | Single |
| 2 | Married |

**Job Status**

| Numerical Value | Status |
|---|---|
| 1 | Employee |
| 2 | Owner/Operator |
| 3 | Independent Contractor |

**Income Reported**

| Numerical Value | Amount Reported |
|---|---|
| 1 | Less than 50% |

| | |
|---|---|
| 2 | 50% |
| 3 | 75% |
| 4 | 85% |
| 5 | All |

Finally, because some of the factors and questions asked in the survey were similar and had long titles the following acronyms were used to input responses:

Group Studied - Beabus

Marital Status - MStatus

Eductional Level - Educ

Job Status - JStatus

Question #1 - Spoujob

Question #2 - Numdep

Question #3 - Increp

Question #4 - Cashincr

Question #5 - Outincom

Question #6 - Outind

Question #8 - TipRep

Question #10 - Socialse

Question #11 - PayTaxrp

Question #12 - Busage

Question #13 - Jstatus

Question #14 - Busoutside.

**Results**

In analyzing the correlation(see appendix) between age and the amount of income reported, the amount of cash income reported, the amount of outside income reported and the amount of tips reported; results showed that individuals in a higher age bracket had a tendency to report more income than individuals in a lower tax bracket.

Survey results also showed that out of the 60% if individuals reporting 32% of females reported more income than the 28% of males that reported. The same rung true on the basis of tips reported and income outside of home reported.

Married individuals also showed better reporting than single individuals. Single individuals matched poorly with married individuals when reporting tips, cash income received, income earned outside of home an on all income earned.

The educational level of the participants also played a major factor in

reporting income. The higher level of education the individual received, the more income they reported. This was also true for all types of income reported including tips.

In a final analysis 49% of the 100% of individuals responding that would be willing to pay more taxes and report all income if they were aware of the greater benefits that they would receive when they retire.

When asked about different taxes that applied to their business, such as the self-employment tax, while 32% reported that they were aware of the tax there was 28% that wasn't aware of the tax and had probably never reported that they were self-employed.

Lastly, 32% of individuals reported that they were not aware of the fact that the Social Security that receive when they retired is directly related to what they pay towards the Social Security Fund, but again 49% of these individuals did respond that they would be willing to pay more taxes and report all income because of this fact.

## CONCLUSION

In conclusion, the survey conducted on Beauty Shops, Barber Shops, and Beauty Schools proved that education does have an "influence" on tax compliance. The results clearly showed that 49% out of 60% responded that if they were made of the tax laws and regulations, they would be more willing to comply. Education would also aid taxpayers in understanding and completing difficult tax forms. Tax seminars and tax counseling were also ideas that participants identified as tools in the fight for compliance with tax laws. If the Internal Revenue Service would arm themselves with the above mentioned solutions the war on tax noncompliance would be won.

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# APPENDIX

**SURVEY**

_____ Beauty Shop
_____ Barber Shop
_____ Beauty School
(Please Check One)

Age:
_____ 20 - 30 _____ 31 - 40 _____ 45 - 50
(Please Check One)

Sex:
_____ Female _____ Male
(Please Check One)

Race:
_____ African American _____ White _____ Asian _____ Other
(Please Check One)

Marital Status:
_____ Single _____ Married
(Please Check One)

Education Level:
_____ Some High School _____ High School Graduate
_____ SomeCollege _____ College Graduate
(Please Check One)

1. If married, does your spouse have a salaried job?
   _____ Yes _____ No
   (Please Check One)

2. How many dependents live in your household?
   _____ Yes _____ No
   (Please Check One)

3. How much of your income do you report?

_____ All _____ 85% _____ 75% _____ 50%
_____ less than 50%
(Please Check One)

4. Do you report all of the cash income that you receive?
_____ Yes _____ No
(Please Check One)

5. Do you do business outside of your shop(ex. home)?
_____ Yes _____ No
(Please Check One)

6. If yes, to the previous question, do you report this income?
_____ Yes _____ No
(Please Check One)

7. Do you receive tips for your services?
_____ Yes _____ No
(Please Check One)

8. If yes to the previous question, do you report this income?
_____ Yes _____ No
(Please Check One)

9. Did you know that by being self-employed there is a direct self-employment tax that is to be paid with the amount of money reported?
_____ Yes _____ No
(Please Check One)

10. Did you know that the Social Security that you receive when you retire is directly related to what you pay towards the Social Security Fund?
_____ Yes _____ No
(Please Check One)

11. Are you willing to pay more taxes and report all sources of income knowing that you will receive a greater benefit (more Social Security benefits) when you retire?
_____ Yes _____ No
(Please Check One)

12. How many years have you been in business?
_____

13. What is your job status?
_____ Employee _____ Owner/Operator
_____ Indepnedent Contractor
(Please Check One)

14. Do you work at a job outiside the beauty/barber industry?
_____ Yes _____ No
(Please Check One)

Additional Comments:

_____
_____
_____
_____
_____

Survey and Method Summary

| | | | | |
|---|---|---|---|---|
| | | **Factors Used** | | |
| | Value | Group | Frequency | Percent |
| **AGE** | 1 | twenty through thirty | 27 | 45% |
| | 2 | thirty one through forty five | 31 | 52% |
| | 3 | forty six through fifty | 2 | 3% |
| **SEX** | 0 | Female | 32 | 53% |
| | 1 | Male | 28 | 47% |
| **EDUCATION** | 1 | Some High School | 8 | 13% |
| | 2 | High School Graduate | 22 | 37% |
| | 3 | Some College College | 22 | 37% |
| | 4 | College Grauduate | 8 | 13% |
| **MARITAL STATUS** | 1 | Single | 26 | 43% |
| | 2 | Married | 34 | 57% |
| | | **Groups Studied** | | |
| | Value | Frequency | | |
| **BEAUTY SHOP** | 1 | 24 | | |
| **BARBER SHOP** | 2 | 26 | | |
| **BEAUTY SCHOOL** | 3 | 10 | | |

Table 2

| | Average Compliance and its components by income | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Own Time(hrs) | | | Monetary Expenditure | | | | |
| | | | Record | Return | Spent with advisors | Arrange | Value of | %Using Prof. Assist. | Fees to | Other | Total | Total Resource Cost |
| Income | Total | Research | Keeping | Preparation | | Finan. Affairs | Time $ | | Advisor | Expenses | | |
| Below-$6,000 | 29.1 | 2.3 | 19.6 | 5.7 | 0.5 | 1.2 | 149.4 | 40.80% | 36.4 | 2.3 | 38.7 | 188.1 |
| | [27.7] | [1 7] | [21.2] | [3.3] | [1 7] | | [366] | [37 1%] | [50.8] | [3.5] | [54] | [420] |
| $6,000-$12,000 | 19 1 | 3.7 | 9.4 | 3.8 | 1 | 1 4 | 97 | 50.30% | 36 | 6.6 | 42.6 | 139.6 |
| | [15 0] | [0.9] | [10.9] | [2 5] | [0 7] | | [140] | [33.9%] | [29.2] | [28.0] | [57] | [197] |
| $12,001-$20,000 | 20 9 | 2 | 12 1 | 5.2 | 1 1 | 2.3 | 188.9 | 48.70% | 39 1 | 17 | 56.1 | 245 |
| | [9 5] | [1.1] | [5.0] | [3.2] | [0 9] | | [63] | [47.4%] | [23.1] | [3 5] | [27] | [90] |
| $20,001-$25,000 | 19 2 | 2 6 | 9 6 | 3.4 | 1 6 | 2 | 149.9 | 55 70% | 47 | 7 1 | 54.1 | 204 |
| | [13 2] | [1 5] | [7.0] | [4.0] | [1.0] | | [103] | [51.2%] | [31.6] | [4 0] | [36] | [139] |
| $25,001-$40,000 | 33 3 | 3 6 | 21 3 | 4.5 | 1 6 | 2.7 | 336.9 | 53 60% | 64.9 | 7.7 | 72.6 | 409.5 |
| | [25.6] | [4 1] | [15.3] | [5.3] | [1 3] | | [319] | [52.2%] | [41.9] | [10.0] | [52] | [371] |
| $40,001-$50,000 | 24 1 | 5.6 | 9.9 | 4.8 | 1.3 | 2 7 | 231.8 | 46 50% | 59 | 5.5 | 64.5 | 296.3 |
| | [26 3] | [3 5] | [14 8] | [6 9] | [1 2] | | [352] | [48 7%] | [47.9] | [17 9] | [66] | [418] |
| $50,001-$65,000 | 43 9 | 6.1 | 21 2 | 5 2 | 2 7 | 7 6 | 563 | 64 20% | 114 8 | 26.6 | 141.4 | 704 4 |
| | [33.5] | [4.3] | [19 6] | [7 6] | [1 4] | | [418] | [49.9%] | [54.7] | [7 3] | [62] | [480] |
| Over $65,000 | 43 1 | 5.6 | 23 8 | 4 9 | 3.5 | 5.1 | 925.5 | 63.60% | 242.1 | 32.1 | 274 2 | 1199.7 |
| | [45 6] | [6.3] | [25 7] | [9.6] | [3.9] | | [1623] | [78.1%] | [187.0] | [30 6] | [216] | [1839] |
| Overall Average | 27 4 | 3 6 | 15 6 | 4.7 | 1.4 | 2.6 | 276.6 | 51.30% | 66 | 11.2 | 77.1 | 353 7 |
| | [21 7 | [2 4] | [13.8] | [4 4] | [1 3] | | [297] | [45.9%] | [44 8] | [12 0] | [57] | [354] |
| * 1982 in brackets, 1982$'s adjusted to a 1989 base. | | | | | | | | | | | | |
| (Blumenthal & Slemrod, 1992) | | | | | | | | | | | | |

Table 3

| Table 3 | Average Compliance and its components by income | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Own Time(hrs) | | | Monetary Expenditure | | | | |
| Level of Education Completed | Total | Research | Record Keeping | Return Preparation | Spent with advisors | Arrange Finan. Affairs | Value of Time $ | %Using Prof Assist. | Fees to Advisor | Other Expenses | Total | Total Resource Cos |
| 1st-8th Grade | 13.2 | 1.7 | 7.8 | 2.3 | 1.1 | 1.7 | 49.9 | 67.90% | 50.9 | 22.1 | 73 | 122.9 |
| | [10.6] | [0.7] | [7.0] | [2.3] | [1.0] | | [104] | [57.4%] | [36.6] | [3.6] | [40] | [144] |
| 9th-11th Grade | 12.8 | 1.3 | 4 | 4.1 | 2 | 1.5 | 97.1 | 86.20% | 2.1 | 2 1 | 45.8 | 142.9 |
| | [8.3] | [1.5] | [2.7] | [3.9] | [0.5] | | [56] | [42.6%] | [4.0] | [4.0] | [30] | [86] |
| High School Graduate | 34.2 | 2.9 | 20.9 | 4.9 | 2 | 2.4 | 228 | 63.70% | 7 | 7 | 84.7 | 312.7 |
| | [28.8] | [2.3] | 22.4] | [4.0] | [1.1] | | [297] | [46.9%] | [6.2] | [6.2] | [39] | [336] |
| Some College | 22.8 | 2.1 | 14 | 4.7 | 1 | 2.2 | 218.9 | 42.40% | 10.3 | 10.3 | 55.8 | 274.7 |
| | [18.5] | [1.9] | [11.9] | [3.6] | [0.9] | | [281] | [47.6%] | [17.7] | [17.7] | [55] | [336] |
| 4- Year College Grad | 30.4 | 5.1 | 15.8 | 4.7 | 1.7 | 3.3 | 427.3 | 50.70% | 19.3 | 19.3 | 124.6 | 551.9 |
| | [28.3] | [3.7] | [15.8] | [6.4] | [2.7] | | [465] | [47.2%] | [13.1] | [13.1] | [92] | [557] |
| Graduate Level | 35.6 | 8 | 17 | 5.6 | 1.7 | 3.9 | 463 | 42.70% | 9.3 | 9.3 | 82.6 | 545.6 |
| | [27.1] | [4 3] | [13.3] | [8.0] | [1.3] | | [366] | [39.1%] | [8.2] | [8.2] | [74] | [440] |
| Overall Average | 27.4 | 3 6 | 15.6 | 4.7 | 1.4 | 2.6 | 276.6 | 51.30% | 11.2 | 11.2 | 77.1 | 353 7 |
| | [21.7] | [2 4] | [13 8] | [4.4] | [1.3] | | [297] | [45 9%] | [12 0] | [12 0] | [57] | [354] |
| *1982 in brackets. 1982$,s adjustd to a 1989 base (Bluemthal & Slemrod, 1992) | | | | | | | | | | | | |

Table 4

| Table 4 | Average Compliance and its components by income | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Own Time(hrs) | | | Monetary Expenditure | | | |
| | | | Record | Return | Spent with advisors | Arrange | Value of | %Using Prof. Assist. | Fees to | Total | Total Resource Cost |
| Age | Total | Research | Keeping | Preparation | | Finan. Affairs | Time $ | | Advisor | | |
| 18-30 | 16 8 | 3 | 8.2 | 3 | 0.6 | 1.1 | 115.6 | 40.00% | 29 | 42 8 | 158.4 |
| | [14 0] | [1.3] | [8.8] | [3.3] | [0.8] | | [136] | [41.8%] | [23.6] | [44] | [180] |
| 31-45 | 30 2 | 3.1 | 17.1 | 6.2 | 1.6 | 3 1 | 290.7 | 55.50% | 72.7 | 81.6 | 372.3 |
| | [30 4] | [2.8] | [21.3] | [4.9] | [1.7] | | [415] | [42.0%] | [57.4] | [67] | [482] |
| 46-65 | 38.1 | 5.2 | 22.7 | 4.7 | 1.7 | 4 | 491.3 | 54.30% | 95.8 | 109 8 | 601.1 |
| | [24 7] | [2.9] | [15.3] | [5.4] | [1.4] | | [436] | [57 7%] | [59.0] | [68] | [504] |
| Over 65 | 19 8 | 2 8 | 4 | 4 | 1.50 | 1.6 | 112.2 | 48.80% | 50.3 | 59.7 | 171.9 |
| | [14 3] | [2 6] | [4.1] | [4.1] | [1.2] | | [118] | [49.5%] | [36.6] | [42] | [160] |
| **Gender** | | | | | | | | | | | |
| Male | 31 5 | 4.3 | 17.4 | 5.2 | 1.7 | 3.4 | 377.5 | 54.50% | 74.7 | 90 4 | 467.9 |
| | [23 2] | [3 0] | [13.7] | [5.0] | [1.6] | | [375] | [46 7%] | [55 4] | [66] | [441] |
| Female | 23.1 | 2.8 | 13.6 | 4.2 | 1.2 | 1.9 | 172.2 | 47 80% | 55.9 | 62.3 | 234.5 |
| | [19.5] | [1 6] | [13.8] | [3 7] | [0.8] | | [191] | [47.6%] | [30 8] | [45] | [236] |
| **Employment Status** | | | | | | | | | | | |
| Employee | 22.5 | 3.8 | 12.3 | 4 1 | 1.2 | 2 | 231 3 | 44 50% | 50 2 | 57.2 | 288.5 |
| | [18 2] | [2 3] | [10.2] | [4.8] | [1.1] | | [289] | [44.3%] | [34 3] | [41] | [330] |
| Self-Employed | 59 8 | 5.4 | 38.1 | 7.5 | 2.7 | 5.9 | 699.8 | 81.10% | 154.3 | 181 | 880.8 |
| | [57.2] | [3.8] | [41.7] | [7.5] | [4.3] | | [834] | [87.6%] | [164.5] | [21.7] | [1050] |
| Homemaker | 23.8 | 1 2 | 13.3 | 3.7 | 1.9 | 1.8 | 172 7 | 49.10% | 102.3 | 113 7 | 286.4 |
| | [28.4] | [2 0] | [22.5] | [3.4] | [0.6] | | [315] | [48.5%] | [21.7] | [26] | [341] |
| Retired | 20 | 2 8 | 11 | 3.9 | 1.3 | 1.7 | 157.2 | 48.90% | 46 2 | 57.9 | 215.1 |
| | [11.8] | [2.6] | [4.6] | [3.8] | [0.8] | | [89] | [43.5%] | [28 0] | [33] | [122] |
| Overall Average | 27.4 | 3.6 | 15.6 | 4.7 | 1.4 | 2.6 | 276.6 | 51.30% | 66 | 77.1 | 353.7 |
| | [21.7] | [2.4] | [13.8] | [4.4] | [1.3] | | [297] | [45.9%] | [44.8] | [57] | [354] |
| | | | | | | | | | | | |
| *1982 in brackets. 1982$;s adjustd to a 1989 base | | | | | | | | | | | |
| (Bluemthal & Slemrod, 1992) | | | | | | | | | | | |

Correlation Coefficients

| FACTORS | CASHINCR | INCREP | TIPS | TIPREP | OUTIND | OUTINCOM | PAYTAXRP | SELFTAX | SOCIALSE |
|---|---|---|---|---|---|---|---|---|---|
| AGE | -0.4065 | 0.4673 | -0.1601 | .-2714 | 0.069 | -0.4515 | -0.3916 | -0.3802 | -0.2447 |
| | [60] | [60] | [60] | [60] | [60] | [60] | [60] | [60] | [60] |
| | P=.001 | P=.000 | P=.036 | P=.036 | P=.604 | P=.000 | P=.002 | P=.003 | P=.060 |
| SEX | 0.1878 | -0.2584 | 0.0421 | 0.0421 | -1275 | 0.1108 | 0.225 | 0.1964 | 0.3031 |
| | [60] | [60] | [60] | [60] | [60] | [60] | [60] | [60] | [60] |
| | P=.151 | P=.046 | P=.000 | P=.749 | P=.336 | P=.399 | P=.084 | P=.133 | P=.019 |
| EDUCATION | -0.2905 | 0.3559 | -0.1781 | -0.1781 | -0.1599 | -0.1278 | -0.1822 | -0.5284 | -0.4334 |
| | [60] | [60] | [60] | [60] | [60] | [60] | [60] | [60] | [60] |
| | P=.024 | P=.005 | P=.173 | P=.173 | P=.266 | P=.331 | P=.164 | P=.000 | P=.001 |
| MARITAL STATUS | -0.3436 | 0.4464 | -0.3234 | -0.3234 | 0.23 | -0.3752 | -0.3446 | -0.4629 | -0.3747 |
| | [60] | [60] | [60] | [60] | [60] | [60] | [60] | [60] | [60] |
| | P=.007 | P=.000 | P=.012 | P=.012 | P=.080 | P=.003 | P=.007 | P=.000 | P=.003 |
| JOB STATUS | -0.3398 | 0.3916 | -0.3313 | -0.3313 | 0.1341 | -0.4635 | -0.2608 | -0.4444 | -0.406 |
| | [60] | [60] | [60] | [60] | [60] | [60] | [60] | [60] | [60] |
| | P=.008 | P=.002 | P=.010 | P=.010 | P=.311 | P=.000 | P=.044 | P=.000 | P=.001 |
| MBER OF DEPENDE | -0.1874 | 0.389 | -0.269 | -0.269 | 0.1953 | -0.3388 | -0.4563 | -0.267 | -0.2508 |
| | [60] | [60] | [60] | [60] | [60] | [60] | [60] | [60] | [60] |
| | P=.152 | P=.002 | 0.038 | P=.038 | P=.138 | P=.008 | P=.000 | P=.039 | P=.053 |
| BUSINESS AGE | -0.4583 | 0.4943 | -0.2455 | -0.2455 | 0.1301 | -0.3465 | -0.2071 | -0.2981 | -0.2146 |
| | [60] | [60] | [60] | [60] | [60] | [60] | [60] | [60] | [60] |
| | P=.000 | P=.000 | P=.059 | P=.059 | 0.326 | P=.007 | P=.112 | P=.021 | P=.100 |
| BEAUTY BUSINESS | 0.3177 | -0.2886 | -0.0147 | -0.0147 | -0.1228 | 0.2247 | 0.1218 | 0.0249 | 0.1507 |
| | [60] | [60] | [60] | [60] | [60] | [60] | [60] | [60] | [60] |
| | P=.013 | P=.025 | P=.911 | P=.911 | P=.354 | P=.084 | P=.354 | P=.850 | P=.250 |
| SPOUSE JOB | 0.3979 | -0.5379 | 0.397 | 0.397 | -0.0915 | 0.4479 | 0.3821 | 0.5574 | 0.4108 |
| | [60] | [60] | [60] | [60] | [60] | [60] | [60] | [60] | [60] |
| | P=.002 | P=.000 | P=.002 | P=.002 | P=.491 | P=.000 | P=.003 | P=.000 | P=.001 |

**Number of valid observations**

| VARIABLE | MEAN | STD DEV | MIN. | MAX. | NUM |
|---|---|---|---|---|---|
| BUSOUTSI | .05 | .22 | .00 | 1.00 | 60 |
| TIPS | .07 | .25 | .00 | 1.00 | 60 |
| PAYTAXRP | .32 | .47 | .00 | 1.00 | 60 |
| SELFTAX | .47 | .50 | .00 | 1.00 | 60 |
| SEX | .47 | .50 | .00 | 1.00 | 60 |
| SOCIALSE | .52 | .50 | .00 | 1.00 | 60 |
| CASHINCR | .62 | .49 | .00 | 1.00 | 60 |
| OUTINCOM | .73 | .45 | .00 | 1.00 | 60 |
| TIPREP | .77 | .43 | .00 | 1.00 | 60 |
| OUTIND | .80 | .41 | .00 | 1.00 | 60 |
| JSTATUS | 1.47 | .54 | 1.00 | 3.00 | 60 |
| MSTATUS | 1.57 | .50 | 1.00 | 2.00 | 60 |
| AGE | 1.58 | .56 | 1.00 | 3.00 | 60 |
| RACE | 1.58 | .81 | 1.00 | 4.00 | 60 |
| BEABUS | 1.77 | .77 | 1.00 | 3.00 | 60 |
| NUMDEP | 2.05 | 1.82 | .00 | 6.00 | 60 |
| EDUC | 2.50 | .89 | 1.00 | 4.00 | 60 |
| INCREP | 3.35 | 1.15 | 1.00 | 5.00 | 60 |
| SPOUJOB | 3.83 | 4.27 | .00 | 9.00 | 60 |
| BUSAGE | 5.46 | 3.09 | 1.00 | 12.00 | 60 |

# VITA

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**Major:** Accounting

Trina Natasha Ruth was born on November 13, 1974 in New Orleans, Louisiana. She was the eighth child of nine children born to the union of Mr and Mrs. Felton Ruth, Jr.

She graduated with honors from John Mc Donogh Senior High School in June of 1992. In August of 1992 she entered the Southern University family with a desire to major in Accounting. Upon entering Southern University, she was inducted into the Honors Student Association where she served as Vice-President.

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## Approval For Scholarly Dissemination

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