Mind the Age Gap

General Features



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Dr Phyllis Alexander, *Merima Balavac*, and *Andy Lymer* provide guidance on how to improve tax literacy and tax morale in young adults

Key Points

What is the issue?

Can tax literacy help to improve tax morale and compliance in young people?

What does it mean to me?

While HMRC evidence suggests they are being successful in recent years in reducing the tax gap, this study explores the value of tax literacy development in young people about to enter the workforce in helping to continue this trend.

What can I take away?

Improving tax literacy can make a difference – could I take a more active role in addressing low levels of tax knowledge and tax morale in the next generation of taxpayers?

Do young people understand enough about tax to be enable them to fully engage as taxpayers in the debate about where our tax system should go in the future?

Since 2014 financial education has been mandated in state-maintained secondary schools in England (with similar arrangements having been in place in Scotland, Wales and Northern Ireland before this). Teaching materials, such as *Tax Facts* from HMRC is now used in the best of these Schools to bring tax education into wider financial education. However, a recent study by the All Party Parliamentary Committee on Finance Education for Young People found that this was far from being a 'job done' as few young people still left school with adequate financial education – let alone adequate knowledge of how the tax system works.

A previous *Tax Adviser* article published in the December 2015 issue addressed the impact this might have on the ability for the public to engage fully in the tax debate but a wider question of how we achieve effective tax knowledge improvements is one that still needs more careful thought. This article reports on a CIOT funded study to answer this question, at least partially – reviewing the effect of tax education on groups of young people about to enter adult working life as they graduate from University.

The range of tax related issues people need to engage with is not decreasing. According to the UK's Office of National Statistics, there has been an increase in the number of self-employed by approximately 40% since the turn of the century. With an increasing number of individuals engaging in trade in lieu of employment, tax education will play an important role in the personal and professional development of upcoming entrepreneurs. Further, with *Making Tax Digital* coming next year, it is arguably more imperative than ever to raise the levels of tax literacy before young people leave school and higher education.

While it is a great boost for tax administration efficiency, the majority of UK residents do not need to file self-assessment income tax returns. This is unhelpful for general tax awareness and hasn't been lessened by the recent introduction of allowances for dividends and savings, taking even more people out of direct engagement with the tax system. Further, ask many young people if they pay tax and they will say 'no' as they often fail to recognise payment of VAT and indirect taxes makes them UK taxpayers.

The CIOT recently funded academic research into the inter-relationships of financial and tax literacy, tax morale and tax compliance attitudes of young people at University. The key questions this research asked were:

- How tax aware are young people?
- How could their tax literacy and tax morale (i.e. motivation to pay taxes) be improved before they enter the job market?

The diverse groups of students surveyed were asked a series of questions on various financial and tax issues to establish levels of general and specific knowledge, tax ethical questions to establish proxies for tax morale, and questions in which perceptions and personal preferences on tax structure were determined.

The results showed that gender, tax tuition, and employment experience all influence tax morale. Female respondents to the survey tended to have higher tax morale compared to the male respondents. Interestingly, even before any tax tuition was given, students enrolled on accounting courses were found to have lower tax morale compared to those enrolled on other surveyed courses. Respondents with employment experience tended to have a higher level of tax morale compared to those without – perhaps not a surprising result given this experience is likely to have required them to engage with the income tax system.

The study also showed that there is a general perception among the young people surveyed that the UK individual tax system is fair, but complex and that the rates are too high. This is particularly strong for those in employment, regardless of whether or not they have completed tax returns. Alarmingly, the majority of respondents do not have a high regard for the tax compliance of others as they assume between 21% and 60% of taxpayers underpay their taxes, and 8% of respondents gave figures exceeding 60%. Further, worryingly, over half of the respondents say they would cheat themselves by paying cash to a plumber if that

would exclude VAT from the invoice.

While the research was not able to prove that across their sample enhanced tax literacy resulted in enhanced tax morale, the results nevertheless demonstrated marginal improvements. This led the authors to conclude that incorporating tax literacy into business education is essential at every level in higher education and that reflection on ethical behaviour should be considered across the syllabus.

The results of this study suggest that general taxpayer education should be introduced as part of University education – and not just for those studying business, economics, law or accounting where formal courses on tax most typically can be found. While the UK Government and the CIOT are already actively engaged in improving the tax literacy of young people, there is more that could be done in this area that may also positively impact taxpayer compliance and morale.

Four specific recommendations came out of this research:

1. Support should be given to further enhance and help more widely promote the *Tax Guide for Students* (provided by the Low Incomes Tax Reform Group (LITRG)) to include a general introduction to public finance, which would highlight the link between good citizenship and good tax morale and increase its exposure;
2. CIOT should collaborate more with other professional organisations on developing a web-based, interactive mechanism to engender a better understanding of the interconnection between tax and public expenditure;
3. They should look to engage with the National Union for Students and the National Association of Student Money Advisers in designing, developing and delivering extra-curricular tax courses in higher education;
4. CIOT should work with HMRC in evaluating, expanding and enhancing their *Tax Facts* initiative in secondary schools.

The website a '*Tax Guide for Students*', is an excellent source of reliable information and helpful links. It suffers however from restricted exposure. Last year (11 July 2017 to 11 July 2018), the site had more than 550,000 users viewing over 850,000 pages between them, according to the CIOT. While this is an impressive number of hits, there are well over 5 million 18-24 year olds in the UK with 2 million students in higher education. This therefore equates to less than 10% seeking the free and reliable advice provided by the CIOT.

Ten per cent of the students surveyed in this research did not know where to turn to for advice (beyond seeking parental help). Nearly 30% identified the internet, but without being able to specify a reliable source.
Alexis Drayson, Advice Manager of the Student Union at Bournemouth University (SUBU) says, 'The Students' Union Advice Service at Bournemouth University signposts students to the *Tax Guide for Students* website, with most enquiries related to refunds and international students applying for a NI number. Having a reputable source of information is essential when providing advice and having something solely dedicated for students makes the information far more accessible and meaningful.' Unfortunately, the researchers have since found that other student unions are not as aware of the CIOT's *Tax Guide for Students*.

The second and third recommendations relate to the provision of nationwide, extracurricular tax tuition in higher education. This may be done alongside more general personal financial guidance and support for all students. The National Union of Students and the CIOT might consider a collaboration to undertake this. CIOT members or local branches might also consider working with their local University Student Unions to help to educate students on tax matters.

The fourth recommendation to ensure the greatest impact of raising the general financial and tax literacy of young people is that a comprehensive programme should be embedded in secondary schools' curricula. This will target all young people before they enter the job market, regardless of whether they go on to higher education. How best to do this to create a lasting impact remains an under researched topic.

The development and dissemination of *Junior Tax Facts* and *Tax Facts* have been admirable initiatives taken by HMRC in raising tax awareness in primary and secondary school-children, respectively. The research undertaken suggests, however, a gap remains in the desired knowledge and understanding of young people entering the job market.

The inherent obstacles to overcome particularly include the time limitations within the national school curricula, limitations of public finances that would be required for effective programme design, and the limitations of teachers for delivery. The last limitation may be effectively addressed with further development of the use of technology and building on the *Junior Tax Facts* and *Tax Facts* Programmes. These programmes, while excellent starting points for introducing concepts, would benefit

from interactive enhancements, expansion and ‘next-stage’ initiatives. Modern media offers a number of other opportunities. HMRC and the CIOT should continue to broadcast webinars and tax tutorials through their respective websites and through YouTube. Twitter is being used as an effective tool to communicate timely updates and signposts to information and online services. These tools, while excellent, are only effective if there exists a wide spread general awareness of tax issues and the available help.

This research effectively highlights the role of general tax literacy education in promoting greater public tax awareness amongst young people and makes specific suggestions for how this can be enhanced.