
Heat, Dust and Taxes: a Story of Tax Schemes in Australia's Outback

Dr A R (Lex) Fullarton

The author previews his fascinating new book, which examines the extraordinary flourishing of tax avoidance schemes among blue-collar workers in the remote Pilbara region of Western Australia

Set in the picturesque, but treacherous, landscape in the outback of North-western Australia, my forthcoming book, *Heat, Dust and Taxes: a Story of Tax Schemes in Australia's Outback*, tells the story of one of the greatest series of tax avoidance schemes in Australia's history. It focuses on the tradespeople and labourers who chased the "big mining money" in the Pilbara region of Western Australia — one of the world's last frontiers.

These workers found the high incomes that the mining industry promised. However, they also found the isolation and harsh physical environment that had kept the region unpopulated for so long. They then encountered something they had never previously experienced — Australia's high marginal income tax rates, reserved for the high income earners at "the top end of town".

In the 1990s, the silver-tongued salespeople of the "white-shoe brigade" peddled evermore complex and mind-boggling schemes as they pretended to alleviate one of the plagues encountered by the Pilbara blue-collar workers. Not surprisingly, they found very willing audiences for the promises of avoiding tax in this land of heat, dust and taxes.

The extent of taxpayer participation in tax avoidance schemes, mass-marketed in Australia in the 1990s, was detected by way of a "surge"¹ in tax deductions claimed through the use of the essentially bogus financial "investments" by the Australian Taxation Office (ATO) in 1997. By 1999, the growth in tax deductions claimed through the use of such schemes ultimately represented nearly 2% of Australia's annual tax revenue.

The schemes were available to all Australian taxpayers. Yet, despite the fact that Western Australians comprised only about 10% of the entire Australian population,

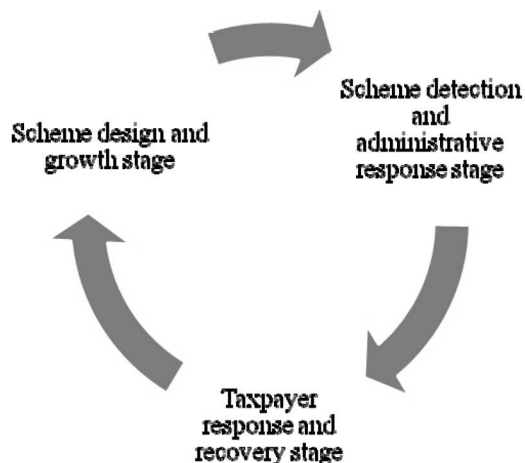
ATO statistics reveal that the taxpayers of Western Australia accounted for over 40% of scheme participants.

Further, the book notes that with some 18% of its taxpayers participating in the schemes, the tiny Pilbara settlement of Pannawonica demonstrated the highest rate of engagement of all communities under focus in this research. Arguably, Pannawonica is not only one of the most isolated communities in the Pilbara region, but it also experiences probably the harshest physical environment of the region. To compensate for those harsh living and working conditions, Pannawonica's taxpayers earn some of the highest annual incomes in Western Australia. Consequently, they also experience the highest marginal rates of personal income tax.

Against that background, this book seeks to develop the broader knowledge of taxpayer compliance behaviour to further an understanding as to why taxpayers engage in tax avoidance activity. It investigates the motivational factors which may have influenced the blue-collar workers of the Pilbara region to participate in the schemes with such enthusiasm.

To provide context, the book examines the history of tax avoidance schemes in Australia from the early 1970s to the late 1990s and illustrates how the mass-marketed tax avoidance schemes developed. It suggests that the development of tax avoidance schemes is a cyclical sequence of actions and reactions between taxpayers, scheme designers and promoters, tax administrators, the judiciary and legislators. The following illustration in figure 1 depicts the cyclical pattern of tax avoidance scheme development in Australia.

Figure 1: the cyclical pattern of tax avoidance scheme development in Australia



The book also suggests that each cycle not only leads to the development of the subsequent schemes, but also acts to increase participation as new classes of taxpayers are attracted to tax avoidance activity as the “tax avoidance market” broadens. In effect, a spiral of avoidance develops.

Previous researchers, such as Tyler, have considered compliance with the law generally. But Tyler’s investigations were far broader than public compliance with taxation law. He explored “the everyday behaviour of citizens toward the law and examine[d] why people obey or disobey it”.² He considered that refusing to pay tax was part of a raft of behavioural practices such as using illicit drugs, engaging in illegal sexual practices and driving when drunk.

To provide an explanation as to why Pilbara blue-collar workers engaged in the tax avoidance schemes of the 1990s, this book examines a range of motivational factors. For the purposes of clarity and structure, the motivational factors are grouped into four basic categories — demographic, socio-psychological, economic and legal and administrative.

The book finds that the population under study tends to be younger, less educated and more secular than the broader Australian community. Therefore it considers particularly the demographic factors of gender, age, education and, to a lesser extent, religion. As to socio-psychological factors, researchers suggest that the perception of fairness is one of the strongest influences on taxpayer compliance behaviour. The book suggests that physical isolation and inherent social distance contributed to a perception that the high personal income tax

rates were unfair, leading to the high tax avoidance scheme participation rates observed by the ATO.

As to the influence of economic factors, levels of income are generally related to income tax rates and also affect economic habits. The income tax rates and the spending habits of the blue-collar workers in the Pilbara region were far greater than those in similar occupations in the broader community. This book also explores the responses of participants in this research in order to gauge the impact of legal and administrative factors on Pilbara taxpayer scheme participation rates to examine the effect of those factors on the acceptance of the schemes.

The book concludes that it was the harsh physical environment combined with high income tax rates that significantly influenced avoidance scheme participation rates. A blue-collar worker interviewed put forward the following typical suggestion of what he considered as the main reason why he and his workmates participated in the schemes:

Most people that earn a lot of money, understand money. Like up here we don’t. When I say like up here like, in this environment you know, we earn reasonable money, we pay a lot of tax but we don’t understand it. You know, like and we were pretty easy bloody targets for them eh, that’s my opinion.³

It seems reasonable to conclude that tax avoidance activity was always likely to occur in the inhospitable environment endured by the highly taxed, blue-collar workers in the mining communities of Western Australia in the 1990s. As a result of the demand for their “products”, the promoters of mass-marketed tax avoidance schemes were able to mine a rich seam of participants in the Pilbara region.



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Footnotes

1. The term “surge” was used as a description of the volume of refunds generated by the use of such schemes in the Senate Inquiry that investigated these tax avoidance schemes.
2. T R Tyler *Why People Obey the Law* Princeton University Press, New Jersey 2006 p 3.
3. Personal interview with a respondent, Pannawonica, 8 May 2007.