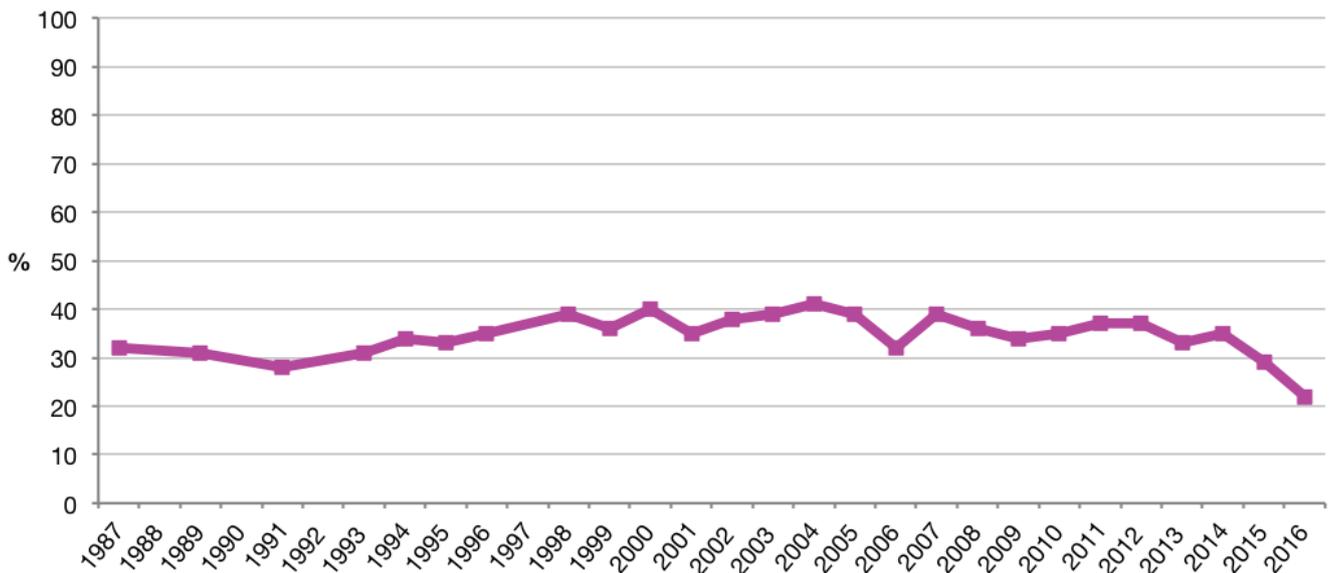


Tax avoidance and benefit manipulation

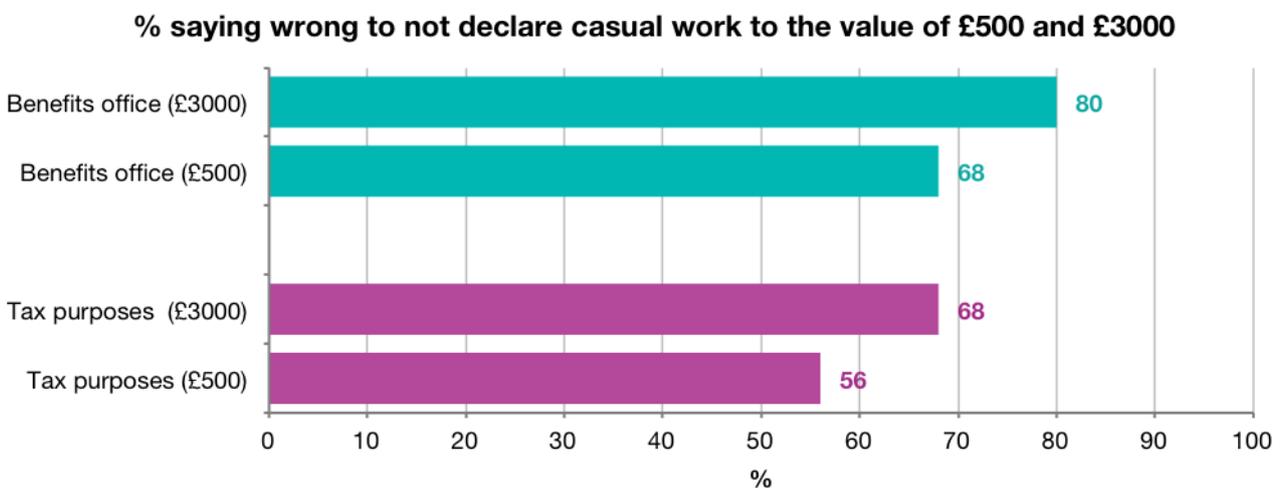
Views on its morality and prevalence

There has been a sharp shift in the perceived prevalence of benefit manipulation but people are more likely to think this is wrong than tax avoidance.

The proportion who say most dole claimants are ‘fiddling’ is at its lowest level since 1986



The public is more disapproving of benefit manipulation than tax avoidance



Overview

This chapter identifies a double standard in attitudes to tax avoidance and benefit manipulation: while around half or more regard both as wrong, benefit recipients are judged more harshly than tax offenders for what might be considered similar ‘offences’. This double-standard varies across different groups: people in the highest income group and who are right-wing are less likely to say that tax avoidance is wrong, while people who hold liberal views are less likely to say that benefit manipulation is wrong. There has been a sudden drop in the perceived prevalence of benefit manipulation, which, if sustained, indicates a major shift in attitudes towards benefit claimants.

A double standard

Around half of the public think tax avoidance is wrong, but people are more likely to think that benefit manipulation is wrong.

- 61% think it is wrong for benefit claimants to use legal loopholes to increase their payments, compared with 48% thinking it is wrong to use legal loopholes to pay less tax.
 - 68% think it is wrong to not declare casual work to the benefit office to gain £500, while 56% think it is wrong to gain £500 by not declaring casual work for tax purposes.
-

More deserving claimants?

There has been a sudden sharp shift in the perceived prevalence of benefit manipulation.

- The proportion agreeing that most dole claimants are ‘fiddling’ has dropped from 35% in 2014 to 22% in 2016 – the lowest level recorded in 30 years.
- People are less likely to say that they would conceal casual earnings for tax purposes than they used to; 40% said this in 1996, compared with 24% now.

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Introduction

It is unusual to consider the public's perceptions of loopholes around tax and benefits simultaneously (Doig et al., 2001; McGee 2012). Not only are taxation and social security different normative and administrative systems, but the social groups engaged in these practices may also be quite different: the groups most likely to manipulate their benefits claim are not necessarily the same as those trying to avoid tax by using clever accounting (Tunley, 2011). Yet despite these differences, there are important similarities: both tax avoidance and benefit fraud are normatively questionable practices used to increase personal incomes at the expense of the state. Moreover, for both systems, questionable activities can be either illegal ('tax evasion' and 'benefit fraud') or legal ('tax avoidance' and what we here term 'benefit manipulation').

Media coverage

A cursory glance at the print and television media suggests the public is far more interested in and concerned about benefit fraud and manipulation than tax avoidance and evasion (Wiggan, 2012; Scott-Paul, 2013). All of the major terrestrial television channels have, over the last few years, commissioned programs exploring the lives of those who are receiving social security and who are living in poverty (Biressi and Nunn, 2010; Jensen, 2014). Indeed, when we ask respondents to the 2016 survey "How many TV programmes, newspaper or online articles about benefit fraud do you remember seeing in the last 6 months?", 27% report seeing none, 30% recall viewing one or two, 21% remember viewing three to five, while a further 21% have seen six or more such programmes or articles. Moreover, there is a general consensus that the media is critical, rather than sympathetic, in "the way it portrays people who engage in benefit fraud", with 71% of those who remember seeing at least one programme or article describing it as "very critical" or "somewhat critical". Furthermore, shows such as *Benefits Street*, *Skint*, *People Like Us*, *On Benefits* and *Proud*, among others, have become vehicles through which righteous indignation can be legitimately expressed regarding how certain elements of the population live, especially when such lifestyles are supported by taxes paid by 'hard-working families' (Jensen, 2014). The protagonists of these shows are often represented as part of an 'undeserving underclass' that is fraudulently or dishonestly receiving support from the state (Lundstrom, 2013).

As yet, there have not been any television shows dedicated to exploring the lives of tax avoiders or evaders (perhaps partly because they are less willing to receive such publicity). Tax avoidance and evasion have, of course, not been completely absent from public debate in the mass media (Levi, 2006). The Panama papers pushed the tax affairs of David Cameron's father into the spotlight, 'non-doms' dominated the 2015 general election for a few days, and, in

It is unusual to consider the public's perceptions of loopholes around tax and benefits simultaneously

recent years, a number of celebrities have been embroiled in tax avoidance scandals (Robinson, 2015; Osborne, 2016; Morgan and Riley-Smith, 2016). At the same time, there was also much criticism of the Conservative Treasury Minister David Gauke, who in 2012 said that paying tradesmen in cash to avoid VAT was “morally wrong”¹, suggesting that public attitudes here are not straightforward. Notwithstanding these events, most of the media attention on issues related to tax and benefits has focussed on the bottom of the income distribution rather than the top, suggesting that tax avoidance and evasion and benefit manipulation and fraud may not be considered moral equivalents.

Previous research

Given this intense media interest, there are surprisingly few studies looking at the public’s *relative* perceptions of tax and benefit loopholes. A number of studies have looked at the public’s perceptions of benefit fraud – for example, Geiger (2016) identifies five different recent surveys, which consistently show that the average person believes that around one quarter to one third of claims/spending is fraudulent. Typically these figures are compared with the Department for Work and Pension (DWP)’s own exhaustive estimates of benefit fraud based on tens of thousands of case reviews, of which the latest figures show that 0.3%–4.1% of spending is due to fraud (depending on the benefit) (Department for Work and Pensions, 2016). This is a reasonable comparison for those questions that refer to the share of *spending* that is fraudulent, but some questions refer to the share of *claims* that are fraudulent, which tends to be slightly higher for the few benefits for which DWP data are available (1.9%–10.0% depending on the benefit).²

Fewer studies have looked at the perceived prevalence of tax avoidance, but over 60% of the public believe it to be ‘widespread’ (Shah, 2015). The government has published some estimates of the scale of tax avoidance but, like benefit fraud this is by its very nature difficult to track and much less effort has gone into doing so (National Audit Office, 2015). There are therefore no widely accepted comparable figures regarding public perceptions of benefit fraud and tax avoidance against which to compare public perceptions. While 11% of the population admitted in one survey to ‘legally’ avoiding tax (YouGov, 2015), even studies that have compared tax inspectors’ and tax experts’ opinions have not reached consistent conclusions over what constitutes tax avoidance (Onu, 2016).

Potentially we can compare the official benefit fraud estimates to people’s perceptions. What makes this an especially tricky issue to analyse quantitatively, though, is that there are differences

1 BBC (2012), ‘Paying Tradesmen Cash in Hand Morally Wrong, Says Minister’, BBC News, available at: <http://www.bbc.co.uk/news/uk-18964640>

2 For example, according to the DWP estimates for 2015/16, 3.1% of JSA cases vs. 2.9% of JSA spending was fraudulent. The equivalent figures for Universal Credit are 2.8% (claims) vs. 1.9% (spending), for ESA are 2.8% (claims) vs. 1.9% (spending), and for working-age Housing Benefit are 10.0% (claims) vs. 5.0% (spending).

There are surprisingly few studies looking at the public’s relative perceptions of tax and benefit loopholes

between what is *legally* considered fraud/evasion and what actions people *believe* are fraudulent (Geiger, 2016). DWP's estimates refer to legally-defined fraud, such as claiming to live alone in order to receive benefits when actually living with a partner. Yet, the public may interpret the word 'fraud' as including people who are judged to be 'undeserving' regardless of whether they are engaging in any illegal activity. For example, someone may have another child in order to gain additional financial support – support to which this individual would, in fact, be legally entitled. However, in an Ipsos MORI survey in 2013, just over 35% said that their definition of 'fraud' included "having more children so that they are entitled to more benefits" (Geiger, 2016). Moreover, 36% believed "people claiming benefits who haven't paid any taxes/national insurance" constituted fraud; and 46% reported that "people from abroad/immigrants claiming benefits" was also fraudulent. None of these activities constitute fraud in the legal sense.

When it comes to the perceived *morality* of using these legal and illegal loopholes, most of the existing research has focused on the wrongness of tax avoidance rather than benefit manipulation. Over 60% of the public believe tax avoidance is 'unacceptable' because it is unfair to those who pay their taxes (Shah, 2015), and a YouGov poll similarly found that most people believe that 'legally' avoiding tax is 'unacceptable' (YouGov, 2015). It also seems that this varies by income, with more affluent households saying they were slightly more likely to participate in tax avoidance schemes if they were unlikely to get caught (YouGov, 2015). (It is worth adding in brief that the public makes similar moral judgements about tax avoidance by multinational corporations (ComRes, 2013), though this is not our focus in this chapter). In contrast, there may be situations – such as receiving cash-in-hand payments – that are technically illegal but which many believe are normatively acceptable (McGee, 2012). Data collected as part of the 2006 British Social Attitudes (BSA) survey suggest that only around 40% of people thought that paying someone cash-in-hand to avoid VAT was wrong, and that over 70% said that they themselves would do it (reported in a blog by Baumberg, 2012)³.

The only studies that have compared the perceived morality of tax and benefit fraud simultaneously are Edlund (1999) and Halla & Schneider (2014), both of which use one item apiece on tax and benefits. For example, Edlund compared responses to the questions, "Do you feel it is wrong or not if... (i) A taxpayer does not report all of his income in order to pay less income tax?", (ii) A person gives the government incorrect information about himself to get government benefits that he is not entitled to?" Majorities in both the USA and Norway in 1991 agreed that both of these were "wrong" or "seriously wrong", although the wrongness of benefit fraud was felt to be slightly higher. Halla & Schneider similarly compare "claiming state

³ Data on these measures collected as part of the 2016 BSA survey are discussed in the main body of this chapter.

benefits which you are not entitled to” to “cheating on tax”, and find that people believe that both are wrong, but that benefit fraud is seen as less justifiable in 21 of 29 countries. However, it is difficult to know if this is due to different moral standards being applied to taxation versus social security, or simply that the question does not ask about equivalent situations.

There is therefore much we do not know about legal and illegal manipulation of the tax and benefits systems and, in particular, people’s perceptions of one versus the other. Data collected as part of the BSA 2016 therefore provide a unique lens on these issues by asking similar questions about taxation and benefits, providing some of the most robust empirical evidence available on the perceived morality and prevalence of manipulation of both of these systems.

How wrong are tax avoidance and benefit manipulation?

The use of legal loopholes

We begin by examining perceptions of the extent to which tax avoidance and benefit manipulation are wrong. The 2016 BSA survey included two questions designed to measure people’s feelings about the morality of using legal ‘loopholes’ to reduce the amount of tax one pays (tax avoidance), versus using such loopholes to increase one’s benefit payments (benefit manipulation). We asked respondents:

Suppose someone used a loophole in the system to reduce the amount of tax they pay, without breaking the law. What would your view of this be?

Suppose someone used a loophole in the system to increase their benefit payments, without breaking the law. What would your view of this be?

21% think it is “rarely” or “never” wrong to use loopholes to pay less tax, considerably more than the 14% who think this for increasing benefits

As shown in Table 1, a clear majority (61%) think that it is wrong (“usually” or “always”) for benefit claimants to use legal loopholes to increase their payments. A smaller proportion (just under half) think it is always or usually wrong for taxpayers to use loopholes to avoid tax. Conversely, 21% think it is “rarely” or “never” wrong to use loopholes to pay less tax, considerably more than the 14% who think this for increasing benefits. This suggests that fewer people are disapproving of taxpayers ‘gaming the system’ to withhold tax than of benefit claimants who engage in similar behaviour to increase the payments they receive.

Exploring these questions together on their original five-point answer scales, we find that a majority (56%) provide answers indicating a view that tax avoidance and benefit manipulation are equally wrong. Among those who feel they are not morally equivalent, almost three times as many people (30%) feel that benefit manipulation is more wrong than tax avoidance, as opposed to thinking that tax avoidance is more wrong than benefit manipulation (12%).

Table 1 Attitudes to the morality of exploiting legal loopholes and benefit fraud

	Using loopholes to reduce tax	Using loopholes to increase benefits	False information to support benefit claim
How wrong	%	%	%
Usually or always wrong	48	61	91
Sometimes wrong	30	23	7
Rarely or never wrong	21	14	1
<i>Unweighted base</i>	2942	2942	2942

Interpreting responses to these questions may not be entirely straightforward however. The word ‘loophole’ may have a normative connotation – suggesting a deliberate action which goes against the intention of the system. This may naturally lead people towards perceiving this activity as ‘wrong’, inflating the perceived wrongness of the action. However, it is difficult to imagine a general question on this type of activity which does not suffer from this problem.

Beyond the manipulation of legal loopholes, the 2016 survey also asked about the morality of knowingly giving false information to support a benefit claim – in other words, benefit fraud. We asked respondents:

Suppose someone knowingly gave false information to support their benefit claim. What would your view about this be?

As shown in the final column of Table 1, an overwhelming majority (91%) feel that this is always or usually wrong, with only 1% feeling that it is rarely or never wrong. These proportions are similar to those recorded in both the USA and Norway in 1991, suggesting that most people in most places – even if not quite everyone – think that outright benefit fraud is wrong (Edlund, 1999).

Unfortunately, no questions were asked about the wrongness of tax evasion – but given the responses in this section, we would expect an overwhelming majority of people to also think that this is wrong.

Cash-in-hand work

Alongside general questions on the morality of exploiting loopholes, BSA 2016 also included specific questions on illegally failing to declare cash-in-hand work to the tax and benefits office. We asked if the behaviour described in the following two scenarios is wrong or not wrong (people randomly received different versions of the questionnaire specifying either £500 or £3,000 as the cash amount):

An unemployed person on benefits takes a casual job and is paid in cash. He does not report it to the benefit office and is £500/£3,000 in pocket.

People are more likely to disapprove of a benefit claimant concealing cash-in-hand earnings from the benefit office than they are to disapprove of someone in paid employment failing to declare this for tax

A person in paid work takes on an extra weekend job and is paid in cash. He does not declare it for tax and so is £500/£3,000 in pocket.

Table 2 presents the breakdown of responses to these questions. In line with the results above, people are more likely to disapprove of a benefit claimant concealing cash-in-hand earnings from the benefit office than they are to disapprove of someone in paid employment failing to declare this for tax. This is equally true for both the smaller and larger cash amounts we ask about, although it is worth noting that, in both cases, people are more likely to think that failing to declare a larger amount is wrong, than failing to declare a smaller amount.

Table 2 Attitudes towards the morality of cash-in-hand work

	Not declaring a £500 gain ...		Not declaring a £3000 gain ...	
	... to benefits office	... for tax purposes	... to benefits office	... for tax purposes
How wrong to not declare cash-in-hand job ...	%	%	%	%
Wrong or seriously wrong	68	56	80	68
A bit wrong	23	31	13	22
Not wrong	4	7	2	5
<i>Unweighted base</i>	1591	1591	770	770

Comparing responses to the questions on the morality of cash-in-hand work across benefits and tax on the original four-point answer scales, we find that a majority of people provide responses indicating that it is equally wrong to conceal cash-in-hand work from the benefits office or for tax purposes (59%/63% provide combinations of answers demonstrating this for the £500/£3,000 scenarios respectively). Around a quarter of people in each scenario (26%/24%) provide responses suggesting that a benefit claimant concealing cash-in-hand earnings from the benefits office is worse than a taxpayer concealing such earnings from the HMRC. Less than 10% appear to express the opposite viewpoint (8%/6%).

How would people themselves behave?

While the 2016 survey did not collect any evidence on how people actually behave, we asked respondents, as part of the self-completion element of the survey, how they would anticipate behaving – which enables us to see how this compares with their moral judgement of others. After each of the questions on cash-in-hand work presented above, we asked respondents:

And how likely do you think it is that you would do this, if you found yourself in this situation?

As shown in Table 3, a substantial proportion (20%/24% for £3000/£500) say that they would be likely to conceal cash-in-hand earnings from the tax authorities, while slightly fewer (14%/20%) say they would hide such earnings from the ‘benefits office’.

Table 3 Self-reported likelihood of failing to report cash-in-hand earnings

	Not declaring a £500 gain ...		Not declaring a £3000 gain ...	
	... to benefits office	... for tax purposes	... to benefits office	... for tax purposes
How likely to not declare cash-in-hand job	%	%	%	%
Fairly or very likely	20	24	14	20
Not very or not at all likely	72	69	78	74
Can't choose	8	8	8	6
<i>Unweighted base</i>	1591	1591	770	770

Another aspect of behaviour we probed was whether respondents would report someone they knew to have claimed falsely, by asking the following question:

Imagine that you found out that someone falsely claimed benefits amounting to [£500/£3,000]. You know this person but they are not a close friend or family member. How likely or unlikely is it that you would report them?

Only a minority of people say that they would report someone for falsely claiming benefits

Only a minority of people say that they would report someone for falsely claiming benefits. As found in relation to the questions on cash-in-hand work, people make slightly different judgements when a greater amount of money is involved. Among those asked about the £500 false claim, 23% say that they would be very or fairly likely to report their acquaintance; when the figure specified is £3,000, a somewhat greater proportion (33%) say they would report them.

Given that 91% feel that falsely claiming benefits is wrong, this suggests that a considerable proportion of people who consider benefit fraud to be wrong would nevertheless be unwilling to report an acquaintance they knew to be committing it. Further inspection of the data confirms this. Sixty four per cent of people who think that benefit fraud is always or usually wrong say that they would be *unlikely* to report someone they knew to have claimed falsely. The same question is not asked about tax evasion, but it may well be the case that people are similarly unlikely to report people for illegally failing to pay tax, even though they think this is wrong.

Perceived prevalence of tax avoidance and benefit manipulation

In addition to asking for their moral judgements on tax avoidance and benefit manipulation, we asked respondents how common they perceive these activities to be, using the following two questions:

Thinking about the whole of Britain, out of every 100 people who pay tax, how many do you think have used a loophole in the rules to reduce the amount of tax they pay, without breaking the law?

Thinking about the whole of Britain, out of every 100 people receiving benefits, how many do you think have used a loophole in the rules to increase their benefit payments, without breaking the law?

Contrary to attitudes to the morality of legal loopholes, as shown in Table 4 there is little difference in perceptions of the prevalence of the use of such loopholes in relation to tax and benefits. On average, people believe the proportion of benefit claimants who have exploited loopholes to increase their benefits is larger than the proportion of taxpayers who have done so to avoid tax, but this difference is quite small (37 out of every 100 claimants vs. 32 out of every 100 taxpayers). Nevertheless, on an individual level, more people provide answers indicating a belief that benefit manipulation is more common than tax avoidance (45%) than provide answers indicating the opposite belief - that tax avoidance is more common than benefit manipulation (23%).

On average, people believe the proportion of benefit claimants who have exploited loopholes to increase their benefits is larger than the proportion of taxpayers who have done so to avoid tax, but this difference is quite small

Table 4 Perceived prevalence of tax avoidance and benefit manipulation

	Out of every 100 taxpayers/claimants, how many have...			
	...exploited loophole to reduce tax	...exploited loophole to increase benefits	...given false information in benefit claim	...given false information in benefit claim in local area
Average perception (out of every 100)	32	37	34	24
% perceiving....	%	%	%	%
0-24 out of every 100	44	35	40	51
25-49 out of every 100	20	19	21	13
50-74 out of every 100	18	26	21	11
75-100 out of every 100	9	11	10	5
Don't know/refused	8	10	8	20
<i>Unweighted base</i>	<i>2942</i>	<i>2942</i>	<i>2942</i>	<i>2942</i>

We asked two further questions about the prevalence of illegal benefit fraud (going beyond the exploitation of legal loopholes), which – to our knowledge for the first time in a survey – focused on perceived fraud at both the national and local levels:

Thinking about the whole of Britain, out of every 100 people receiving benefits, how many do you think have broken the law by knowingly giving false information to support their claim?

Now thinking about the local neighbourhood where you live, out of every 100 people receiving benefits, how many do you think have broken the law by knowingly giving false information to support their claim?

On average, people believe illegal benefit fraud to be almost as common as the legal exploitation of benefits loopholes

No equivalent question was asked about the perceived prevalence of illegal tax evasion (rather than legal tax avoidance).

Responses to these questions are presented in the final two columns of Table 4. It is notable that, on average, people believe illegal benefit fraud to be almost as common as the legal exploitation of benefits loopholes. It is possible that this reflects people's true beliefs about the prevalence of these two different types of activity. However, it is also possible that, despite the question wording, people do not draw a strong conceptual distinction between legal manipulation and illegal fraud: as we noted in the introduction to this chapter, a previous Ipsos MORI survey found that substantial proportions of people described entirely legal scenarios as examples of 'benefit fraud'.

Another notable finding from Table 4 is that, on average, people perceive the national prevalence of benefit fraud to be higher than the prevalence in their local neighbourhood. Almost 20% feel unable to give a figure for the local prevalence of benefit fraud, compared with just 8% who feel unable to give an estimate for the national picture. Taken together, these findings may suggest that people are relying on different sources of information to estimate how common false benefit claims are at the national versus local levels. It seems likely that people's perceptions of the national picture are more strongly influenced by national media coverage; whereas their perceptions of the local situation may draw more strongly on direct experience. This may explain why people are less willing to give a figure for the local prevalence of fraud: they feel that, in the absence of direct knowledge, they should not hazard a guess. This is however speculative, and is something worth exploring in future research.

DWP define a case of benefit fraud as one in which the claimant does not meet the conditions for receiving the benefit (or the rate being paid), and can reasonably be expected to be aware that they have not provided accurate or complete information to support their claim.⁴ This definition matches the BSA question wording – which specifically references providing false information – quite closely. In the 2015/2016 financial year, DWP estimated that 1.1% of benefit

⁴ This is differentiated from 'claimant error', where the "claimant has provided inaccurate or incomplete information...but there is no fraudulent intent on the claimant's part"

spending in Britain meets their definition of fraud. Even accepting that the share of *claims* that are fraudulent is slightly higher than the share of expenditure (see above), the BSA respondents on average seem to vastly overestimate benefit fraud compared to any plausible figure. We must bear in mind that respondents may mean something different by ‘fraud’ than is specified by the question (as we have already discussed), and that some fraud will be undetected even by DWP’s robust fraud-counting exercise. Nevertheless, as one of us has argued in a more extensive review of whether ‘benefit myths’ exist (Geiger, 2016), “while it is difficult to know the true level of benefit fraud exactly, the public overestimate fraud compared to any reasonable figure.”

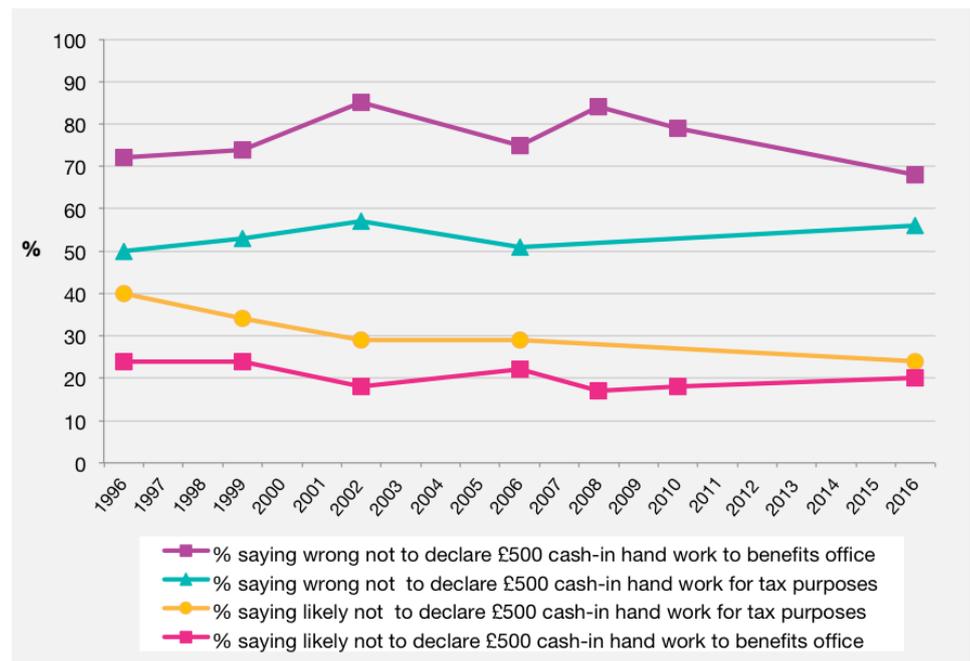
While HMRC do publish estimates on the amount of tax lost to avoidance and evasion, they do not publish statistics on the proportion of taxpayers who are engaged in tax avoidance, or on the proportion of tax returns which include the exploitation of legal loopholes. Without these data it is impossible to determine the accuracy of the public’s perceptions of the prevalence of tax avoidance. However, given the large proportion of British taxpayers who pay tax solely through VAT and PAYE, and therefore have a limited ability to exploit ‘loopholes’, it is plausible that respondents are also overestimating the prevalence of tax avoidance.

Have perceptions changed over time?

While many of these questions were asked for the first time in 2016, the questions about the morality of failing to declare cash-in-hand work of a value of £500 and the respondent’s anticipated behaviour in relation to this, have been asked periodically as part of the BSA survey series. Figure 1, which compares responses over time, shows that, there have been noticeable fluctuations over time, but few systematic trends over the past twenty years. The sole exception is in anticipated behaviour regarding declaring cash-in-hand earnings for tax purposes. In 1996, almost 40% said they would not declare such earnings; this figure has now fallen to just 24%. While we can speculate that the more recent dip reflects increasingly negative coverage of tax avoidance in the mainstream media – such as the Panama Papers and celebrity tax avoidance scandals (Morgan and Riley-Smith, 2016) – it remains unclear why the fall was sharpest between 1996-2002.

In 1996, almost 40% said they would not declare such earnings; this figure has now fallen to just 24%

Figure 1 Views on the morality of cash-in-hand work, 1996-2016



The data on which Figure 1 is based can be found in the appendix to this chapter

In contrast, attitudes towards the *prevalence* of benefit fraud and manipulation have changed substantially over the years. While the detailed questions on the prevalence of fraud and manipulation were asked for the first time in 2016, to assess how perceptions have changed over time we can examine three broader questions which address this issue. Every year we ask respondents whether they agree or disagree with the following statements:

Most people on the dole are fiddling in one way or another

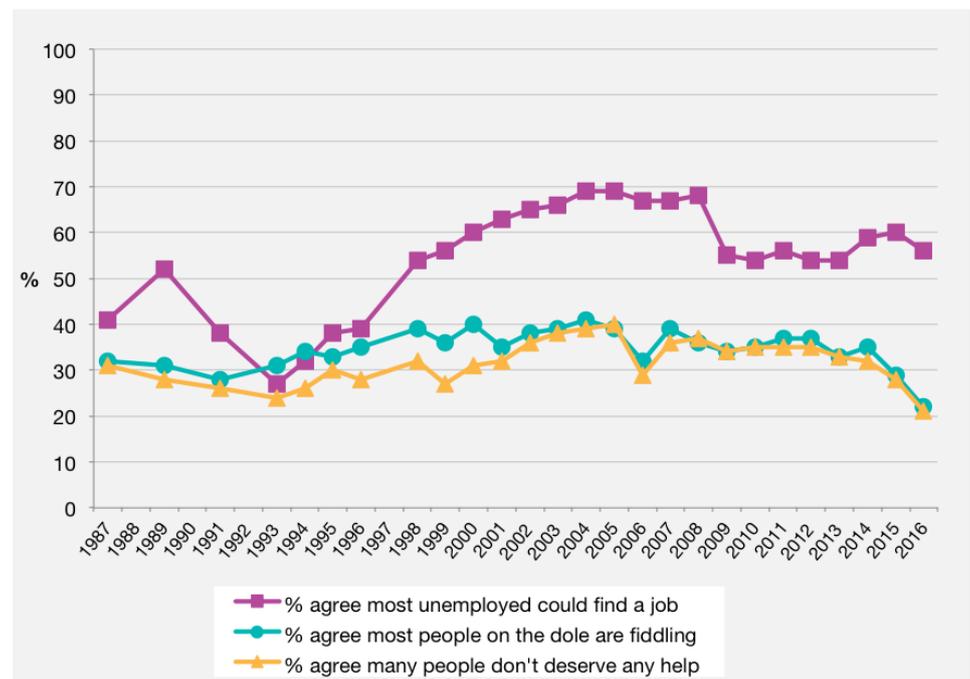
Many people who get social security don't really deserve any help

Around here, most unemployed people could find a job if they really wanted one

The proportions agreeing or strongly agreeing with each of these three statements is shown in Figure 2. Previous BSA reports have noted the greater perceived prevalence of fraud/undeservingness in the late 1990s, along with the effect of the 2008-2009 recession (for example, Baumberg, 2014). What is new, however, is the sharp drop in the perceived prevalence of benefit manipulation/undeservingness since 2014. The proportion agreeing that most people on the dole are fiddling has dropped from 35% to 22% in just two years. Similarly, the proportion saying that most social security claimants don't deserve help has dropped from 32% to 21% across the same period.

The proportion agreeing that most people on the dole are fiddling has dropped from 35% to 22% in just two years

Figure 2 Views on the prevalence of benefit manipulation, 1987-2016



The data on which Figure 2 is based can be found in the appendix to this chapter

Noticeably these changes have *not* occurred because of any perceived change in the labour market, with similar proportions saying that most unemployed people could find a job if they really wanted one across the three most recent years. While we will need to examine the results of the 2017 survey to see if these changes are sustained – the smaller drops in 2006 now look like a one-year aberration – this may indicate an important change in the way the public thinks about benefit claimants.

Do attitudes vary across society?

We finally turn to examine whether different sections of society hold distinct views about the morality of manipulating the tax or benefits systems. We might anticipate that some groups are more likely than others to believe that hiding money from the tax office or benefits office is wrong. People with particular levels of income or wealth would have comparatively greater and fewer opportunities to manipulate the tax and benefits systems – and would also be likely to have greater or lesser contact with others in a position to do this. We might anticipate that particular sections of society are more likely to condone behaviour that ‘they’ themselves undertake – or which is undertaken by others known to or similar to them. On the other hand, views about the morality of tax avoidance and benefit manipulation might be influenced by wider political and moral attitudes and values – particularly the extent to which the individual holds liberal or authoritarian views more generally. In this section, we examine whether our data lend support to these two different theories.

We might anticipate that particular sections of society are more likely to condone behaviour that ‘they’ themselves undertake – or which is undertaken by others known to or similar to them

Groups defined by income

We divided people by their reported levels of household income to see if richer people apply different standards to tax and benefits manipulation than do poorer people. To identify more accurately the association between income and beliefs about fraud – excluding where possible associations with other factors – we here present the results of statistical models that examine household income differences after removing their associations with age and sex.⁵

Table 5 Income and the morality of exploiting legal loopholes (after controlling for age and sex)+

	Household income quartile ⁶				Significance of income
	Lowest	2nd lowest	2nd highest	Highest	
Adjusted % agreeing that always/usually wrong to use legal loopholes ...					
... to reduce tax	53	49	49	42	0.019
... to increase benefits	58	63	61	59	0.010
Adjusted % providing answers indicating that <i>more</i> wrong to use legal loopholes ...					
... to increase benefits	26	32	32	32	0.001
... to reduce tax	16	13	11	9	n/a++
<i>Unweighted base</i>	508	596	515	644	
Adjusted % likely or very likely to <u>not</u> declare cash-in-hand work ...					
... to benefits office, for £500 gain	18	17	16	24	0.101
... for tax purposes, for £500 gain	22	23	24	28	0.002
<i>Unweighted base</i>	305	336	284	382	

+ The table is based on a multinomial regression model that controls for sex and age; the percentages in the table are the average marginal effects across income groups after taking these into account.

++ Whether people say that loopholes are more commonly exploited to increase benefits vs. to reduce tax is contained within a single variable, and therefore only one significance estimate applies to both rows.

From the analysis presented in Table 5, we can see that there is a correlation between income and the likelihood that people will believe that using legal loopholes is wrong. In particular, people in the highest quartile of household incomes are the least likely to think that

⁵ Tables 5 and 6 present the results of multinomial logistic regression models, controlling for age (18-24, 25-34, 35-44, 45-54, 55-59, 60-64, 65-74 and 75+) and (binary) sex, using the standard BSA weights. The tables show average predicted probabilities across the sample, after controlling for these variables.

⁶ The exact pre-tax household income quartiles are: Lowest (less than £1,200 per month), 2nd lowest (£1,200-£2,200 pcm), 2nd highest (£2,201-£3,700 pcm) and Highest (more than £3,700 pcm); the models exclude the 15% of the sample (449 people) who refused to indicate their income.

There is a correlation between income and the likelihood that people will believe that using legal loopholes is wrong

using legal tax loopholes is wrong (42%, compared with 53% among those in the lowest income quartile). The highest income group are also the least likely to have provided responses indicating that using legal loopholes to reduce tax is more wrong than using loopholes to increase benefits (9%, compared with 16% among the lowest income group). The views of the highest and lowest income groups in relation to using legal loopholes to reduce benefits are not significantly different (although there is significant variation by income across this measure as a whole). However, the lowest income group is the least likely to have provided responses suggesting that it is more wrong to use loopholes to increase benefit payments than to use loopholes to reduce tax (26%, compared with 32% among all other income groups).

These patterns may be explained by straightforward economic interests: those with the highest incomes are the most likely beneficiaries of the exploitation of tax loopholes, whereas the lowest income group are the most likely beneficiaries of benefit manipulation. However, economic interests do not explain why the richest group are also relatively unlikely to say that benefit manipulation is wrong. This may be a consequence of those on the highest incomes perceiving the regular income benefit claimants receive to be very low – potentially justifying the exploitation of legal loopholes to increase it. This is consistent with more detailed analysis of the results shown in Table 4, which shows that the richest group are the most likely to say that they would fail to declare £500 to the tax authorities (and are also slightly – if not quite significantly – more likely to say that they would conceal earnings from the benefits office). Alternatively, it may be the case that individuals with higher incomes are more liberal and therefore less likely to make or act on moral judgements – or this group may simply consider £500 to be too small a sum to be worth declaring.

Table 6 presents income-related differences in the perceived prevalence of fraud and manipulation. It highlights much greater differences by income than those discussed previously. The highest income group consistently think that using loopholes is much less common than those with lower incomes, perceiving 26 out of 100 taxpayers on average to be using legal loopholes (compared with 39 out of 100 among the lowest income group), and 32 out of 100 benefit claimants to be using legal loopholes (compared with 41 out of 100 among the lowest income group).

 **The highest income group consistently think that using loopholes is much less common than those with lower incomes** 

Table 6 Income and the perceived prevalence of exploiting legal loopholes (after controlling for age and sex)⁺

	Household income quartile				Significance of income
	Lowest income	Mid-low income	Mid-high income	Highest income	
Out of every 100 taxpayers/claimants, adjusted average perceived number that have ...					
... exploited loophole to reduce tax	39	32	31	26	0.000
...exploited loophole to increase benefits	41	39	38	32	0.000
... given false information in benefit claim	40	38	34	26	0.000
... given false information in benefit claim in local area	29	26	25	18	0.000
Adjusted % providing answer indicating that loopholes are more commonly exploited ...					
... to increase benefits	38	48	48	47	0.058
... to reduce tax	27	22	23	24	n/a ⁺⁺
<i>Unweighted base (exc. don't knows)</i>					
	408-475	490-562	426-483	567-613	

⁺ The table is based on a multinomial regression model that controls for sex and age; the percentages in the table are the average marginal effects across income groups after taking these into account.

⁺⁺ Whether people say that loopholes are more commonly exploited to increase benefits vs. to reduce tax is contained within a single variable, and therefore only one significance estimate applies to both rows.

It is possible that this variation partly reflects variations in the levels of education of the different income groups – both in terms of accuracy (as we noted above, it is likely that most people provide considerable over-estimates of the use of legal loopholes) and numeracy (Ansolabehere et al., 2013). Nevertheless, Table 6 also shows that there are some income-related differences in whether legal loopholes are seen to be more commonly exploited for tax or benefits, with 38% of the lowest income group providing responses indicating that legal benefit loopholes are more commonly used than legal tax loopholes, compared with 47%-48% of the other income groups.

The perceived prevalence of illegal benefit fraud similarly varies by income. The highest income group think that benefit fraud is lowest both nationally and in their own area (26 out of 100 and 18 out of 100 respectively), much lower than the perceived level among those in the lowest income group (40 out of 100 and 29 out of 100 respectively).

Groups defined by political ideology

The BSA 34th Report as a whole examines whether we have witnessed a decline in liberal attitudes in recent years. Contributing

The highest income group think that benefit fraud is lowest both nationally and in their own area

to this assessment, in this section we examine whether people whose views can broadly be classified as liberal or authoritarian think differently about tax and benefit manipulation. To do this, we have split the population into four groups based on the standard BSA scales for left-right and libertarian-authoritarian attitudes (see Technical details): these groups have been labelled as ‘left-wing authoritarians’, ‘left-wing liberals’, ‘right-wing authoritarians’, and ‘right-wing liberals’. We have divided the sample in half on each scale, in order to create four roughly equally-sized groups of the population.

The results presented in Table 7 show that political ideology is very important when it comes to the perceived morality of exploiting legal loopholes. For perceptions of tax-related morality, what matters most is whether people are left-wing or right-wing – 39%-42% of those who are right-wing think that it is wrong to use loopholes to reduce tax (irrespective of whether they hold liberal or authoritarian views), compared with 51%-58% of those who are left-wing. In contrast, what matters most for benefits-related morality is whether people hold liberal or authoritarian views – 55% of liberals think that it is wrong to use loopholes to increase benefits, compared with 64%-66% of authoritarians.

While political ideology strongly relates to moral judgements, it appears less important for self-reported behaviour. Liberals are slightly more likely than authoritarians to say that they would fail to declare casual earnings to the benefits office, but there are no significant differences around declaring earnings for tax purposes.

While political ideology strongly relates to moral judgements, it appears less important for self-reported behaviour

Table 7 Ideology and the morality of exploiting legal loopholes (after controlling for age and sex)+

	Political ideology				Significance of ideology
	Liberal and left-wing	Liberal and right-wing	Authoritarian and left-wing	Authoritarian and right-wing	
Adjusted % saying that always/usually wrong to use legal loopholes ...					
... to reduce tax	51	39	58	42	0.000
... to increase benefits	55	55	64	66	0.000
Adjusted % providing answer indicating that <i>more</i> wrong to use legal loopholes ...					
... to increase benefits	21	30	30	40	0.000
... to reduce tax	17	8	14	8	n/a++
<i>Unweighted base</i>	569	585	649	543	
Adjusted % likely or very likely to <u>not</u> declare cash-in-hand work ...					
... to benefits office, for £500 gain	26	21	16	15	0.059
... for tax purposes, for £500 gain	27	25	21	23	0.473
<i>Unweighted base</i>	386	421	437	362	

+ The table is based on a multinomial regression model that controls for sex and age; the percentages in the table are the average marginal effects across groups defined by political ideology after taking these into account.

++ Whether people say that loopholes are more commonly exploited to increase benefits vs. to reduce tax is contained within a single variable, and therefore only one significance estimate applies to both rows.

Finally, Table 8 presents data to allow us to ascertain if there are ideological differences underpinning the perceived prevalence of benefit fraud and the use of tax/benefit loopholes. Authoritarians believe the prevalence of *all* these behaviours is greater than liberals do. Those holding liberal views tend to be more highly educated than authoritarians, so this may reflect similar education-related effects to those noted in relation to different income groups in the previous section. However, it is interesting to see that authoritarians are also more likely to provide answers indicating that the exploitation of benefits loopholes is more common than the exploitation of tax loopholes (50-51% of authoritarians express such a view, compared with 38%-43% of liberals).

Table 8 Ideology and the perceived prevalence of exploiting legal loopholes (after controlling for age and sex)+

	Political ideology				Significance of ideology
	Liberal left-wing	Liberal right-wing	Authoritarian left-wing	Authoritarian right-wing	
Out of every 100 taxpayers/claimants, perceived number that have ...					
... exploited loophole to reduce tax	26	28	38	34	0.000
... exploited loophole to increase benefits	28	30	47	42	0.000
... given false information in benefit claim	24	25	44	39	0.000
... given false information in benefit claim in local area	18	16	33	26	0.000
% providing answer indicating that loopholes are more commonly exploited ...					
... to increase benefits	38	43	50	51	0.001
... to reduce tax	30	25	22	19	n/a++
<i>Unweighted base (exc. don't knows)</i>	466-534	465-538	530-626	444-510	

+ The table is based on a multinomial regression model that controls for sex and age; the percentages in the table are the average marginal effects across groups defined by political ideology after taking these into account.

++ Whether people say that loopholes are more commonly exploited to increase benefits vs. to reduce tax is contained within a single variable, and therefore only one significance estimate applies to both rows.

Conclusions

Tax avoidance/evasion and benefit manipulation/fraud have been the subject of a great deal of recent political debate and policy reform, yet almost no studies have looked at how the public perceives these practices simultaneously. Using new questions asked on the 2016 BSA survey, we show that tax avoidance and benefit manipulation do not seem to be morally equivalent in people's minds; while both practices are perceived to be wrong by around half or more, benefit recipients appear to be judged more harshly for what might be considered a similar 'offence'. Previous qualitative research has suggested that this may be because tax avoiders are perceived to be retaining money they have earned (Bamfield and Horton, 2009), but it is also plausible that this double standard partly arises because of a

Tax avoidance and benefit manipulation do not seem to be morally equivalent in people's minds

generally more negative attitude towards benefit claimants (and poor people) as a group.

Several other interesting findings emerge from these data. The public almost universally believes that lying to the ‘benefits office’ is wrong – but only a smaller majority regard concealing cash-in-hand work from the ‘benefits office’ (which technically constitutes benefit fraud) as wrong, and relatively few would report someone they know to be claiming fraudulently. This nuance is consistent with how people make ethical decisions: people will agree to abstract, normatively acceptable principles, but when such principles are placed in concrete contexts people are more likely to see morally acceptable reasons to deceive (Bartels et al., 2015). We also find that the public believes that fraud is higher nationally than it is in their local area. There appears to be a disconnect between the local, concrete experience of benefit fraud and the national rhetoric, perhaps because the preponderance of media coverage may have served to reinforce the sense that there is a large group of people somewhere in the country (even if they may not be apparent in one’s own neighbourhood) who are fraudulently claiming (Lundstrom, 2013; Tunley, 2011).

There appears to be a disconnect between the local, concrete experience of benefit fraud and the national rhetoric

Our most surprising finding is the sharp change in how common benefit fraud/manipulation is perceived to be

Our most surprising finding is the sharp change in how common benefit fraud/manipulation is perceived to be. While 35% agreed that most dole claimants are ‘fiddling’ in one way or another in 2014, this has fallen to 22% in 2016 – the lowest level recorded in 30 years. If this fall is sustained in future surveys, this suggests there has been a major shift in the perception of benefit claimants. There has also been a decline since the mid-1990s in the proportion of people who say they would be likely to conceal casual earnings to avoid tax (from 40% to 24%), although this predates much of the increasingly negative media coverage of tax avoidance schemes. However, despite this decline, more people would still consider concealing earnings from the HMRC than would consider doing so from the benefits office (though this difference is now small).

Perhaps reflecting economic interests, richer people are less likely to think that tax avoidance is wrong, and more likely to say that they personally would not declare cash-in-hand earnings for tax

Finally, we found that different social groups perceive tax and benefit manipulation differently. Perhaps reflecting economic interests, richer people are less likely to think that tax avoidance is wrong, and more likely to say that they personally would not declare cash-in-hand earnings for tax. Yet this is not just about economics: the richest share the relative unwillingness of the poorest to say that benefit manipulation is wrong, and are also the group most likely to say that they would conceal casual earnings from the benefits office. The role of ideology is also complex: what matters most for *tax*-related morality is whether people are left-wing or right-wing, but what matters most for *benefits*-related morality is whether people hold liberal or authoritarian views.

Overall, our results show that around half or more of the public is opposed to both illegal and legal manipulation of the tax and benefits system. However, beyond this, their feelings on the issue

are not straightforward. Despite overwhelmingly rejecting benefit fraud, most would not report someone they knew to be engaging in it, and substantial minorities are forgiving of the specific example of concealing casual earnings. Similarly, while economic interests may shape attitudes to tax avoidance and benefit fraud, here too we find that beliefs about fraud are not always entirely consistent with self-interested motives. Once you move beyond the obvious truisms ('fraud is bad'), attitudes toward fraud and using legal loopholes resist easy interpretation.

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Appendix

The data for Figure 1 are shown below.

	1996	1999	2002	2006	2008	2010	2016
% wrong or seriously wrong not to declare £500 cash-in- hand work ...							
... to benefits office	72	74	85	75	84	79	68
... for tax purposes	50	53	57	51	n/a	n/a	56
% fairly or very likely themselves to not declare £500 cash-in-hand work ...							
... to benefits office	24	24	18	22	17	18	20
... for tax purposes	40	34	29	29	n/a	n/a	24
<i>Unweighted base</i>	<i>1038</i>	<i>2450</i>	<i>2900</i>	<i>2822</i>	<i>3000</i>	<i>2791</i>	<i>1618</i>

n/a = not answered

The data for Figure 2 are shown below.

Table A.2 Views on the prevalence of benefit manipulation, 1987-2016							
	1987	1989	1991	1993	1994	1995	1996
% agreeing that ...							
Most people on the dole are fiddling	32	31	28	31	34	33	35
Many people don't deserve any help	31	28	26	24	26	30	28
Most unemployed could find a job	41	52	38	27	32	38	39
<i>Unweighted base</i>	1281	2604	2481	2567	2929	3135	3085
	1998	1999	2000	2001	2002	2003	2004
% agreeing that ...							
Most people on the dole are fiddling	39	36	40	35	38	39	41
Many people don't deserve any help	32	27	31	32	36	38	39
Most unemployed could find a job	54	56	60	63	65	66	69
<i>Unweighted base</i>	2531	2450	2980	2795	2900	873	2609
	2005	2006	2007	2008	2009	2010	2011
% agreeing that ...							
Most people on the dole are fiddling	39	32	39	36	34	35	37
Many people don't deserve any help	40	29	36	37	34	35	35
Most unemployed could find a job	69	67	67	68	55	54	56
<i>Unweighted base</i>	2699	2822	2672	3000	967	2791	2845
	2012	2013	2014	2015	2016		
% agreeing that ...							
Most people on the dole are fiddling	37	33	35	29	22		
Many people don't deserve any help	35	33	32	28	21		
Most unemployed could find a job	54	54	59	60	56		
<i>Unweighted base</i>	2855	2832	2376	2781	2400		