

‘But Everyone Else is Doing it’: A Closer Look at the Occupational Taxpaying Culture of One Business Sector

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ABSTRACT

When individuals embark on their careers they not only become acculturated into their occupational sectors' day-to-day norms and practices, but also their taxpaying ones. Although the research on taxpaying cultures is still in its infancy, understanding more about taxpaying cultures could improve our understanding of the processes underlying tax compliance. To this end, this study aimed to build a detailed picture of the taxpaying culture (i.e. the norms and values) of one business sector—the hairdressing/beauty industry. Nineteen small business and self-employed hairdressers/beauticians were interviewed and a variant of Grounded theory was used to uncover the main themes that ran through the interviews as a whole. The main themes that emerged—which appear to characterize this sector's culture—include a reliance on accountants/tax advisors, the notion of an acceptable level of cash-in-hand payments, and the use of different mental accounts for different types of income. Although some of these themes have already arisen in the small business literature they have often been couched in individualistic terms. We build a case that these issues are more cultural than individual—they are tied to occupational group membership as they are socially constructed within occupational groups and are a key component of the group's taxpaying culture. Implications and directions for future research are discussed. Copyright © 2007 John Wiley & Sons, Ltd.

Key words: tax compliance; culture; small business

INTRODUCTION

Over the past three decades a great deal of research has sought to understand why taxpayers do or do not comply with tax regulations. The main body of tax research—especially in the economic arena—has focused on individual taxpaying and it is only relatively recently that some of this focus has shifted to understanding self-employed or small business compliance. Understanding more about self-employed and small business taxpaying

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behaviour is particularly important for tax authorities, since findings reveal that this group display lower compliance levels than their salaried counterparts (e.g. Joulfaian & Rider, 1998; Wallschutzky, 1984). Given these findings it is unsurprising that much small business research has tried to demonstrate how small business (or self-employed) individuals differ from the general population. Although by no means an exhaustive list (for a thorough review of the small business literature see Ahmed & Sakuari, 2001) to date, small business research has highlighted how a lack of knowledge, the use of accountants/tax advisors, deterrence and fairness are important issues for small business compliance.

Tax non-compliance does not have to be intentional and research from Australia (e.g. Ahmed & Sakuari, 2001; 1999; McKerchar, 1995) and the US (Reynolds, 1991) suggests that a lack of tax knowledge could contribute to small business non-compliance. Tax laws are complex and the skills required to maintain books and manage finances are not necessarily the skills that attract people to run small businesses or become self-employed. Though the role of accountants and tax advisors differs from country to country, many small businesses in the UK use a tax accountant or advisor to help prepare their tax returns (Webley, 2004).

Deterrence represents how worried individuals are about being caught not complying with tax laws, both in terms of the likelihood and the consequences. A traditional economic line of thinking has led many tax authorities to focus on raising deterrence levels for small business individuals (and taxpayers in general). If small business or self-employed taxpayers were rational individuals, motivated to maximize their own outcomes, then deterrence would promote compliance (see Andreoni, Erard, & Feinstein, 1998). However, taxpayers are members of many different groups and social categories and do not always act in this self-interested rational way. Deterrence is not always the most effective technique for increasing compliance. It can be superfluous if people already hold strong ethical views towards taxpaying (e.g. Wenzel, 2002) or worse, taxpayers can react to it with non-compliance (see Murphy, 2002). The Australian Taxation Office (ATO) compliance model recommends using education and persuasion as a first step before sanctions and deterrence. However, if they do fail some form of sanctions need to be implemented to maintain the credibility of the system (Braithwaite, 2003b). Ayres and Braithwaite (1992) talk about regulators walking softly with a big stick, and as Webley (2004) points out, tax authorities need taxpayers to believe that they can use this stick when they need to. It is perhaps especially important that small business and self-employed people believe in the 'big stick' given their greater opportunities to evade taxes. As well as this 'big stick' acting as a deterrent, previous research has also shown the deterrent effect shame can have in preventing tax non-compliance (see Grasmick & Bursik, 1990). Yet shame is only likely to act as a deterrent if taxpayers believe that tax laws are legitimate and fair.

Although research illustrates the importance of fairness, legitimacy and treatment by tax authorities, individuals in small businesses tend to perceive the tax system as unfair (e.g. Wenzel, 2002) and often see themselves as having antagonistic relationship with the tax office (see Coleman & Freeman, 1994; Noble, 2000). A common complaint for small businesses with employees, especially in the UK, is the feeling that they are being treated as unpaid tax collectors (Webley, 2004). The danger for tax authorities is that the small business individuals may seek to readdress this imbalance with non-compliance.

However, although the issues described above appear to be important for small business compliance, it could be argued that they are important for *all* taxpayer compliance. Indeed recent research by Ahmed and Braithwaite (2005) suggests that individuals in small business actually share similar attitudes towards tax with the general population (see also

Roberts & McGill, 1991). In line with Kirchler (1999), they suggest that it could be small business and self-employed individuals' increased opportunity to evade and perhaps greater necessity, which accounts for their lower compliance levels. However, although these types of findings are insightful, more research is needed to fully understand the processes underlying taxpaying behaviour and attitudes. Small businesses and the self-employed are not a homogenous group and we believe that there is a tendency to ignore the role of occupational group membership and occupational taxpaying cultures.

It is important to clarify what we mean by the term culture, since it is a word that has different meanings in different disciplines, for example, in anthropology, sociology, and psychology (Sackmann, 1989). Deal and Kennedy (1988) describe culture as 'a system of informal rules that spells out how people are to behave most of the time'. For them norms (a set of attitudes and/or behaviours prescribed or proscribed by an individual's group membership, Livingstone & Haslam, in press) and values (what is desirable, i.e. the accepted principles or standards of a group, Morris, 1956) represent the key elements of culture, and this is the working definition that we use.

Although research into taxpaying cultures is still in its infancy, there is evidence to support the existence of distinct occupational taxpaying cultures. In a UK qualitative study, Sigala, Burgoyne and Webley (1999) discovered that 'cash-in-hand' payments (where money is exchanged for goods or work but not declared to tax authorities) are very common amongst tradesmen in the construction industry. As one of their respondents, a plumber articulated, 'Everybody in that sort of business that I'm in they talk about accepting cash. It's a sort of everyday thing. It is accepted in the plumbing industry' (p. 240). In an Australian interview study focusing on builders, Shover, Job, and Carroll (2003) also report how weekend work is routinely paid in cash and then not declared as income. However, although Sigala, Burgoyne, and Webley (1999) and Shover et al.'s (2003) research is instructive in pointing to the existence of taxpaying cultures, both studies are limited by their small sample size. More research is called for to learn not only about the cultures associated with certain sectors but also to learn how these cultures emerge and are sustained (Webley, 2004).

The present study

Past research has contributed substantially to our understanding about taxpayers who are self-employed and in small business. Nevertheless, as has been discussed, this research has typically treated individuals in small business as a homogenous group, either comparing them to the general population, or taking them as a group by themselves without considering which occupational groups they belong to. There are a few exceptions, for example, in Adams and Webley's (2001) study of value added tax (VAT) compliance, small business respondents were recruited from three different occupational sectors. However, differences between the three sectors were not a focus of the study. In a review of the taxation literature, Webley (2004) emphasises the heterogeneity of different business sectors and recommends that researchers either try and capture a very wide range of businesses or focus on a narrow range of businesses.

The present study fills a gap in the literature by providing an in-depth investigation of one business sector—the hairdressing and beauty industry. Like builders, beauticians and hairdressers have opportunities to make cash-in-hand payments, and as such could be targeted by tax authorities. However, as is the case with many business sectors, little is

known about this sector. Semi-structured interviews were chosen given the practical problems associated with observational studies (another method which could lend itself to discovering more about culture). To achieve a more complete sense of the industry a range of both novice and more experienced hairdressers/beauticians were included in the study.

Given that there is little existing research that tries to tap into occupational taxpaying cultures, the present study was exploratory in nature. The overarching aim was to build a detailed picture of the taxpaying norms and values of one occupational group. In order to address this aim, we focused on four main questions. First, how big a problem is taxpaying compared to the other problems that respondents face in their daily lives? Although peoples' taxpaying behaviour and attitudes are a central concern for authorities and academics, we did not want to assume—as some taxation studies do—that taxpaying was a big issue for our respondents. This is because how big a problem taxpaying is perceived to be could have implications for the role that occupational taxpaying cultures play in peoples' lives.

Second, who are respondents' main sources of contact and advice? Discovering (a) who (apart from clients) hairdressers/beauticians are in contact with on a daily or regular basis, and (b) who they seek (or are given) tax and business advice from is important because it is through this contact and advice that cultural norms and values could be transmitted. Sigala (1997) found that the more taxpayers communicate with others the more they are influenced by them, especially if the person they are communicating with belongs to a salient social group that they also belong to and identify with. In this way, contact with people who are evading tax could influence people's beliefs about their own opportunities to evade (Sigala, 1997; Vogel, 1974). Even if hairdressers/beauticians are isolated from fellow colleagues, occupational group norms may be difficult to escape. Although general perceptions of a sector are not necessarily the same as the lived reality for the members of that sector, many of us have views about what certain groups are like. For example, builders are often assumed to accept cash-in-hand payments, and so may be asked by clients for the price 'without the VAT'. Even if hairdressers/beauticians work alone, their initial training (either at a college or through a salon apprenticeship) could shape their perceptions of their group's taxpaying norms and values. This is important as perceptions (as well as knowledge) of what others do may also impact on taxpaying behaviour, according to findings that if a person believes non-compliance is widespread he or she is much more likely not to comply (Bosco & Mittone, 1997; De Juan, Lasheras, & Mayo, 1994; Webley, Robben, & Morris, 1988).

Third, what is perceived as acceptable and non-acceptable when it comes to reducing tax bills? Defining what constitutes tax compliance is not always straightforward as the subtleties surrounding evasion, avoidance, error and intention can make them indistinguishable (Long & Swingen, 1991; Taylor, 2003). It is possible that the complexities surrounding tax laws could make it difficult for hairdressers/beauticians to always know what is legally acceptable and non-acceptable in relation to tax. Some practices though, such as claiming false tax deductions or accepting cash-in-hand payments are more clearly illegal. What is interesting when studying taxpaying cultures is not just what people think is legal, but also what they feel is acceptable (or non-acceptable) when it comes to reducing their tax bill (even though it may not be acceptable in the eyes of the law), and if this is a shared cultural norm.

And finally, what reasons do respondents have for staying on the right side of the law? Although research studies typically focus on why people break the law, we share Alm, McClelland, and Schulze's (1992) opinion that understanding taxpayers' reasons for

staying on the right side of the law is just as instructive as understanding why they break the law. Two people might display similar levels of compliance, but whilst one might be compliant because of a fear of getting caught, the other might be compliant for moral reasons. Peoples' moral codes are likely to be quite individual, and research shows how some people will stick to their moral position irrespective of others behaviour (Braithwaite, Reinhart, & Job, 2004). However, those lacking a strong taxpaying ethic might be more likely to be influenced by their group's taxpaying norms and values. It is therefore useful to see if the hairdressers/beauticians culture is one that promotes taxpaying or tax evasion.

METHOD

Participants: the hairdressers/beauticians

In-depth, qualitative interviews were carried out with 19 participants. Participants were mainly female (17 out of 19) and ranged in age from 22 to 64 years, with a median of 33 years. They had been in the hairdressing/beauty industry from 1 to 50 years. Only two participants (both hairdressers) were registered for VAT. 11 participants worked alone, and the other eight participants had from 1 to 5 employees (both part and full time). The majority (17 out of 19) had an accountant. (see Table 1)

Materials

A schedule with different headings and questions was used as a guide for the interviews. This included questions relating to how big a problem tax was for participants, how much they understood about tax, what tax related experiences they had had, their opinions of the Inland Revenue (now her Majesty's Revenue and Excise) and who were important sources of advice for them—accountants, family, fellow work colleagues. There were also questions relating to what they thought was acceptable when it came to reducing their tax bill, including their feelings on cash-in-hand payments. Ensuring participants felt that the interview environment was comfortable and non-threatening was very important. With this very much in mind—and to obtain valid and spontaneous information—interviews largely took an informal conversational manner and compliance issues were raised in an indirect manner, often using hypothetical questions, for example 'Imagine that somebody in your trade was advised by a successful hairdresser/beautician how to reduce the amount declared in a way that wasn't strictly legal, what do you think most people would do?' This approach was chosen as it was successfully used in Adams and Webley's (2001) study of VAT compliance.

Procedure

Recruitment. Participants were recruited in the South West of England. Recruitment was through telephoning local hairdressers and beauty salons (either from the yellow pages or web searches of these industries in the local area). Leaflets were also hand-delivered to a number of salons in the local area. Later in the study hairdressers and beauticians were also recruited through interviewees to ensure that the sample had a good range of age and experience.

Semi-structured interviews. Informed consent was gained from all participants, and they were informed prior to the interview that it involved questions about taxes (but were

Table 1. The hairdressers and beauticians

Name	Age (years)	Marital status	Job	Years in industry (amount of this time self-emp.)	Emp. status	Employees	Accountant
Sally	23	Single	Hairdresser	6 (6)	Self-employed	0	Yes
Sue	28	Married/cohabiting	Beautician	7 (4 1/2)	Own business	4	No
Norman	63	Married/cohabiting	Barber	37 (37)	Own business	0	Yes
Lisa	33	Married/cohabiting	Hairdresser	16 (1)	Own business	5	Yes
Amy	35	Divorced/separated	Beautician	10 (3)	Own business	2	Yes
Betty	64	Married/cohabiting	Mobile hairdresser	50 (20)	Self-employed	0	Did have
Ruby	24	Single	Hairdresser	1 (1)	Self-employed	0	Yes
Monica	35	Single	Hairdresser	19 (13)	Self-employed	0	Yes
Rachel	28	Married/cohabiting	Hairdresser	10 (1)	Own business	4	Yes
Carrie	25	Single	Nail technician	3 (1)	Own business	0	Yes
Charlotte	22	Married/cohabiting	Beautician	3.5 (2)	Own business	3	Yes
Mette	46	Divorced/separated	Nail technician	12 (3)	Own business	1	Yes
Ross	50	Single	Hairdresser	34 (34)	Own business	5	Yes
Arnold	34	Married/cohabiting	Barber	19 (12)	Self-employed	0	Yes
Roz	35	Married/cohabiting	Beautician	9 (9)	Own business	0	Yes
Tracy	23	Single	Mobile beautician	2 (2)	Self-employed	0	Yes
Marge	48	Married/cohabiting	Massage therapist	2 (2)	Own business	0	Yes
Sophie	27	Single	Hairdresser	6 (1)	Self-employed	0	Yes
Dora	52	Married/cohabiting	Beautician	9.5 (5)	Own business	2	Yes

*All names are pseudonyms to ensure anonymity.

reassured that it was about their opinions not a test of their knowledge). Guarantees about confidentiality and anonymity were made. All interviews were conducted at the participant's place of work; for 16 participants this was at their salons, for one it was at her house, for the mobile beautician it was at the interviewer's university and for the mobile hairdresser it was at the interviewer's home. All interviews were conducted by the same female interviewer and were tape-recorded. The interviews lasted approximately 30–40 minutes and the interviewer received beauty treatments from two of the nail technicians, the massage therapist and five of the beauticians whilst conducting the interviews. Following the interview, participants completed a short questionnaire that included demographic questions.

Qualitative data analysis. The tapes were fully transcribed and analyzed using a Grounded theory approach. Grounded theory, which was originally developed by Glaser and Strauss (1967), is very appropriate for exploratory research like the present study, where the researcher wants to stay close to the participants' experiences and identify important issues. Grounded theory is 'bottom up' in the sense that the issues emerge from rather than become imposed upon the data (see Pidgeon and Henwood, 1996). It should be recognized that the semi-structured nature of the interviews in this study meant that the analysis was not completely bottom up—since it draws on previous tax research.

All the interview transcripts were examined to generate the main themes. In particular, we looked for salient issues regarding how big an issue tax was for respondents, their main sources of contact and advice, and their perceptions of taxpaying and the tax office (including acceptable ways to reduce their tax bills). The first stage involved a detailed reading and preliminary coding of the data on a line-by-line basis to create a qualitative index of coded concepts. This index was then refined and definitions were written for the 'saturated' concepts to generate the main themes that ran through the interviews as a whole.

RESULTS AND DISCUSSION

In order to build a detailed account of the hairdressing and beauty sector's taxpaying norms and values, this section is structured around four main questions; (a) how big a problem is taxpaying compared to the other problems that respondents face in their daily lives, (b) who are respondents' main sources of contact and advice, (c) what is perceived as acceptable and non-acceptable when it comes to reducing tax bills and, (d) what reasons do respondents have for staying on the right side of the law? In doing this, the key themes that emerged from the analysis are explored, examples of which include a reliance on accountants, perceptions of cash-in-hand payments and perceptions of deterrence.

How big a problem is tax for respondents?

There was a mixed response to this question, in that whilst taxpaying was not a big issue for some, for others it was much more problematic. Some who did not see tax as a big problem attributed this to their accountant—recognizing that without them it would be a substantial headache. This was articulated by Sally, 'If I had to do it myself it would be a major problem but because I have got an accountant he does it all for me'. Arnold and Tracy also pointed out that as their business was so small their tax paper work was minimal and straightforward. In line with previous literature, tax appeared to be the most *taxing* for

those with employees—with both Sue and Mette struggling to complete the forms relating to employees' taxes. For Ruby, Rachel and Arnold the biggest issue *vis-à-vis* taxpaying was setting aside money each week to pay their tax bill when it arrived. Another problem concerned the amount of tax they had to pay, as this was often considered too large.

Who are respondents' main sources of contact and advice?

Accountants, hairdressing/beauty friends and colleagues, family members, hair/beauty product companies and the Inland Revenue were all cited as sources of contact and advice.

Contact with fellow hairdressers and beauticians. Over two thirds of the sample—especially those who worked on a rent-a-chair basis or employed staff—reported contact with fellow colleagues. Whilst some met their hairdressing/beauty colleagues in a purely social way, others who had very close friends in the industry were happy to talk about tax matters (such as what they could claim tax back on) as well as the more social side. Some had even been offered advice on illegal ways to reduce their tax bill. Sue also discussed VAT registration with her friends, who had advised her not to go over the VAT threshold. It is worth noting that Dora, Carrie and Ross appeared to consider fellow hairdressers/beauticians more as contacts than friends—there was a sense that they just knew them because they worked in the local area and were on positive terms with them. In some instances this led to advice being shared. For example, Carrie gave the shop next-door advice on how to recruit clients, and Dora felt that she had her 'brains picked' by fellow colleagues. It was on the basis of a recommendation from a friend or contact in the industry that many had found their accountants.

However, the mobile hairdressers/beauticians and some of those working alone in salons appeared to be slightly more isolated from others in the industry (although some were in occasional contact with the people they had trained with). This is illustrated by Roz's (a beautician with no employees) response when asked about her level of contact with other beauticians, 'No we keep ourselves to ourselves really'. Indeed it is worth bearing in mind that there is likely to be individual variation within all industry groups. However, the continual training aspect of the hair/beauty industry means that even those who are more isolated (like Roz) still attend courses where they come into contact with fellow colleagues.

Reliance on accountants. Of the 19 participants, 17 had an accountant—who many had got at the outset, either when acquiring their premises or registering as self-employed. As Arnold commented, accountants were perceived to 'know their stuff' and were relied upon to provide tax advice. Advice was sought on what could and could not be claimed. As Sally reported: 'My accountant he says this isn't really, you can't really include too much shopping in with you know, stuff like that and shoes he says look you have got one too many pairs of shoes'. For Ross: 'Tax situations are best dealt with by appropriate people'—and both he and Arnold concurred that accountants rather than hairdressing colleagues were the only 'appropriate' people.

For many, nearly all contact with the Inland Revenue was through their accountant. Whilst some relied on their accountant to explain their tax obligations, others admitted they did not want to know—appearing to hand over all responsibility. As Dora said: 'Tax is no problem whatsoever cause it goes over my head and I leave it to my accountant to sort out'. Many accountants had advised their clients on how to manage their money—suggesting

that they set aside some tax money each week or month. However, whilst this was seen as a good plan in principle, Ruby and Sally had difficulty sticking to it.

When given a hypothetical scenario in which an accountant suggested a ‘dodgy’ (but not completely illegal) way to reduce a tax bill, many concurred with Mette that fellow colleagues would follow this advice ‘because if your accountant suggests it (laughs) then it’s kinda like making it OK isn’t it (laughs)’. Dora appeared unsure that an accountant would suggest anything dodgy saying: ‘the accountants are very clever, they know what they can and can’t do’. Indeed most appeared to be very trusting of their accountants—there was a sense that many would (and did) unquestioningly follow their accountant’s advice. One of the primary reasons cited for having an accountant was the perception that they did everything properly. As Norman said: ‘I took an accountant because I felt that there could be no mistakes’.

Reluctance to (disinterest in) understanding tax. As the above concept highlights, a number of hairdressers/beauticians passed everything tax-related onto their accountant. As well as accountants, spouses or other family members were sometimes relied upon to deal with tax matters. As Lisa said: ‘he (husband) has the headache of everything else (tax matters) in fact he doesn’t even explain it to me’. Females dominate the sample in this study, and the hairdressing and beauty sector as a whole (although there do tend to be more men at the top end of the hairdressing scale). This is noteworthy because traditionally, at least in the UK, women have left tax matters to men and, although the law has now changed, husbands used to be formally responsible for the income tax declarations of their wives. This was certainly the case for Betty who said: ‘I must admit I know nothing, I mean my ex husband did everything, paid bills the lot, I mean I did nothing and um you know when I was on my own I thought god you know where do I what do I do’.

Although the legal situation has changed this could, at least in part, explain why some of this sector are so heavily dependent on their accountants. Nearly all the sample (including the male participants) felt that tax was too complicated and confusing to deal with alone, and even with an accountant some experienced difficulties in setting aside ‘tax’ money or dealing with employee’s taxes. As Ruby said: ‘I don’t like the idea of having all the stress on my head so that’s why I get an accountant to do it as I wouldn’t have a clue, I’m not that good with numbers and stuff’. Tracy echoed a similar sentiment: ‘I think it’s always advisable to have an accountant especially when you’re not sort of mathematically minded as I’m not really (laughs)’. Although Rachel wanted to learn more about tax, many did not express this desire. Indeed many interviewees were in the same position as Sophie: ‘(laughs) I still don’t really understand the tax I must admit it really confuses me’. It appeared to be a norm that not understanding tax or giving everything to an accountant was acceptable. Ross believed that the confusion surrounding tax laws made it unusual not to have an accountant. As well the confusion surrounding one’s own tax forms, it was apparent that many hairdressers/beauticians were not completely sure how or what tax money was spent on—although some did mention healthcare, education and various services.

Contact with the Inland Revenue (now Her Majesty’s Revenue and Excise). The majority had only experienced routine contact with the Revenue, mainly in the form of letters and reminders—which many said that they did not pay much attention to and passed onto their accountant to deal with. Some had phoned the Revenue for help or advice, and reported that they had found them helpful. For example, both Lisa and Amy—on their request—had received visits from the Revenue who came to explain their tax obligations to

them. However, Sue felt that 'they could be a lot better you know the way they inform people of things I think they could be a lot better'. Sue and Sophie had both experienced telephone calls from the Revenue who they felt had treated them in an unduly 'rude' way. Only Norman and Betty had experienced audits.

What is perceived as acceptable and non-acceptable when it comes to reducing tax bills?

As will be explored below, cash-in-hand payments and failing to declare tips—both of which are legally unacceptable—were mentioned as a way to reduce tax bills. Some participants also mentioned ways of reducing their tax bill that they considered acceptable (and which would be considered acceptable by authorities). Examples included claiming back depreciation on hairdressing and beauty products and claiming tax back on uniforms, petrol and telephone bills. Whilst Sally admitted claiming tax back on clothes that she did not wear for work, she did say this was not really acceptable. Indeed Carrie believed it would be completely wrong to do this.

Regularity of cash-in-hand payments. A distinction can be drawn between those who actually knew fellow hairdressers/beauticians who accepted cash-in-hand payments, and those who believed these payments happened even though they did not know people who did them. For example, whilst Ross said: 'I don't think it (cash-in-hand) happens I know it does', Charlotte said: 'Um I think it probably does happen I don't know it probably happens in large salons maybe um it probably happens in small salons'. Indeed Ruby believed that the opportunity for cash-in-hand payments attracted people towards self-employed hairdressing. Although Sue believed that the use of credit card machines had reduced the number of these payments, others pointed out that some salons still did not take cards or cheques—suggesting cash-in-hand payments might be the reason for this.

Although it was recognized that these payments could happen in salons, mobile hairdressers and beauticians were perceived to be particularly likely to accept cash. Tracy thought that cash-in-hand payments did not happen all the time, but outside traditional working hours: 'they (hairdressers) work between the hours of 9 and 5 and what they earn before and after that is theirs, it sort of disappears within the system I actually know of some people that do that'. Ruby pointed out, since they do not see each other's books, it is difficult to know how regularly these payments are accepted. Many believed that cash-in-hand payments were prevalent in other types of industry—not just theirs: 'I think it happens in every industry really'.

So when did hairdressers and beauticians first become aware that cash-in-hand payments were an option for them? For many it was whilst training or starting their first job in a salon. Although the phrase cash-in-hand was not necessarily used, a few heard fellow teachers and students discussing haircuts/treatments that involved cash payments. As Rachel explained: 'they (hairdressing tutors) didn't really say about it, obviously they do say um things like when you do have children you can always do it on the side to bring extra cash in'. Interestingly for Mette and Sophie it was not until clients specifically asked if they would prefer cash that they realized these types of payments were an option for them, which shows how clients as well as colleagues could play a role in shaping taxpaying practices. Ruby said that when she became self-employed a number of people suddenly had stories about accepting these types of payments—yet she did point out this may just be bravado.

Opinions about cash-in-hand payments. Cash-in-hand payments might be perceived as a regular occurrence in the hair and beauty industry, but did participants see these types of payments as acceptable? Both Monica and Amy said they could understand people using them to boost their income, as hairdressing/beauty wages are quite low. There appeared to be a sector norm where the use of a certain level of cash-in-hand payments (i.e. the ‘odd one’ or occasional payments) was deemed to be acceptable—yet when this often blurry line was crossed (e.g. always using these kinds of payments) the non-compliance became non-acceptable. As Roz said: ‘If it’s sort of, if they just say oh now and again, you know, if it’s not much then it’s up to them, but if they’re doing something and it’s quite a major thing and it’s affecting others then I think yes someone has the right to know’. Examples of ‘okay’ cash-in-hand payments included keeping money from friends’ haircuts or haircuts and beauty treatments outside working or salon hours. As Sophie admitted: ‘I would say only when my friends come in I do cash-in-hand work um, just cause they say here’s a tenner go and put it in your pocket and buy yourself a drink but oh I wouldn’t do that with regular clients, everything goes through the till’. Monica felt a similar way ‘because it’s out of hours why should you have to pay (tax)’. It should also be noted though that there was some individual variation, with Marge for example not considering any level of cash-in-hand payment to be morally or socially acceptable.

Interestingly, a number of participants—including those who admitted accepting some cash-in-hand payments—thought of themselves as tax compliant, which begs the question of whether the occasional cash-in-hand payment is non-compliance in the eyes of hairdressers/beauticians? The fact that when asked, participants tended to perceive paying tax as a primarily legal (rather than moral or social) obligation could shed some light on this finding. For example, as Charlotte said: ‘well it’s legal isn’t it you have to do it and . . . yeah you’ve just got to do it you know’. The norm that a little bit of cash work is acceptable could be comparable to the norm that driving at 35 miles per hour when the speed limit is 30 miles per hour is acceptable—they are both legal conventions that are easy to break—and it is unlikely they would be considered truly immoral. Whereas *always* evading tax or driving at 70 miles per hour in a 30 mile speed limit is likely to be seen as morally unacceptable as well as illegal.

Hairdressers/beauticians shared similar opinions on what constituted an acceptable level of cash-in-hand payments, and in line with previous findings some seemed to adhere to this norm themselves—yet the small sample size means more research is needed before generalizations can be made. Indeed given that these payments are by no means restricted to the hair/beauty sector, it also appears worthwhile to investigate if (and how) the levels and norms of what is acceptable differ across business sectors.

Tips. When it came to tips there was some genuine confusion surrounding if they should be declared. For example, when asked if she had to declare her tips Roz replied: ‘I don’t know actually I haven’t been advised on that one’. However, even when hairdressers/beauticians did know what they should legally do, many admitted to not declaring any or only declaring some of their tips. For example, Tracy knew tips ‘should go through’ but said: ‘I mean I have to admit I don’t actually put all my tips through because there’s no way of proving that they actually gave you a tip I mean the tips that you get is like 50p 20p so it’s hardly worth putting through anyway’. Monica advised a junior colleague not to declare all her tips: ‘she was completely honest and claimed everything all her tips I said don’t claim all your tips’. Tracy mentioned how when she was training people discussed not declaring all tips. Monica explained that there was a sense that it was not fair to be expected to declare

all tips: 'I know it's an actual income, the tax people would see that as an income, but it's that individual saying thank you, a gratuity, I think people in the service industry they need the tips because their wages are low'.

Tips did tend to be seen as a gift and were thought of differently to ordinary taxable income—a finding that fits well with the concept of mental accounting. The idea is that people have a number of different mental accounts and they try not to tap into resources that exist in separate mental accounts—so for example someone might not buy themselves an item of clothing out of their household bills mental account (see Shefrin & Thaler, 1988). In line with this, household management research has shown how money from different sources is not perceived to be functionally equivalent (that is it is non-fungible) (see Burgoyne, 1995). Although these concepts have mainly been applied in the personal finance literature, Adams and Webley (2001) make a case that they have a role to play in the taxation arena. They discovered that whilst some small business individuals always see VAT money as belonging to the tax office and have a separate mental account for it, others do not distinguish it from their business turnover. This has implications for taxpaying since as Adams and Webley (2001) point out, intuitively, it makes sense that if VAT money is viewed as a possession it will be harder to part with than if ownership is never perceived. Although speculative, it appears that whilst some hairdressers/beauticians put tips in the same mental account as their daily income, others put it in a separate account earmarked as theirs to spend as they wish (not to be declared to the tax office). On the theme of cash-in-hand payments, it is plausible that weekend work or money from friends/family haircuts/beauty treatments is also placed in this 'mine to do what I like with' account. The existence of different mental accounts merits further investigation—if they do exist it might be possible for tax authorities to try and change the way taxpayers think about tips and weekend work—so this money is seen as taxable income which needs to be passed onto authorities (see Adams and Webley, 2001).

What reasons do respondents have for staying on the right side of the law?

When asked, participants said that staying on the right side of the law was something that was important to them. As will be explored in more detail below, although there was some individual variation behind participants' reasons for complying with tax laws (e.g. relating to upbringing or moral beliefs), the majority cited a fear of getting caught (rather than moral beliefs) as their primary reason. This is perhaps not surprising given that most participants saw taxpaying as primarily a legal rather than a moral obligation. Many also felt that tax non-compliance would be too much 'hassle'—a reason that is likely to be tied to one's fear of getting caught. For example, Arnold was not morally opposed to cash-in-hand payments—he just did not feel they were worth the effort: 'So um I mean other industries I'm sure you can I mean cash jobs and that if you're a builder or something you could do a cash job for somebody it's not the same thing as a hairdresser—for five quid just do a quick haircut—cut your mum's hair or cut your dad's hair that sort of thing it's not worth it is it'.

One practical reason for not fiddling books and doing everything aboveboard was being able to assess how successful the business was—as some hairdressers/beauticians (especially those who were newer to the industry) felt that they might lose track of how well they were doing if everything did not go through the books.

Perceptions of deterrence. With the exception of a few, most participants cited a fear of getting caught as their main reason for paying tax. This is illustrated by the following extracts:

Tracy: 'I mean that would be just another worry on your on your mind if you had to think oh god tax and what if you get caught or anything it's just easier just to do it all by all by the book and then be done with it really'.

Ruby: 'Anybody could walk through the door my next client could be a tax inspector and if he gives me a 3-pound tip and I don't declare it I'm stuffed you know (laughs)'.

Dora said how 'unfortunately' staying on the right side of the law was important to her, primarily because she feared being 'shopped' to the tax office: 'I'm based in a very small place well everywhere is a very small place and you just can't you can't trust anybody . . . benefit fraud and all that sort of stuff'.

When deconstructing why hairdressers/beauticians were scared of getting caught—for the majority—it was the actual penalty or the thought of being on a special tax office 'hit list' which seemed to create this fear. Monica's father (a small business owner) had warned her of this: 'He said if we (Monica and her sister) were to have um debts or things like that then we'd be black marked and later on in life it would be hard to get mortgages etc'. Many found the anxiety associated with worrying about being caught enough of a deterrent. Although previous research has also shown the deterrent effect of shame (see Grasmick & Bursik, 1990), it did not seem that the potential of feeling shame if caught contributed to most hairdressers/beauticians decisions about complying. Although speculative—it could be because some types of tax non-compliance are perceived as acceptable (e.g. a certain level of cash-in-hand payments or not declaring tips) that they are not associated with guilt or shame. Also, the belief that tax non-compliance is normative in this sector could mean individuals might not feel shame or rationalize their shame by reminding themselves that everyone does it. It seems that if hairdressers/beauticians felt that they were breaking an occupational norm by not complying, or perceived taxpaying as more of a moral obligation, shame might act as a stronger deterrent.

A paradox arose when it came to hairdressers/beauticians' perceptions of how likely it would be that they would be caught, compared to how likely it would be that others would be caught evading tax—in that whilst they believed that they would almost certainly be caught, they thought that much of others' non-compliance went undetected. For example, although both Norman and Dora said they would not be able to sleep at night for fear of getting caught if they dodged their taxes, when asked if authorities caught most tax evaders Dora replied: 'Oh no god no course they don't'. However, many did believe evaders would get caught one day, especially if they got too greedy. For example, Norman said: 'if they're (other hairdressers) not greedy they probably don't get caught as often'.

In terms of the consequences when caught, all thought that the Revenue would come down hard on them. Ross, who said that he had been 'had' by Customs and Excise in the past and described them as 'the police', saying: 'the VAT office could walk in here now and shut me', illustrates this. Historically tax authorities have used a sanction-based approach to non-compliance, which relies on people believing (as the participants in this study appeared to) that the tax office has a high degree of power over them. There is a tendency not to recognize the dual tasks of eliciting compliance and cultivating a cooperative culture (Braithwaite, 2003a), which means some people may fear non-compliance but not necessarily believe it is morally wrong or see the tax office in a positive light. For example,

Norman and Ruby both complied due to a fear of getting caught, yet Norman described the tax office as 'not high in my esteem' saying: 'they (the tax office) treat small business as a soft touch, they're an easy target, they can take on small concerns who perhaps cannot fight them, whereas if they take on a corporate body they're not going to win because they employ very clever accountants'. Ruby who described herself as a 'scaredy-cat' said: 'I am not against it (cash-in-hand) I'm just more fearing of it'.

The worry for tax authorities relying only on deterrence is, if people see others in their occupational group getting away with certain non-compliant practices, they might think about trying them. As Ruby said with regard to cash-in-hand payments: 'maybe in 20 years time when I've had enough experience of it or whatever'. However, in line with previous literature, participants whose personal moral beliefs promoted honesty seemed less likely to be swayed by cultural norms.

Moral beliefs. Roz talked about how she had been brought up to believe that complying with the law was morally right. Roz and Marge felt their belief systems (of morality and honesty) made it important to stay on the right side of the law generally and when it came to tax. Mette articulated how taxpaying is a social as well as legal obligation: 'we have to pay our taxes end of story. I do think that it's a you know obligation it's an obligation we've all got to, um contribute'.

GENERAL DISCUSSION

This study is amongst the first, certainly in the UK, to concentrate on one particular sector's taxpaying culture. Although the study includes hairdressers/beauticians of different ages with a varied range of experience, its small sample size means that some caution needs to be applied when drawing any strong conclusions. It seems likely that those who displayed a high level of tax evasion would not be amongst those who agreed to participate. Nonetheless, this in-depth study has helped us to build a picture of this sector's taxpaying culture.

Some of the main themes that have emerged, and which appear to characterize this sector—such as a reliance on accountants/tax advisors, the notion of an acceptable level of cash-in-hand payments, and the use of different mental accounts for different types of income—have already arisen in the small business literature, where they have often been couched in very individualistic terms. However, it is our contention that these issues are more cultural than individual—they are tied to occupational group membership as they are socially constructed within occupational groups and are a key component of the occupational group's taxpaying culture. For example, there appears to be a norm amongst hairdressers/beauticians (at least in the present study) that occasional cash-in-hand payments are acceptable (which is sustained through talking to fellow colleagues, hairdressing/beauty trainers and clients). This could mean that in using cash-in-hand payments hairdressers/beauticians are acting in accordance with this norm, rather than making an individual decision arising from a cost–benefit analysis. However, there have been some interesting variations in participants' thoughts, beliefs, feelings and behaviour, which do seem to reflect important individual psychological differences (e.g. in moral beliefs towards taxpaying). Indeed, we believe that both personal and occupational group norms have an important role to play in taxpaying behaviour and attitudes.

The fact that some of the themes that have emerged in this study have arisen in previous small business literature could give rise to the question of whether there is a small business taxpaying culture *per se* or if there are unique business cultures. This is not an easy question to answer, as individuals may see themselves both as a small business individual and as a member of their occupational group. More research is needed, yet on the basis of the existing research, reducing it to a general small business culture appears over simplistic.

Implications for authorities

Even bearing in mind its small sample size, this paper is able to make suggestions regarding how to manage this industry's (non)-compliance and boost their co-operation. First, aside from informal conversations about cash-in-hand work, hairdressers/beauticians did not report learning about tax issues during their training courses. Although some hairdressers/beauticians are employed throughout their careers, many experience self-employment or owning businesses. Thinking about the notion of taxpaying careers, this means that they will switch from PAYE (pay as you earn) to being responsible for their own and possibly employees taxes. It appears that it would be beneficial for both authorities and hairdressers/beauticians to run tax workshops in hair/beauty colleges to try and combat some of the uncertainty surrounding taxation at the early stages. Indeed given consistent findings that many small business people (not just this sector) encounter difficulties grasping tax issues, running workshops at a range of training colleges might be advisable. Through interacting with trainees, authorities could also work to change the taxpaying norms (e.g. regarding cash-in-hand payments) or attitudes influencing the group's non-compliance or lack of co-operation.

Second, tax authorities hold the official position that any level of non-compliance, however small, will not be tolerated. Yet in reality they are only likely to target non-compliance if it is worthwhile for them in monetary terms. Looking at the bigger picture, the actual amount lost in hairdressers' cash payments might be relatively small (although it may be substantially larger for sectors like building and construction)—meaning authorities would need to use a low cost intervention. One possible intervention would be to challenge or correct the social norm that there is an acceptable level of cash-in-hand payments. For example, by sending letters informing hairdressers/beauticians that most of their sector actually think they themselves hold more honest attitudes about declaring all cash payments than others. Using a field experiment, Wenzel (2001) showed the success of this type of intervention—with participants making fewer actual deduction claims after receiving feedback that most people think they themselves hold more honest taxpaying attitudes than others.

Third, maintaining high levels of tax morale is desirable for tax authorities since they rely, to a large extent, on taxpayers voluntary reporting of tax obligations. Tax morale is especially important where self-employed and small business individuals (such as hairdressers/beauticians) are concerned given their increased opportunities to evade tax. Maintaining higher levels of tax morale is also tied to authorities achieving a positive relationship with taxpayers (so they are perceived as legitimate and representative, see Taylor, 2003), and taxpayers believing in the value of the tax system. On the basis of our findings, it appears that authorities need to (a) work to improve their relationship with taxpayers (possibly through workshops, or in their day-to-day interactions with taxpayers) and (b) increase awareness of how tax money is spent, so that people see taxpaying as a social as well as legal obligation.

Final remarks

Taxpaying behaviour and attitudes are complex and understanding more about the processes underlying compliance behaviour is not a straightforward task. However, it appears that occupational taxpaying cultures do have a role to play in progressing this understanding and more research is called for to develop research into taxpaying cultures. Taxation is unusual in the sense that it is something we only start engaging in as adults (Webley, 2004)—and research has revealed how it is something few young people, even those aged 15 years fully grasp (Furnham, 2005). This means that many individuals embark on their careers as tax novices and could become acculturated into their sector's taxpaying norms and practices. Bearing this in mind, it appears that tax authorities need to acknowledge individuals' occupational group memberships, and work with these groups to achieve consensus about higher-order values and goals (see also Wenzel, in press).

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