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# The Effects of Attribute Framing and Political Party Affiliation on Taxpayer Preferences

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## ***Abstract***

Understanding how tax reforms, tax agency initiatives, and taxpayer characteristics influence attitudes such as perceptions of tax fairness is an important issue for tax researchers, administrators, and policy makers. Public support for the tax system has serious implications for taxpayer compliance as well as for political support on tax-related proposals. This study examines whether attitudes toward the federal income tax system and the 2001 tax rebate vary by political party affiliation and by attribute frames. Using data from a randomized telephone survey we find that perceptions differ significantly by political party affiliation. In addition, our study extends prior research by showing that simply manipulating the perspective or frames of an attribute can significantly affect normative evaluations of tax law preferences. Specifically, we test attribute framing in a tax context and find that negative frames elicit significantly different preferences about the tax system compared to positive frames with essentially equivalent information.

## **INTRODUCTION**

For tax reform to occur, a major political party must support the reform, but this is not likely to happen unless politicians believe the reforms will be embraced by the voting public. Consequently, any study of taxpayer attitudes would benefit from examining whether the attitudes are dependent on underlying political affiliations. Prior research, however, has shown that taxpayer attitudes are highly variable and context-dependent (McCaffery and Baron 2001). These researchers warn that politicians who best “frame” their arguments will rally public opinion. The present study examines two potential influences on taxpayer attitudes—political party affiliation and attribute framing.

Our study contributes to the framing literature by examining how positive and negative attribute frames affect taxpayer responses on attitudes toward the fairness or

Republican, and Independent). We also test for political party effects on taxpayer attitudes towards a specific aspect of the income tax system, the tax rebate in 2001. Given new Congressional and Presidential proposals that include the use of rebates and given the constant political rhetoric about unfair taxes, academics will want to be informed about how the proposals and their presentation may impact their subsequent acceptance.

Our results support four basic conclusions. First, taxpayer preferences differ when they are in response to negative attributes such as unfairness rather than in response to positive attributes such as fairness. Second, political party affiliation is linked to taxpayer preferences. Third, the more closely identified the tax provision is to a specific party, the more favorably it will be received by members of that party relative to taxpayers with other political party affiliations. Fourth, the 2001 tax rebate tended to be viewed positively by taxpayers, and those who did perceive it positively also tended to perceive the current system as more fair.

This paper proceeds by reviewing the relevant literature, explaining the research method used for this study, presenting the results, and then discussing the conclusions and limitations from the study.

## **BACKGROUND**

### **Framing Effects**

Public opinion on the U.S. tax system can be a relevant factor for determining the characteristics of that system. Prior studies have attempted to measure the impact of traits, such as equity and complexity, on tax attitudes and compliance. Although some of the results are seemingly inconsistent, several studies document influential effects of these attitudes, especially for fairness (Roth et al. 1989; Roberts 1994; Forest and Sheffrin 2002). Given the potential impact of attitudes, it is important that the effect is not misrepresented because of a framing effect.

Prior research has shown that attitudes are biased by the way they are solicited. A growing body of literature has found a variety of framing effects. At a general level, Druckman (2001) notes in the political science literature that framing effects are subject to a lack of agreement in terms of their definition, and lack of understanding as to when they occur and why. This problem has been somewhat alleviated by Levin et al. (1998) who show that all frames are not equal and propose a taxonomy of three separate types of framing effects (risky choice, attribute, and goal framing).

In a tax context, prior research has shown that tax attitudes differ according to how information is presented, e.g., when tax rate preferences are framed in percents rather than dollar amounts (Hite and Roberts 1991; McCaffery and Baron 2001). McCaffery and Baron (2002) confirm that finding and also show that preferences are affected by a disaggregation bias. That is, subjects repeatedly assess a smaller tax when asked to calculate the sum of income and payroll taxes compared to when one tax is assigned and subjects calculate the remaining tax.

McCaffery and Baron (2001) also document a “penalty aversion” bias in which taxpayer preferences vary with framing manipulations that portray the tax system as either providing a bonus or assessing a surcharge. They found that subjects preferred to give a bonus (lower taxes) to couples with children rather than assess additional tax

to couples without children. The bonus/surcharge terminology is consistent with the literature on attribute framing (Levin et al. 1998).

The tendency for losses to loom larger than gains (Kahneman and Tversky, 1979) is closely associated with the framing literature. Prospect theory was originally described as an explanation for economic risk preferences, but researchers have validated it in many decision contexts (Payne et al., 1984; Levin et al. 1987). Levin et al. (1998) and Rothman and Salovey (1997) conclude that objectively equivalent information can differentially affect attitudes, depending on whether it is positively or negatively framed. For example, Ganzach and Karsahi (1995) found that negative



In his State of the Union address on January 29, 2002, President George W. Bush stated that the “tax relief was just right.” To date, however, sentiment toward the tax rebate has not been documented, nor has its effect on taxpayers’ overall attitude towards the current income tax system. Thus, the fourth hypothesis is as follows:

H4: A positive attitude toward the rebate will be associated with a positive attitude toward the current income tax system.

## **METHOD**

Approximately 500 subjects from Indiana participated in a statewide telephone survey during November-December, 2001. Households were selected by a professional survey firm using the Genesys list-assisted method. This method allows for unpublished numbers and new listings to be included in the sample. All subjects were



significant differences, these demographic variables are included as additional variables in a subsequent regression analysis to control for rival explanations.

In regards to the tax rebate check, 64 percent indicated they spent the money; 29 percent said they saved or invested it. A few said they gave it to charity, and the rest indicated they had not yet done anything with the money. The majority agreed that the “rebate check was the right thing for Congress to do” with 61 percent agreeing and 30 percent disagreeing.

In response to the question about an “unfair” tax system, 19 percent strongly agreed, 32 percent somewhat agreed, 18 percent somewhat disagreed, six percent strongly disagreed, and 25 percent were unsure. Thus, over half (51 percent) agreed the current income tax system was “becoming more unfair.” On the other hand, in response to the question about a “fair” tax system, four percent strongly agreed, 38 percent somewhat agreed, 23 percent disagreed, 17 percent strongly disagreed and 18 percent were unsure. That is, 40 percent disagreed the system is becoming more fair and less complex while 51 percent agreed that the current income tax system is becoming more unfair and complex.

To get a combined measure of attitude toward the current income tax system for all of the subjects, the question on a fair system [POSITIVE FRAME] was reverse coded to match the complementary responses to the question on an unfair system [NEGATIVE FRAME]. For example, when the POSITIVE FRAME is reverse coded, an original response of “1” for strongly agree the system is fair becomes a “5.” This equates that response with a “5” on the NEGATIVE FRAME, which indicates strong disagreement that the system is unfair. The combined measure then was used to test the first hypothesis, whether general attitude toward the current income tax system would differ by positive and negative frames. Respondents receiving the NEGATIVE FRAME were significantly more likely to believe the current income tax system was unfair ( $F=7.00$ ,  $p=.008$ ) with a mean of 2.59 versus a mean of 3.09 for the POSITIVE FRAME on a scale from one to five with “1” indicating strong agreement. Hence, the first hypothesis is supported as the framing effects did significantly affect the responses.

The second hypothesis posited that attitude toward the current income tax system would vary by political party affiliation. Since there were three categories for political party, a Bonferoni test was calculated to test for which groups significantly differed ( $p<.05$ ). The results are presented in Table 2. Respondents who identified themselves as Republicans were significantly less likely to believe the system is unfair ( $F=6.15$ ,  $p=.002$ ) than were the Independents, with respective means of 2.97 (s.d. 1.25) and 2.56 (s.d. 1.12). The difference between the Republicans (mean 2.97, s.d. 1.25) and the Democrats (mean 2.78, s.d. 1.18) did not significantly differ. When Republicans were compared to all other respondents (e.g., both Democrats and Independents), the difference was still significant. These results provide support for the second hypothesis.



Age, income, and expected refund status were significantly associated with political party affiliation. To ensure that the political party effects on tax attitudes reported in Table 2 were not being driven by these demographic variables, regression analyses were computed on overall attitude toward the current income tax system, fair tax system, unfair tax system, and on attitude toward the tax rebate. Independent variables included political party, framing effect, expected tax status (refund or balance due), age, and income level. In addition, since taxpayer rebate attitude was affected by political party affiliation, taxpayer rebate attitude was added to the model. By doing this, any resulting impact of political party affiliation would be over and beyond the influence of the tax rebate. The results are presented in Table 3.

The regression results for the combined measure of attitude towards the tax system (negative frame and reverse-coded for positive frame) are presented in the first column of Table 3. To simultaneously test differences between Democrats, Republicans, and Independents, two dummy variables were created, one for Democrats versus all others

**TABLE 3 REGRESSION RESULTS ON COMBINED FRAMES, FAIR SYSTEM, UNFAIR SYSTEM, AND TAX REBATE CHECKS**

Independent Variables	Dependent Variables [Coefficient Estimates (t-statistics)]			
	<u>COMBINED FRAMES</u>	<u>FAIR SYSTEM</u>	<u>UNFAIR SYSTEM</u>	<u>TAX REBATE</u>
Democrats vs. Others	-.08 (-1.48)	-.01 (-.19)	-.22 (-2.94)***	.00 (-.02)***
Republicans vs. Others	-.13 (-2.54)**	.04 (.57)	-.23 (-3.06)***	.16 (2.94)***
Expected Tax Status	.07 (1.30)	-.07 (-1.00)	.08 (1.14)	.13 (2.61)***
Age	-.09 (-1.86)*	.15 (2.21)**	-.05 (-.54)	.03 (.58)
Income	.02 (.34)	.00 (.06)	.02 (.30)	.08 (1.72)*
Framing Effect	-.13 (-2.73)***	na	na	-.02 (-.40)
Tax Rebate	-.17 (-3.57)***	.39 (6.09)***	.09 (1.22)	na
Combined Frames <sup>^</sup>	na	na	na	-.17 (-3.57)***
Intercept	(8.22)***	(2.76)***	(2.66)***	(2.35)**
Adjusted R-square	.06	.16	.05	.06
F-test	5.00***	7.75***	2.66**	5.06***
N	421	217	204	421

\*Indicates level of significance: \*p<.10; \*\*p<.05; \*\*\*p<.01.

<sup>^</sup>Positive frame (Fair system) was reverse coded and then combined with the responses to negative frame (Unfair system). Thus, a low score of "1" means either agree system is more unfair or disagree system is more fair; "5" represents disagreement system is unfair or agreement system is fair.

Consistent with Table 2, political party affiliation was not associated with attitude towards a fair system [POSITIVE FRAME], but it was associated with attitude towards an unfair system [NEGATIVE FRAME]. Republicans and Democrats were less likely to agree the current tax system is unfair than were the Independents. Given the theory that losses loom larger than gains, it is plausible that attitudes were more salient in the NEGATIVE FRAME evoking a stronger response from the subjects.

The fourth regression in Table 3 presents the results on attitude towards the rebate for all of the subjects. Once again, responses by Democrats were compared to all other respondents, and Republican responses were compared to all other respondents. Thus, the model tests for the political party effect, while controlling for framing effect, combined tax system attitude, age, income, and expected refund status. The model was significant ( $F=5.06$ ,  $p=.000$ ) confirming that Republicans responded more favorably to the tax rebate than did other respondents and that subjects with a more positive attitude toward the system (disagreeing the system is unfair or agreeing system is fair) had a more positive attitude toward the rebate. Furthermore, those who expected a refund on their 2001 tax return were significantly more pleased with the rebate (

system) could be a promising strategy for getting Independents to support proposed tax reforms. Alvarez and McCaffery (2001) reported that 1996 voter choices for the President, the Senate, and the House of Representatives were more likely to be Republican when the voters thought tax policy was an important issue.

McGowan (2000) reported that 64 percent of the 1995 survey respondents indicated the tax system was unfair. In the present study, the 2001 survey respondents did not judge the system quite as negatively. When asked whether the current tax system is unfair, 51 percent agreed. When asked whether the current tax system is fair, only 40

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