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Overcoming tax complexity through tax literacy –

An analysis of Financial Literacy research in the context of the taxation system.*

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* The views and ideas expressed in this paper represent the author’s initial thoughts in this area and should not be cited in other works without express permission.
Abstract

The complexity of Australia’s taxation system is an often published area both academic and professionally. In the past, studies have attempted to determine whether this complexity has an effect on the level of taxpayer compliance. In this paper, the issue of overcoming tax complexity will be explored from the perspective of financial literacy research. In 2004, the Australian Government provided funding to establish a Consumer and Financial Literacy taskforce and in June 2005, as a result of research from this taskforce, the Financial Literacy Foundation was launched. This priority of government spending was as a result of research which suggested that improving financial skills and providing education was central to overall economic prosperity and that low levels of financial literacy act as a barrier to participation in the financial system. It will be submitted that taxation draws parallels to financial literacy in that it affects all members of society and that it potentially impacts on an individual’s overall financial position. This paper will therefore explore financial literacy research in the context of the Australian taxation system and whether low levels of tax literacy act as a barrier to participation in the taxation system. This paper will argue that in a similar manner to the complex world of finances, the complexity of the taxation system can be combated through tax literacy. Unlike many other skills, taxation is an area which is not directly taught at any stage in the educational system (unless being undertaken as part of a specialised degree), yet is an area which will impact with certainty on each individual. It is therefore imperative, that this issue of tax literacy be explored.
Overcoming tax complexity through tax literacy

“The Government has a big push to encourage financial literacy. We want to do that because obviously we want children to participate in the economy generally, but also with the adoption of superannuation, which we want young people to make their own and to take an interest in, it is important that they understand financial literacy, and the programme that I have seen here I would recommend to other schools and communities around Australia.”

Introduction

With support from the Federal Treasurer as outlined above, there is little doubt that financial literacy is currently high on the Australian Government’s agenda. In 2004, the Australian Government provided funding to establish a Consumer and Financial Literacy taskforce and in June 2005, as a result of research from this taskforce, the Financial Literacy Foundation was launched. This priority of government spending was as a result of research which suggested that improving financial skills and providing education was central to overall economic prosperity and that low levels of financial literacy act as a barrier to participation in the financial system. So, what does financial literacy have to do with tax?

During a series of financial capability workshops for 15-16 year old high school students, facilitated in 2005, a range of knowledge, skills and capabilities in relation to financial literacy were covered. As a result of the author’s background in taxation, a component of these workshops was basic taxation, including why governments impose taxation, general income, general deductions and the calculation of basic tax liability. At the conclusion of the workshops students completed feedback forms which asked them which areas they would like to learn more about. The vast majority of students identified “the tax part” as an

2 These workshops were titled ‘Money Skills for Life” and were presented to approximately 25 year 9 &10 students from Loganlea State High School in 2005. The workshops were co-facilitated by members (including the author) of the ‘Centre for Financial Independence and Education – Griffith University’, and representatives from industry and the community.
area which they both enjoyed and would like to learn more about. Although this would come as no surprise to those already fascinated by the world of taxation, the facilitators were both shocked and surprised that of all the things covered by the workshops, high school students wanted to learn more about tax. It was wondered when these students would get the opportunity to do this. Since taxation is not taught in schools and there was no way of knowing whether these students would go on to study Commerce, Business or Law, it seemed highly unlikely. What was likely, though, was that in a short time these students would be starting their first part-time or full-time jobs and with this would be required to complete Tax File Number Declaration forms, pay PAYG tax, and lodge a tax return. So, who then, would teach these students what it means to claim the tax free threshold, or how much tax should be taken from their earnings each fortnight. There would certainly be a number of likely candidates; such as their employer, who could be paying them in cash and not deducting tax, or maybe their parents who may not have lodged a tax return before or may have developed their own incorrect understanding of what is or isn’t deductible. Perhaps then, the best candidate would be an ATO call centre employee. The ATO would certainly agree that its employees would be the best persons for the job and it is agreed that their training and knowledge would definitely solve this student’s problem both efficiently and correctly. However, none of the people outlined above are trained educators, or are likely to have the available time to provide these students with well structured, relevant, and skills based training which could provide them with foundation skills. So, with financial literacy research suggesting that a financially capable person is more likely to take an active and responsible role in the financial arena, it was thought that a more tax literate person would be more likely to take an active and responsible role in the taxation arena.

With this in mind, this paper will begin to explore this financial literacy research both in Australia and overseas. Some of the results of this research in terms of the levels of financial literacy and effects of financial literacy will also be explored along with an outline of some of the programs which are already in place.
Additionally, this paper will highlight those areas of financial literacy research which have, or could potentially include taxation aspects. Finally, it will be argued that if the current financial literacy programs that are in place are indeed successful, there will be no choice but to ensure that an understanding of the taxation system forms part of them.

Financial Literacy in Australia

There has been a wide array of research both in Australia and overseas in relation to the levels of financial literacy across different demographic groups as well as the evaluation of financial literacy education programs.\(^3\) However, very little of this research, if any, has focused on what elements should in fact, be measured as components of financial literacy.

Financial literacy has been defined as “the ability to make informed judgements and to take effective decisions regarding the use and management of money”.\(^4\) This is also the definition which has been adopted by the Australian Government’s Consumer and Financial Literacy Taskforce. However, research has also presented other definitions such as “about people being informed and confident decision makers in all aspects of their budgeting, spending and saving”.\(^5\) Worthington (2006) argues that although policy makers and researchers have attempted to define financial literacy, it can mean different things to different people. It might be a broad concept involving an understanding of economics, or alternatively a narrower concept focussed mainly on basic money management.\(^6\)

\(^5\) See note 4, at p62
\(^6\) Ibid.
It has been argued that “financial deregulation, and the resulting increase in competition, and access to financial products, has led to consumers being faced with a “bewildering” array of financial and investment opportunities”.\(^7\)

Also, it is thought that changes in Australia’s demography (ageing and ethnically diverse populations) have resulted in barriers that could hinder these populations in accessing some of those new financial opportunities mentioned above as well as expose them to risks and scams as a result of marketing strategies specifically aimed at these less knowledgeable populations.\(^8\) The ATO often attempts to educate taxpayers in becoming more aware of risks associated with tax minimisation schemes, so it is argued that the taxation system is also at risk of the abovementioned problems.

Worthington (2006), outlines that literature concerning financial literacy can be categorised as either; explaining the levels of financial literacy in the population or evaluating the effectiveness of financial literacy programs.\(^9\) However, he does not identify that any research has explored what should be included as components of financial literacy and in fact argues that future research should focus on these components of financial literacy to find which are most and least critical to financial success.\(^10\) Also, he submits that future research could focus on how financial literacy specifically relates to individual areas such as superannuation.\(^11\) It is argued that taxation should be considered as an important component of financial literacy as it has the potential to impact on a person’s overall wealth. The ability to meet tax liabilities on time, prepare returns accurately and claim all available entitlements would certainly impact on a person’s overall financial position. Therefore, it is argued that if taxation issues are not seriously considered as important components of financial literacy, there could be significant risks to revenue for similar reasons there are currently

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\(^7\) See note 4, at p59  
\(^8\) Ibid  
\(^9\) See note 4, at p63  
\(^10\) See note 4, at p75  
\(^11\) Ibid
significant risks to the economy and consumer wealth through poor financial literacy.

In 2003, the Australian Government established the Consumer and Financial Literacy Taskforce with the aim of developing a National Strategy for Consumer and Financial Literacy. The National Strategy is aimed at reducing poverty, increasing economic opportunity, increasing national savings and creating well-informed consumers. The Australian Government (along with many overseas governments) believes that improving the financial skills and education of individuals is the key to economic prosperity.\(^\text{12}\) In its literature, the Government states that it is “committed to helping Australians save for their future and recognises that low levels of financial literacy act as a barrier to consumer awareness and informed participation in the financial system”.\(^\text{13}\) In making this statement the Government is acting upon recent research which has indicated that some groups have particularly low levels of financial literacy and that specific programs can equip them with the appropriate financial skills and knowledge to ensure that they can make well informed decisions and be less vulnerable to scams, rorts and unmanageable levels of debt.\(^\text{14}\) Further, by financing this taskforce the Government is recognising that there is an onus on governments (as well as financial institutions and advisors) to educate the Australian public about the complicated market place they are faced with and also to “equip them with the skills they need to take control of their financial future”.\(^\text{15}\)

The Terms of Reference of the Taskforce were;

- *That it will consist of 15 members and be chaired by Paul Clitheroe,*

- *It will release a discussion paper for public consultation by May 2004,*

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\(^{13}\) Ibid

\(^{14}\) Ibid

\(^{15}\) Ibid
• It will consult relevant stakeholders and have regard to suggested approaches to consumer and financial information already published,

• It will make recommendations for a national strategy,

• In evaluating current consumer financial literacy programs, the Taskforce will have regard to; current availability and adequacy of financial education in schools, availability of financial information in the broader community, the availability of financial information and education to maximise superannuation and retirement savings,

• Explore the extent to which foundation skills of current low-skilled adults can be improved,

• Enhancing awareness of the importance of saving.\textsuperscript{16}

The Taskforce found that financial literacy was not only important from a consumer and social perspective, but that there was an economic aspect also. The Taskforce modelled “bad” decision making in terms of financial decisions and found that over the course of a person’s life (whose salary was $36,000 per annum), up to $790,000 in wealth could be lost. This certainly supports the earlier argument that financial literacy can have an effect on the economy as a whole. It is further argued that this lost wealth should be considered from a tax perspective and that lost wealth could also lead to lost tax revenue. Additionally, the discussion paper found that while there was a vast amount of information available to consumers, a large proportion of that material was not known, not properly targeted or not used by Australian consumers.\textsuperscript{17} Response from community groups argued that low-income consumers mistrust many information sources, which means that people accept information from friends or family members who are trusted, by not necessarily from experts in dealing with financial matters.\textsuperscript{18} Further it was argued that information is often too technical and not understood by consumers or that conversely, consumers found other information sources “simplistic and condescending”.\textsuperscript{19} Compliance research in

\textsuperscript{17} See note 4, p61
\textsuperscript{19} See note 18, at p9.
the field of taxation has also suggested that although correct material was provided to them, many found there to be too much information and preferred straightforward and directly relevant material.\textsuperscript{20} So, the important question becomes how can this information become more targeted and used by taxpayers? Additionally, if there is such a potential for tax to be effected by financial literacy programs, how can we learn from these programs, or how can we ensure that tax forms part of financial literacy?

The discussion paper released by the Taskforce in 2004 identified a number of recommendations, the key of which was the establishment of a national financial literacy body as a means for improving consumer and financial literacy.\textsuperscript{21} The Taskforce outlined the functions of this national body as being:

- **Consumer and financial education in schools** – to facilitate the adoption of consumer and financial literacy into the school system. The aim would be to embed consumer and financial literacy into the school curriculum, starting at primary school.
- **Financial education in the workplace** – to work toward the adoption of consumer and financial literacy into the workplace through vocational education programs and employer information channels.
- **National Research** – to commission and conduct ongoing national research on the factors leading to key consumer and financial decision-making.
- **Clearinghouse website** – provide a clearinghouse website to assist consumers and intermediaries with better access to existing information.
- **Achieving cultural change** – facilitate an ongoing social marketing campaign to embed a key consumer financial literacy message within the Australian culture.
- **Award for Excellence** – the provision of an annual awards program for excellence in the field of consumer and financial literacy that would promote best practice and raise the awareness of key initiatives.


\textsuperscript{21} See note 16 and also Consumer and Financial Literacy Taskforce Website, available at, http://cfttaskforce.treasury.gov.au/content/home.asp
Fostering industry/government/community collaboration – facilitating collaboration between organisations which might benefit from each other’s expertise and pooled resources.\(^{22}\)

This recommendation has already been achieved with the establishment of the Financial Literacy Foundation in June 2005. On its website, the foundation’s aim is to provide a national focus for financial literacy issues and to work in partnership with government, industry and community organisations to advance financial literacy in Australia. The activities of the foundation include;

- **Creating opportunities for Australians of all ages to learn more about money, at school, through vocational and higher education, in the workplace and in the community.**
- **Providing practical support to educators and trainers and working to improve the availability of quality financial literacy education resources,**
- **Research projects which reflect our national focus and make a sustained contribution to advancing financial literacy in Australia.**\(^{23}\)

With this financial backing from government and research suggesting that increasing financial literacy will help to ensure that consumers can make well informed decisions in an increasingly complicated marketplace, and be less vulnerable to scams, rorts and unmanageable levels of debt, it is suggested that lessons be learned from a tax administration perspective. For example, can it be argued that low levels of tax literacy act as a barrier to informed participation in the taxation system? And does the onus on policy makers and administrators referred to earlier also apply to tax policy makers and the ATO?

The next section of this paper will explore some of the findings of key financial literacy surveys undertaken recently in Australia.

\(^{22}\) See note 16 and also Consumer and Financial Literacy Taskforce Website, available at http://cfttaskforce.treasury.gov.au/content/home.asp

Overview of Australian Research

In 2005, the ANZ bank conducted it’s now annual, ‘Survey of Adult Financial Literacy in Australia’. The definition of financial literacy taken for this survey was the same one adopted by the Taskforce. The report to the survey argued that improvements in financial literacy would not only support social inclusion, but also, help people avoid the serious negative consequences associated with financial difficulty.\textsuperscript{24}

The survey was conducted in 2005 and involved telephone interviews with 3,500 Australians. Some of the key findings of the survey were;

- That Australian society is broadly financially literate, but that certain groups have particular challenges, and certain financial skills, services and products were not as well understood or utilised by these groups,

- All population groups found superannuation issues more difficult than basic banking. However, there was a good understanding of basic superannuation issues with 97\% of people knowing that their employers were required to make superannuation contributions on their behalf. However, only 92\% understood that they could make additional contributions,

- The lowest levels of financial literacy were found in; those with a lower education (year 10 or less), those not working, or in unskilled work, those with lower incomes (<$20,000), those with lower savings levels (<$5,000), single people and at both the younger and older extremes of the age profile,

- 50\% of those with the lowest level of financial literacy were unable to calculate 50\% of $1,400,

- When faced with an investment advertised as having a return ‘well above market rates at no risk’, 47\% would have made some level of investment,

\textsuperscript{24} ANZ. (2005). \textit{ANZ Survey of Adult Financial Literacy in Australia – Summary report.} AC Nielsen: November 2005, at p2. “Financial difficulty” is defined as referring to both those who, while they have not missed repayments or defaulted on their commitments, nevertheless feel out of control of their finances, and also to those who may have missed repayments or defaulted and feel severely out of control of their financial affairs.
Just over 1/3 of adult Australians with investments did not understand that good investments can have short term fluctuations in market value,

60% of people with investments did not recognise that an adviser who works only for fees was more likely to offer impartial advice that advisers who work for commissions,

People shopped around more for products like investments (49%), mortgages (48%) and insurance (42%) and less for bank accounts (27%), superannuation products (27%) and financial planners (25%).

Some points should be raised from these findings in relation to taxation. Firstly, how can the ATO expect to protect consumers from complex tax minimisation schemes and therefore protect revenue if 47% of respondents would invest in a scheme marketed as having a return ‘well above market rates at no risk?’ Secondly, how can the government and the ATO expect taxpayers to understand their basic tax liability (i.e. marginal rates of tax) if 50% of those with the lowest level of financial literacy were unable to calculate 50% of $1,400? Thirdly, if consumers are shopping around more for products rather than superannuation and financial planners, what should we assume is their level of personal confidence in understanding these areas?

One of the only areas related to taxation that was addressed as part of the survey was superannuation. As stated above, the survey found that most people found superannuation more difficult than basic banking. One of the questions asked was whether the respondent knew if superannuation was taxed at higher, lower or the same rate as other investments. The result was that 56% of respondents, who were under 65 years of age, employed and with superannuation, knew that superannuation was taxed at a lower rate than other investments. However, 9% thought that superannuation was taxed at a higher rate and 22% said that they didn’t know. Does this finding come as a surprise? When explaining deductible superannuation contributions to a client or to a post-grad student, would you have assumed that this was already known? Tax

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25 Ibid, at p2 and 3.
research on compliance has already suggested that personal taxpayers are not necessarily confident in the accuracy of their returns even where they used an agent and that complexity may cause misunderstandings between a taxpayer and their tax agent.\textsuperscript{27} So in order to raise this confidence and limit miscommunications isn’t it necessary for the tax administrators and tax agents to know what their clients already understand, or indeed to have a base knowledge that can be assumed. What other areas of basic taxation do we assume that our students, clients and associates know?

Interestingly, an additional finding of the survey was that 7\% of respondents identified taxation as one of the areas that they felt they needed further education.\textsuperscript{28} This compares to 9\% stating that they felt they needed further education on loans/borrowing/mortgages.\textsuperscript{29} This finding is important because, to date, much of the financial literacy education that has been undertaken has certainly focused on the areas of loans and borrowing and has excluded taxation matters.

The report from the survey argued that three core factors emerged from the study as causes of people suffering financial difficulty;

- Unhealthy ways of thinking about finances,
- Circumstances or events outside their control, and
- Lack of skills and knowledge.\textsuperscript{30}

It was further asserted that this lack of skills and knowledge was evidenced in people not understanding how products worked, not recognising when they should seek advice, and being unable to identify a financial scam.\textsuperscript{31} Seeking advice and being able to identify scams, are both practices that the ATO encourage, therefore it is argued that addressing the skills and knowledge of

\begin{footnotesize}
\textsuperscript{27} See note 20, at p289
\textsuperscript{28} See n 26, at p 254. This represented 7\% of those respondents who felt they needed some form of further information,
\textsuperscript{29} Ibid
\textsuperscript{30} See note 24, at p5
\textsuperscript{31} See note 24, at p7
\end{footnotesize}
taxpayers in relation to taxation issues, would make them more likely to seek advice and identify scams.

In 2003, the Commonwealth Bank (CBA) established the Commonwealth bank Foundation to further encourage developments in education, especially financial literacy. A national telephone survey was conducted with 5000 Australians aged 16-65 in 2004.\(^{32}\) Key findings of this survey were;

- **Annual personal and household income are related to financial literacy,**
- **The 10% of the population with the lowest financial literacy are more likely to be; aged 16-20, male, unemployed or students, lower education levels, lower annual personal income, lower annual household income,**
- **Increasing financial literacy by a modest amount amongst this 10% would; contribute and additional $6 billion per year to GDP, and create over 16,000 new jobs.**
- **For 16-20 year olds, with the lowest 10% of financial literacy, the main sources of financial knowledge came from family, friends and colleagues (86%), experience/trial and error (69%), and school (68%).**\(^{33}\)

This finding of the survey that increasing financial literacy in those with the lowest levels could increase GDP by $6 billion per year and create over 16,000 new jobs is certainly an important one from an economic and social perspective, but also from a tax perspective. The report from the survey argued that these economic benefits would flow from “improved decision making in the workforce, resulting in improved productivity, less capital wastage with improved decisions on starting new businesses and home purchasing, and increased flow of funds to Australia’s more profitable businesses via better saving and investment decisions”.\(^{34}\) From a tax perspective this would mean an additional $6 billion per year in potential revenue base as well as potentially 16,000 new taxpayers. It is argued that if these efforts to improve financial literacy are going to create new taxpayers and

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\(^{33}\) Ibid.

\(^{34}\) Ibid.
increase revenue base, then it would certainly be a risk to revenue to not ensure that these “new market participants” also be educated in the taxation system.

**International Perspectives**

This focus on financial literacy by governments, financial institutions and the education sector has not been limited to Australia. There has been much attention to this area overseas, particularly in the United Kingdom (U.K) and the United States (U.S). This section of the paper will outline some of the research and programs which have been undertaken in these jurisdictions in the area of financial literacy.

In the U.K, in 2005, the ‘National Research and Development Centre for Adult literacy and numeracy’ issued a research report which presented a review of the provision of financial literacy education in England.\(^35\) The report concluded that although there was a wide array of adult financial literacy programs being undertaken, further work was needed on the part of government, financial institutions and others on the presentation of financial information to make it more “transparent, accessible and understandable by non-specialists”.\(^36\) Interestingly it was raised that the U.K Treasury Report dealing with the modernisation of Britain’s tax and benefit system was an example of what the government was already doing in this area.\(^37\) It is clear therefore that at least in the U.K, taxation is an area which is seen to be able to be made more transparent, accessible and understandable by the general public.

The report also raised questions about the current understanding and research into what financial literacy should be defined as. It was stated that there are still questions about the nature of financial literacy education and it was argued that

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\(^35\) See Note 3.  
\(^36\) See Note 3, at p22  
\(^37\) Ibid, at p22
further research would be necessary in this developing field.\(^{38}\) As argued earlier, this research should also encompass more specifically what financial literacy should be comprised of and measured against.

Another point raised in this research report which is relevant in the field of taxation is that it was found that levels of Financial Literacy were not necessarily aligned with literacy, numeracy and English skills.\(^{39}\) It was stated that it is possible to be highly literate and yet have a extremely poor financial knowledge and skills.\(^{40}\) It is therefore argued that this statement supports the view of this paper that it is also possible to be highly literate yet have an extremely poor knowledge and understanding of the tax system and that it is not education levels in general which will be an indication of a person’s likely ability to understand the taxation system.

One of the benefits of financial literacy that was raised in the U.K research was that a financially capable population will be comprised of “better informed, educated and more confident citizens, able to take a greater responsibility for their financial affairs and play a more active role in the market for financial services.”\(^{41}\) It is therefore submitted that if these financial literacy strategies are successful, more individuals will be taking part in financial markets and investments. It is also believed that there is cause for concern from a tax administration perspective given that this financial education may or may not have included and understanding of the taxation system.

This need for further research on financial literacy in the U.K lead to the establishment of a National Strategy being led by the Financial Services Authority (FSA). This stated commitment of the FSA has been backed up by financial commitment and in 2006/07 the FSA have stated that they will spend

\(^{38}\) Ibid, at p10  
\(^{39}\) See Note 3, at p6  
\(^{40}\) Ibid, at p6  
\(^{41}\) Ibid, at p20
up to $10 million pounds on improving financial capability.\footnote{Financial Services Authority. (2006). Financial Capability in the UK: Delivering Change. London: March 2006, at p19. In the U.K, the FSA is funded by a general levy on the regulated financial services industry.} This financial commitment is likely to have stemmed, in part, from the results of a U.K financial capability survey in 2006 which found that many people were taking inappropriate risks, or not shopping around and that the greatest demands in terms of meeting financial commitments were being placed on those least able to deal with them.\footnote{See note 42, at p3}

As found in Australia, in the U.K, it was found that financial capability was weakest amongst younger age groups.\footnote{Ibid.} One of the findings of the survey was that the number and complexity of choices in relation to financial matters has increased dramatically, and that through this, many find it hard to understand the risks associated with them.\footnote{See note 42, at p2.} Complexity is a word that is often associated with the Australian taxation system, so it is argued that the same could be said in relation to taxpayers and their responsibilities (and choices) with regard to taxation matters.

The FSA argues that the benefits of financial capability are that people are able to make their incomes go further, protect themselves through savings and insurance, and be more likely to be self funded in retirement.\footnote{See note 42, at p4.} The FSA further goes on to argue that they will have less need to intervene because consumers will be less vulnerable in the market.\footnote{Ibid.} So, following this, it is submitted that the ATO could have less need to intervene in tax matters if people are more capable in tax matters.

In the U.S, researchers from the Federal Reserve Board have asserted that policy makers are concerned that consumers “lack knowledge of financial
concepts and do not have the tools they need to make decisions most advantageous to their economic wellbeing". They further argue that from an economic perspective, the market can be compromised when consumers do not have the skills to manage their finances effectively and that indeed, ensuring these participants do have the skills will help create a more competitive and more efficient market.

In 1999 a U.S study found that personal finance could be successfully taught and that it had a positive impact on financial behaviour in both students and adults. From this, one should raise the question of what would the impact be of teaching tax? Would it too, have an impact on behaviour?

Although there appears to be strong economic and research based support in the U.S, the Federal Reserve still questions the current forms of education programs in place. They argue that while financial literacy training programs have grown in number, research measuring the effectiveness of the training has not. It is argued that this same research on the effectiveness of training programs needs to occur in Australia in order to justify such large levels of government spending. As alluded to earlier and supported by this U.S research, it is not necessarily just ensuring that information is available which is the key, but also ensuring that the timing and format of training is correct and supported by measurable outcomes.

This research by the Federal Reserve outlined that the elements that must be further researched include;

- Who is the targeted audience and what are the group’s information needs?

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49 See note 48, at p445
50 See note 4, at p64
51 See note 48, at p 449
52 See note 48, at p445
- What does the audience need to know to understand personal financial circumstances, identify future goals and implement behaviours consistent with the attainment of those goals?
- When is the appropriate time to expose individuals to both general and specific information about financial issues and options?
- Where should financial literacy education be provided to reach the broadest audience?
- How can financial literacy education be effectively delivered, both at specific points in time and over time, to assist households in adjusting their financial plan to suit their circumstances?
- How can the effectiveness and impact of financial literacy programs be measured?53

It is submitted that these are the key issues that also need to be addressed in relation to providing taxation literacy education.

**Proposed educational outcomes of Financial Literacy in Australia**

As a result of the National Strategy for Consumer and Financial Literacy, the Ministerial Council on Education, Employment Training and Youth Affairs (MCEETYA) has recommended a framework to state education authorities in relation to how Financial Literacy should be incorporated into the curricula for years K-10.54

MCEETYA defines financial literacy as “the application of knowledge, understandings, skills and values in consumer and financial contexts and the related decisions that impact on self, others, the community and the environment”.55 Additionally, they recognise that “the world of consumers is becoming increasingly complex (eg. Superannuation, personal investments, a more complex tax system, and increased applications of new technologies) and research indicates that levels of consumer and financial literacy among adults,

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53 See note 48, at p456
55 See note 54, at p1.
parents and young people alike are insufficient to cope with many of these complexities". Flowing from research in the U.K, the Australian educational framework is based on indications that the most important success factor was the programs’ ability to relate financial education to the existing curriculum and provide opportunities to engage in and discuss “real world” financial contexts. It has also been argued that in providing financial literacy training, people should learn from each other, not from a “so-called expert”. They should learn from someone independent, neutral and with the ability to listen. This supports the earlier argument in this paper that providing answers and information in relation to tax matters is not enough. In order for real learning and understanding to occur, individuals need to be engaged and be able to relate learning to real world situations.

The proposed framework to introduce financial literacy into the Australian school curriculum has four dimensions;

- **Knowledge and Understanding** – is about the nature and forms of money, how it is used, and the consequences of consumer decisions.
- **Competence** – is the application of consumer and financial knowledge and skills in a range of changing contexts.
- **Enterprise** – is the opportunity to use initiative, build financial capabilities and manage risk-taking when making consumer and financial decisions.
- **Responsibility** – is appropriate and financial decisions that display case for self, others the community and the environment.

The knowledge and understanding dimensions along with their identified components have been presented in Appendix 1. From the above and earlier discussions, it was outlined that Australian research identified superannuation as an area with lower levels of understanding, and MCEETYA itself has identified the complex tax system and superannuation as areas which need addressing in

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56 Ibid.
57 See note 54, at p2.
58 See note 18, at p3.
59 See note 18.
relation to financial literacy. However, what is interesting from the framework (see Appendix 1) is that none of the knowledge and understanding areas relate specifically to taxation or superannuation. The table in Appendix 1 outlines the topics identified by MCEETYA and alongside this, where it is believed taxation related matters could be incorporated. It is submitted that by incorporating the relevant taxation issues where stated, by the end of year 10, a student would have a basic understanding of taxation issues that would be relevant to them as a now financially literate consumer. This argument was supported by an interest group in response to the Australian Taskforce’s discussion paper on financial literacy when it was stated that a broader focus on other financial issues rather than just financial literacy is needed.60

The following section will draw together some of the key issues raised in this paper as they could potentially relate to taxation as well as identify some further impacts of financial literacy from a taxation perspective.

Conclusions and further impacts from a taxation perspective

Research surrounding tax complexity has suggested that non-compliant behavior was not necessarily intentional and that taxpayers who completed their own tax returns were the most likely to be unintentionally non-compliant.61 Yet at the same time, this research found that there was “evidence of a high commitment to compliance”.62 Throughout this paper it has become clear that for many individuals, being unintentionally non-compliant is but one of the many challenges they face in being part of the economy. It is clear that there are groups within the community who lack even basic financial management skills. So, if these individuals are never taught the basic concepts of taxation, there is little wonder they may be more likely to unintentionally non-comply.

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60 See note 18, at p12.
61 See note 20, at p284 & 285.
62 See note 20, at p289.
The simplification of tax legislation and the move toward ATO publications being written in plain English are both positive ways of reducing the complexity of the taxation system. However, as was argued earlier, simplified legislation and plain English publications will not be of use to a taxpayer unable to perform basic percentage calculations or who isn’t aware that superannuation is taxed at lower rates than other investments. It was submitted that certain groups and individuals need targeted and relevant information in a “real world” setting. Perhaps this means capability or skills based training (as was argued in relation to the proposed school curriculum) rather than written material.

In an educational setting, the term “scaffolding” is often used to describe a teaching style where students are taught very basic information in the first instance. All other concepts and skills are built-upon from this point. The premise being that if the foundation knowledge is solid, the more likely it will be that future knowledge will have the strength to stand up. So, what then are our basic concepts and skills in terms of taxation? From the perspective of the ATO, a tax advisor or a tax teacher, what do we assume are basic skills or the “foundation”? Even if the information is presented in plain English, how likely is it that concepts such as basic capital gains tax could “stand-up” if it isn’t certain that taxable income and marginal rates of tax automatically form part of the “foundation”?

Referring back to some of the Australian research on financial literacy that was presented earlier, it is argued that in providing useful and informative information to taxpayers, clients or students, being aware of the percentage who do not know whether superannuation is taxed at higher or lower rates comparatively, would be an advantage. Whether in the role of a teacher, advisor or administrator, one of the keys to successfully delivering a message is to tailor your presentation or publication to the type of audience. It has been suggested that when it comes to financial matters people are often not interested in learning until a crisis.\(^63\) So, if the same logic were applied to taxation, one could argue that people will not be interested in learning about tax until they are audited or targeted for non-

\(^63\) See note 18, at p9.
lodgement. Unless, of course, we can be confident that all taxpayers have some base level of knowledge that has been presented to them in a capability based format.

It is clear that financial literacy education is gaining momentum and also that within Australia, there are groups and individuals within the community that could stand to benefit. Also it is clear that this research into financial literacy has taken the view that “education” is the answer and not just “information”. As has been argued and illustrated through this paper there are many lessons that can be learnt for the field of taxation. There needs to be a better understanding of not only how much taxpayers need to know about taxation to be better “participants” in the system, but also what they already know.

Research submitted earlier suggested increasing financial literacy by a modest amount amongst this 10% would; contribute and additional $6 billion per year to GDP, and create over 16,000 new jobs. Therefore, finally, it is argued that if the current or proposed financial literacy programs are indeed successful, there will be no choice but to ensure that an understanding of the taxation system forms part of their financial literacy. The government and the ATO would certainly want to ensure that revenue is collected on this newly created wealth from a now financially literate population.
Reference List


Consumer and Financial Literacy Taskforce – Preliminary Recommendations to Government; Canberra, 31 August 2004


## Appendix A

### National Consumer and Financial Literacy Framework (MCEETYA) 64

<table>
<thead>
<tr>
<th>Year Level</th>
<th>Identified Knowledge and Understanding65</th>
<th>Possible tax issues could be included?</th>
</tr>
</thead>
</table>
| 3          | - Understand that money includes more than notes and coins (ie. EFTPOS)  
- Understand that money comes from a variety of sources and is limited  
- Understand that money is used to exchange goods and services  
- Understand that money can be kept to meet wants and needs  
- Understand the difference between wants and needs | Yes |
| 5          | - Understand that buyers have rights and responsibilities  
- Understand that there are different forms of income.  
- Understand that money can be borrowed  
- Understand that savings can earn interest | Yes |
| 7          | - Understand consumer rights and responsibilities  
- Understand that a range of factors can affect choice  
- Understand the value of setting personal financial goals  
- Understand that governments provide goods and services to meet consumers and taxpayers needs and wants | Yes |
| 9          | - Understand the rights and responsibilities of consumers  
- Understand how to keep personal financial records  
- Understand the use of credit  
- Understand that income is derived from a range of sources, including wealth, with different levels of reliability  
- Understand that a range of consumer and financial advice of varying accuracy and impartiality is available within the community  
- Understand that financial scams exist | Yes |

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64 See note 54, at p2. The third column identifies those specific knowledge and understanding criteria which the author believes could potentially include a tax perspective.

65 Ibid. Taken from the list of knowledge and understanding criteria developed for each year level.