

# Evaluating the Strength of Tax Authorities: How experience affects the assessment and combination of source and relevance

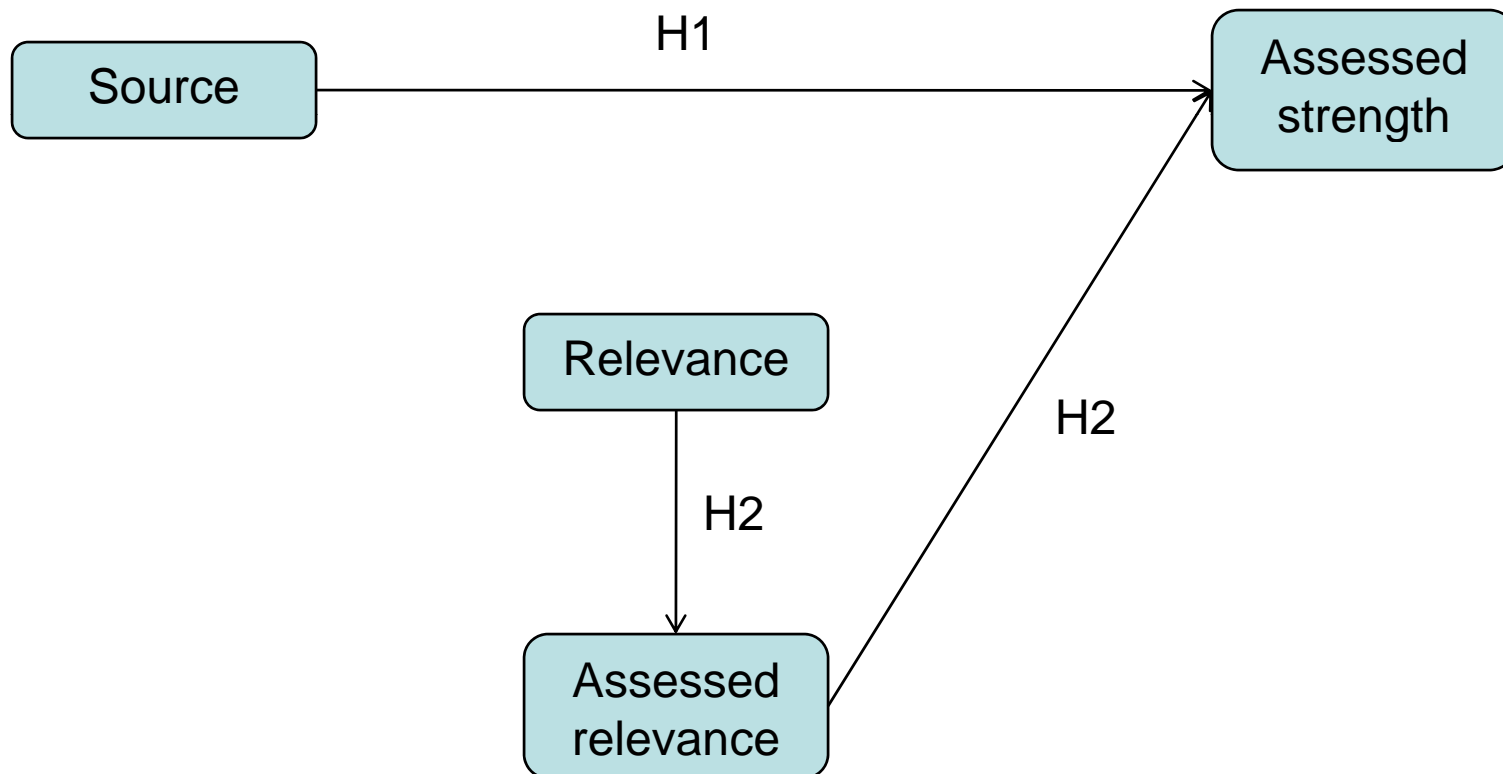
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# Research Questions

- How do tax decision makers assess and combine components of tax authority strength?
- How does experience affect the assessment and combination of tax authority strength components?

# Theory & Hypotheses



# Theory & Hypotheses

Declarative knowledge:

H1: Assessed strength of tax authorities increases with the authority level of the source for more and less experienced tax decision makers.

H2: Assessed strength of tax authorities increases with the relevance of the authority, and that relation is mediated by assessed relevance.

# Theory & Hypotheses

- Procedural knowledge
  - Analogical reasoning/structural alignment (Gentner and Markman)
  - Decision makers can map on:
    - Surface features
    - Structural relations
    - ✓ Good analogies match on *structure*

# Theory & Hypotheses

|  | Authority A | Client's scenario | Authority B |
|--|-------------|-------------------|-------------|
| Surface feature – asset generating expense | Dog         | <b>Dog</b>        | Elevator    |
| Surface feature - expense                  | Dog food    | <b>Dog food</b>   | Electricity |

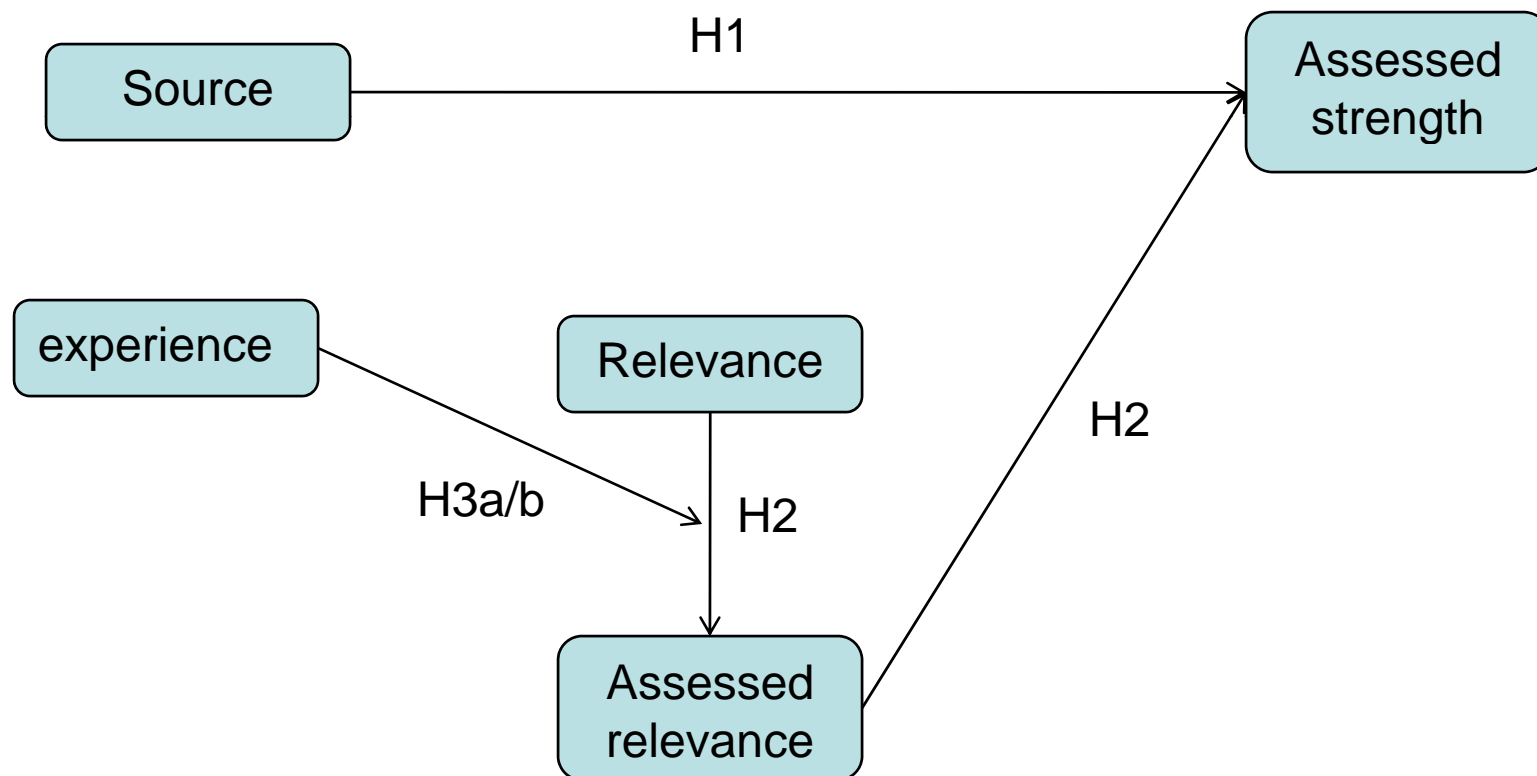
# Theory & Hypotheses

|                                 | Healthy taxpayer<br>with no sensory<br>loss | Client is blind | Taxpayer with<br>heart disease |
|---------------------------------|---|-----------------|--------------------------------|
| Surface feature –<br>asset type | Dog   | Dog             | Elevator                       |
| Surface feature -<br>expense    | Dog food                                    | Dog food        | Electricity                    |

# Theory & Hypotheses

|                              | Healthy TP with no sensory loss | Blind taxpayer                                  | TP with heart disease                    |
|------------------------------|---------------------------------|---|--|
| Surface feature – asset type | Dog                             | <b>Dog</b>                                      | Elevator                                 |
| Surface feature - expense    | Dog food                        | <b>Dog food</b>                                 | Electricity                              |
| Structural relation          | Asset used for pleasure         | <b>Asset used to mitigate medical condition</b> | Asset used to mitigate medical condition |
| Transfer appropriate?        | <b>NO</b>                       |   |  |
|                              |                                 | <b>YES</b>                                      |  |

# Theory & Hypotheses



# Theory & Hypotheses

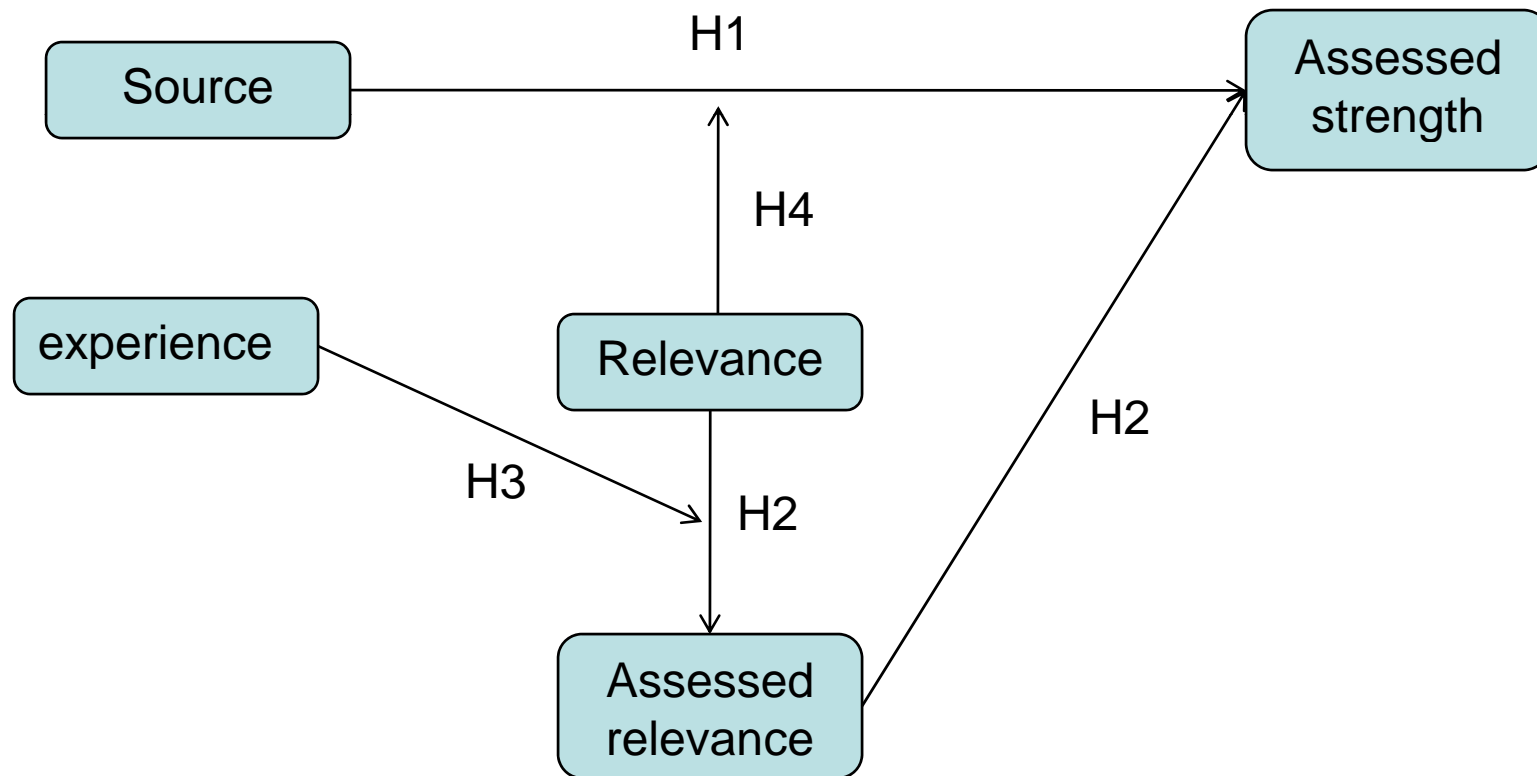
H3a: Experience moderates the relation between relevance and assessed relevance such that more experienced tax decision makers will assess greater relevance for authorities that are indirectly relevant than for those that are irrelevant but less experienced tax decision makers will not.

H3b: Experience moderates the relation between relevance and assessed authority strength.

# Theory & Hypotheses

- Procedural knowledge
  - Configural processing
    - Processing of patterns of information
  - Configural processing is normative in tax authority evaluation:
    - Effect of source should differ with relevance

# Theory & Hypotheses



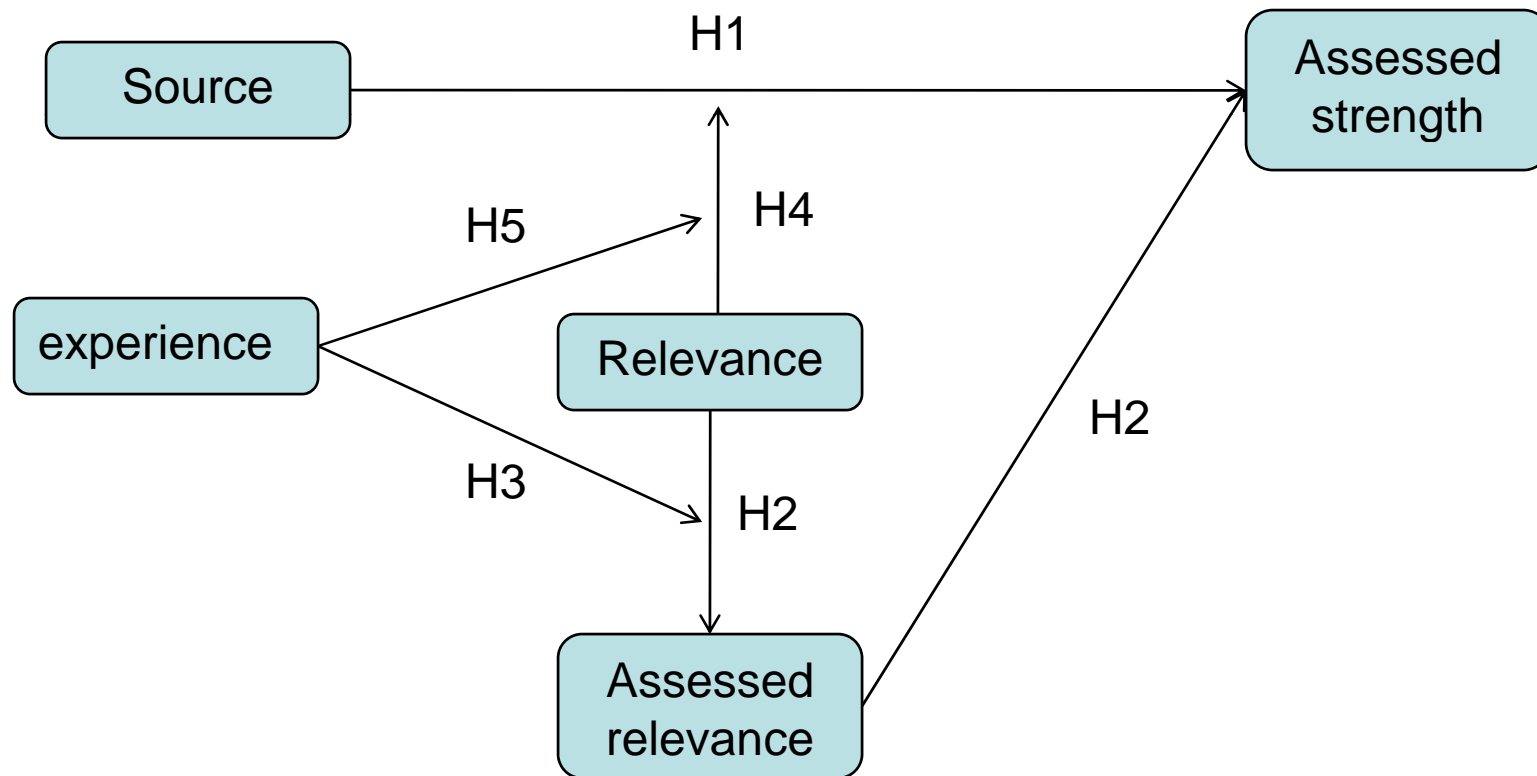
# Theory & Hypotheses

H4: Relevance moderates the effect of authority source on assessed authority strength such that assessed strength increases in authority source for directly and indirectly relevant authorities but not for irrelevant authorities.

# Theory & Hypotheses

- Procedural knowledge
  - Can decision makers process components configurally?
    - Mixed results in prior studies
  - Experience provides opportunity to gain procedural knowledge and develop configural theory of relations.

# Theory & Hypotheses



# Theory & Hypotheses

H5: Controlling for assessed authority relevance, more and less experienced tax decision makers will combine authority source and relevance differently when assessing authority strength.

# Method

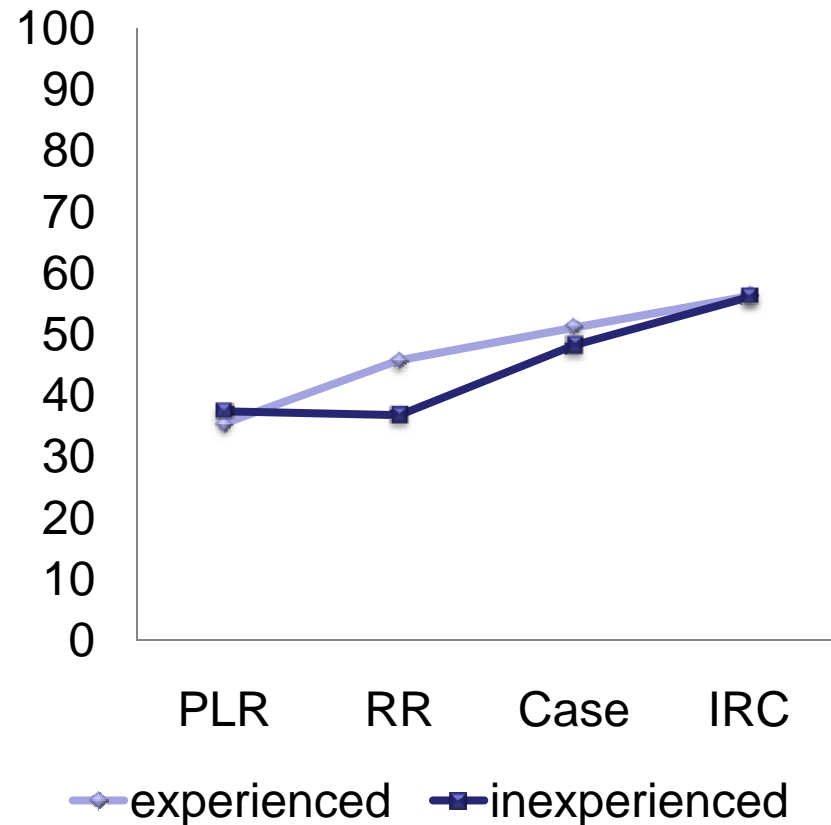
- Independent variables
  - **Relevance:** manipulated at 3 levels (directly relevant, indirectly relevant, irrelevant)
  - **Source:** manipulated at 4 levels (IRC/Regs, appellate case, revenue ruling, private letter ruling)
  - **Experience:** measured at two levels (experienced, inexperienced)
- Dependent variables
  - **Assessed strength of authority**
  - **Assessed relevance of authority**

# Method

- Participants
  - 15 tax managers at international accounting firm
  - 15 Masters of Tax students
  - No estate tax experience
- Task
  - assess strength of 12 authorities with respect to a specific client scenario (estate tax context)
  - answer demographic questions
  - assess relevance of 12 authorities

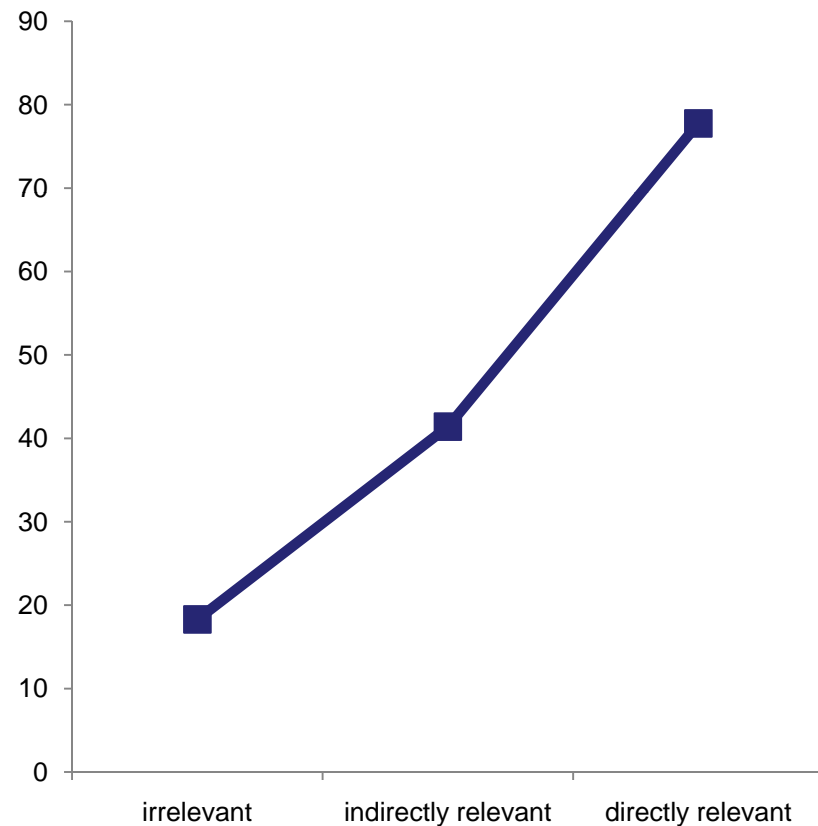
# Results

- H1
  - Source affects authority strength ( $p < 0.001$ )
  - No source by experience interaction ( $p = 0.17$ )



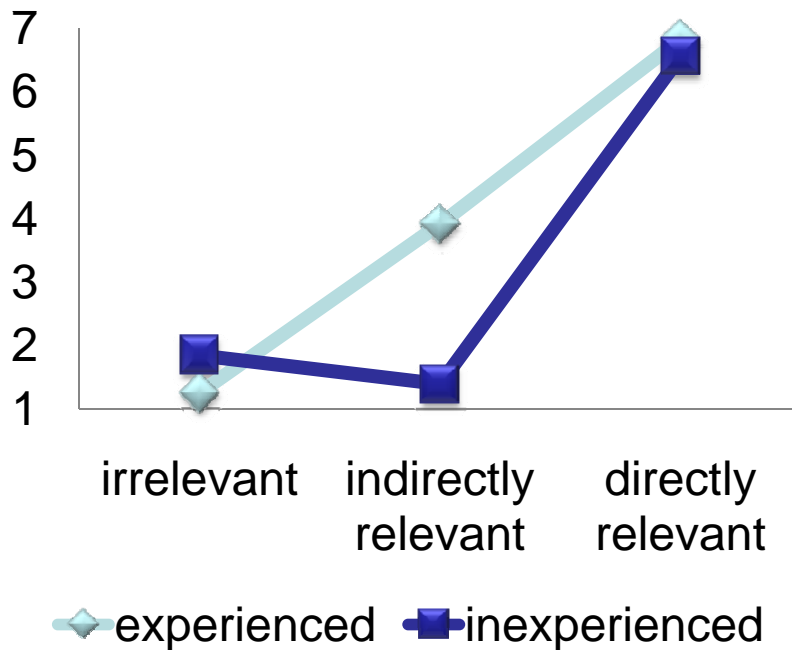
# Results

- H2
  - Relevance affects authority strength ( $p < 0.001$ )
  - Assessed relevance fully mediates effect of relevance

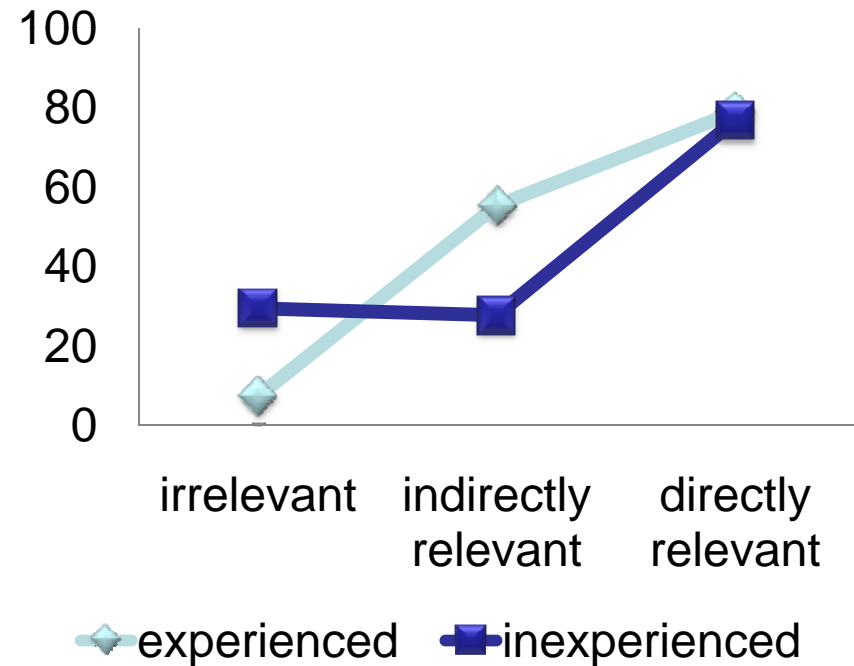


# Results

H3a

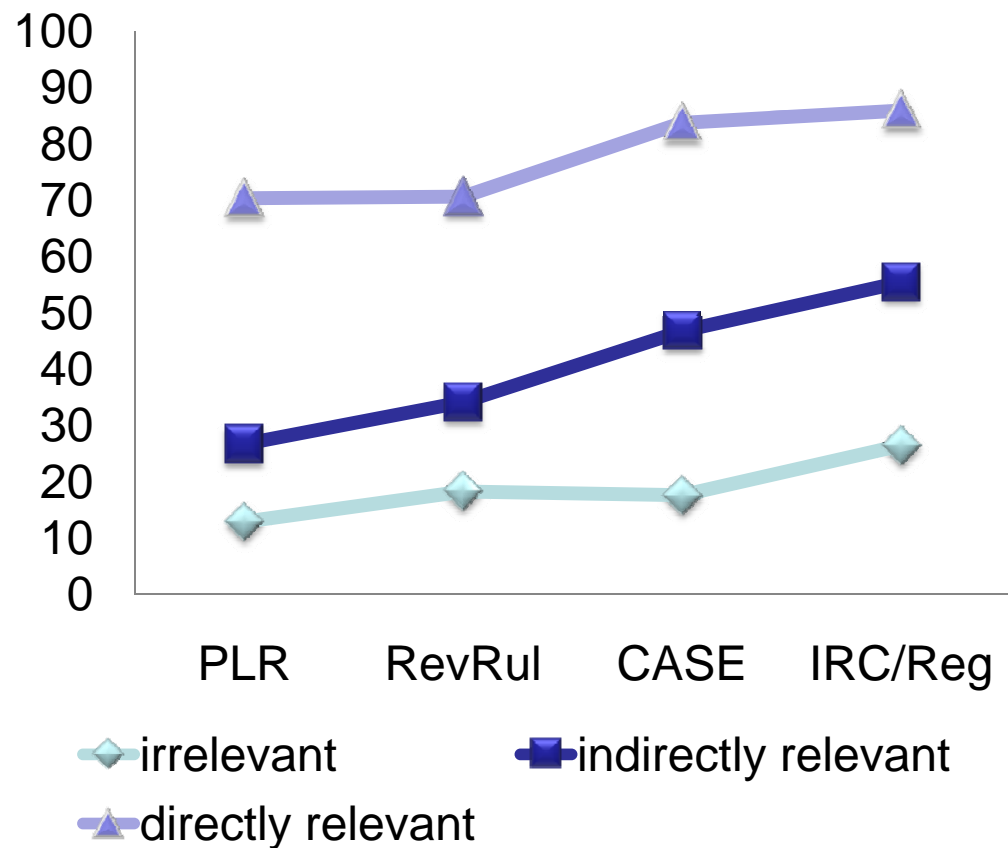


H3b



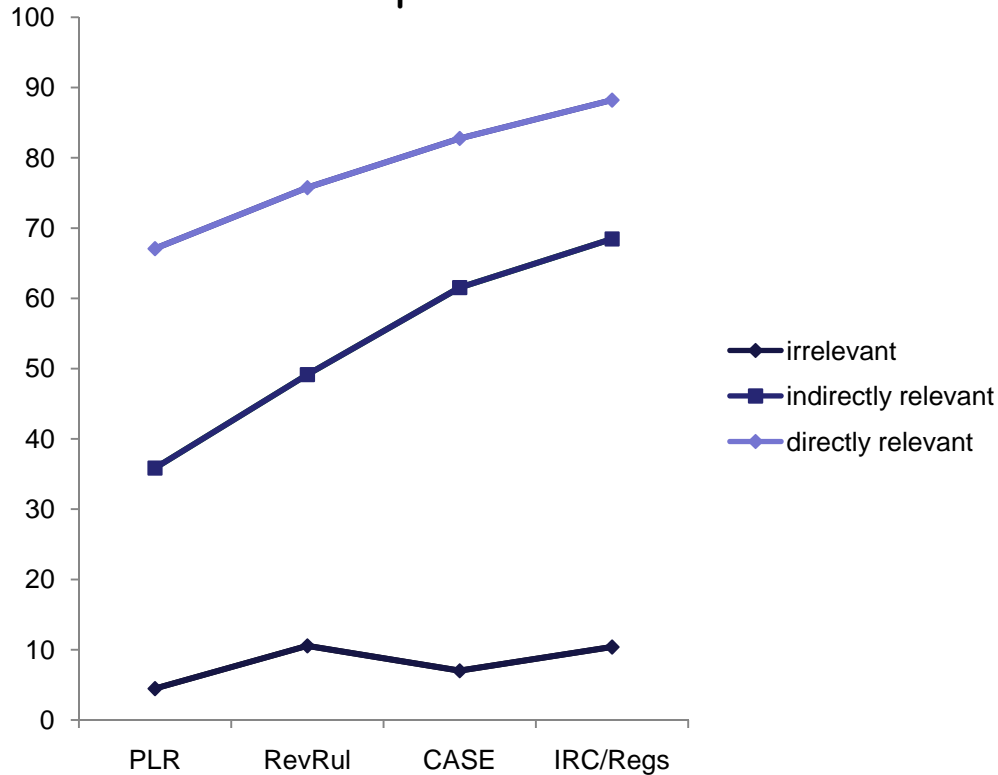
# Results

- H4
  - Significant source by relevance interaction ( $p = 0.002$ )

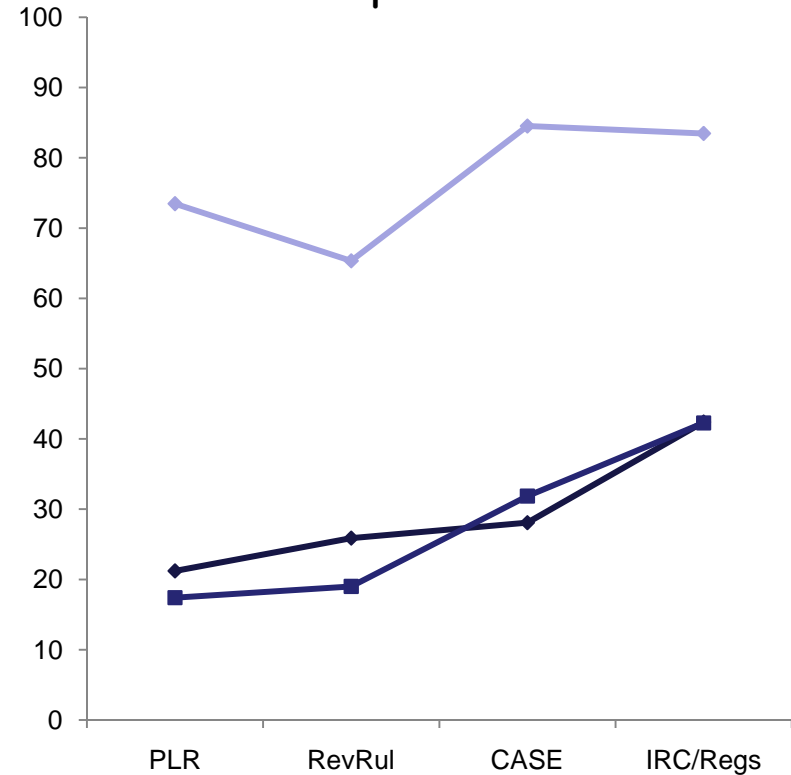


# Results: H5

Experienced



Inexperienced



# Results

- H5 (ANCOVA)
  - Significant three-way interaction between experience, source, and relevance when controlling for assessed relevance ( $p < 0.0001$ )

# Sensitivity Analysis

- H5 (Using self-categorization of relevance)
  - Significant three-way interaction between source, relevance, and experience ( $p < 0.0001$ )

# Conclusions

- Source and relevance inform authority strength assessments, but effect of relevance is mediated by assessed relevance
- Experience affects relevance assessment (analogical reasoning) and source and relevance combination (configural processing)

# Contributions

- First study to consider how source and relevance inform authority strength assessments
- Demonstrate experience effects in analogical reasoning in tax
- Demonstrate configural information processing in tax decision making
- Demonstrate experience effects in configural information processing in tax