

EVALUATING THE DEMAND FOR TAX PROFESSIONALS:
TAX ACCOUNTANTS OR TAX ATTORNEYS

by

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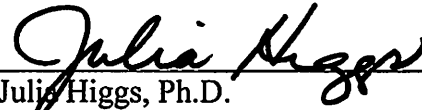
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This dissertation was prepared under the direction of the candidate's dissertation advisor, Dr. Julia Higgs, Department of Accounting, and has been approved by the members of his supervisory committee. It was submitted to the faculty of the College of Business and was accepted in partial fulfillment of the requirements for the degree of Doctor of Philosophy.

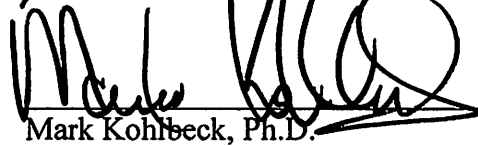
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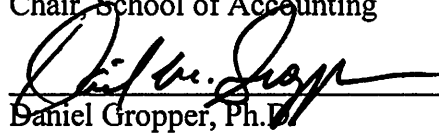
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ABSTRACT

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Taxpayers who hire tax professionals to assist with tax matters have a choice as to which type of tax professional to hire. This study looks at the choice between hiring a tax accountant or a tax attorney. Stephenson (2010) identifies four constructs that explain a taxpayer's motivation to hire a tax professional—legal compliance, time savings, money savings, and a protection from/avoidance of the Internal Revenue Service. A taxpayer may be motivated by one or more of these demand constructs. Further, the context of the advice—whether given in a planning or compliance setting—may influence the choice of a specific type of practitioner. Taxpayers also perceive certain professional features of the practitioner as being associated with either an accountant or an attorney. In a 2 x 1 between subjects research design, I investigate these issues by exploring how the perceived characteristics of the accounting and legal professions and the tax context differentially influence the demand for one of these professionals. I

hypothesize that taxpayers who demand a tax professional because of legal compliance or time savings are more likely to hire an accountant. Taxpayers who demand the services of a tax professional because of money savings or a protection from/avoidance of the Internal Revenue Service are more likely to hire an attorney. Additionally, I hypothesize that taxpayers in a planning context are more likely to hire an attorney while taxpayers in a compliance setting are more likely to hire an accountant. In a hierarchal regression, the variable for accuracy was significant in a simple regression of the four Stephenson constructs. In a second tier of the regression, accuracy was again significant as were certain covariates. In the final tier of the regression, no independent variable was significant but certain covariates were significant including client advocacy which was highly significant. The results do demonstrate that taxpayers perceive professional differences between a tax accountant and a tax attorney. Many of the results and the rationales underlying the hypotheses seem to be in the right direction as far as showing the expected demand for a specific tax professional.

DEDICATION

This paper is dedicated to the love and support of my parents Florence and Alfred Rosenthal. Your unconditional love made this a much easier process.

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CHAPTER I: INTRODUCTION

Taxpayers engage in multiple transactions or events that have tax consequences. As a result, the taxpayer may be motivated to seek professional advice. The taxpayer then faces the dilemma of deciding what type of tax professional to employ. Previous research (Stephenson, 2010) finds that four motivations of the taxpayer—legal compliance, time savings, money savings, avoidance of/protection from the Internal Revenue Service (IRS)—drive the demand for hiring a professional. Taxpayers may demand outside assistance for one or more of these reasons. However, previous research has not addressed what type of practitioner (accountant versus attorney) is demanded, or how the context of the tax problem (planning versus compliance) influences the choice. This research investigates these issues by exploring how the perceived characteristics of the accounting and legal professions and the tax context differentially influence the demand for one of these professionals.¹

Tax practice is an integral part of the public accounting profession. Also, many attorneys specialize in tax law, which makes the tax practice a significant component of the legal profession. A tax practice, whether conducted by a legal or accounting professional, must balance the tension between serving the client and maintaining the integrity of the tax system (Stuebs & Wilkinson, 2010). Further, an attorney and an

¹ In this paper, professional refers to someone who is either a licensed certified public accountant or attorney. Licensed professionals are subject to the oversight of their respective professional organizations (American Institute of Certified Public Accountants and the American Bar Association) and licensing authorities (State Board of Accountancy or the State Supreme Court Board of Bar Examiners).

accountant have different training and offer varying skills, defined, in part, by the larger profession from which the practitioner belongs. A tax attorney is primarily trained in recognizing and understanding the risks and consequences of litigation whereas a tax accountant is trained to prepare and understand financial statements and also to recognize how transactions will affect tax income and liabilities. AICPA Statements on Standards for Tax Services state that a primary responsibility of the tax professional is to be an advocate for their client (AICPA, 2009). Additionally, the accounting profession espouses in its Code of Professional Conduct the principle of “protecting the public interest” (AICPA, 2016) whereas the legal profession requires in its Code of Conduct a duty to zealously represent the client (American Bar Association, 1980).² These characteristics have likely been consciously or unconsciously perceived by taxpayers. As a result, when a taxpayer seeks professional advice, they likely consider the skill sets and characteristics of the profession brought to the table by the available expert.

Taxpayers may perceive that attorneys and accountants have differential skills in meeting Stephenson’s four demand constructs. I hypothesize that taxpayers who demand the services of a tax professional because of technical compliance are more likely to hire an accountant. An accountant, through their obligation to serve the public good, is going to be stricter in the interpretation of the law that is consistent with a higher level of compliance. I also predict that an accountant will be perceived by the taxpayer as better in saving the taxpayer time. For example, some may believe that the accountant will have a greater willingness to sort through documentation thus relieving the taxpayer of that time-consuming task.

² This statement is not meant to imply that accountants don’t have a duty to their clients. The same Code of Conduct requires CPAs to exercise Due Professional Care.

I further hypothesize that taxpayers who demand the services of a tax professional because of money savings and/or protection from the IRS are more likely to prefer seeking advice from an attorney. The legal profession's commitment to client advocacy, as molded by their training and ethical code, promotes a more aggressive position and thus is more likely to result in money savings. Attorneys are also more highly trained in the risks of litigation and are thus more likely to be perceived as a better form of protection against the IRS.

The context of the advice may also affect the choice of a tax professional. The advice sought could be in a planning context where the taxpayer is exploring how to structure a future transaction or a compliance context where the taxpayer is investigating how to report a transaction that has already occurred. It is important to note that the timing of the planning and reporting of the transaction are not contemporaneous. There could be a gap of many years before a planned transaction actually occurs (if at all) and the consequences of such a transaction are required to be reported to the IRS. The characteristics of each profession may influence how taxpayers perceive the quality of services in a planning versus compliance context. Specifically, I propose that in a compliance context, the taxpayer will prefer an accountant, and in a planning context the taxpayer will prefer an attorney and that the perceived strengths and skills of the two professions may be differentially valued under the two contexts.

I employ a 2 x 1 between subjects research design where I manipulate the context of the advice (planning versus compliance). The participants are given two independent tax scenarios and after each scenario, subjects choose their preference for hiring either an accounting or legal professional. I measure the taxpayer demand constructs using

Stephenson's scale. I also collect demographic information, tax-related risk preferences, and perceptions regarding the features of the legal and accounting professions.

I am motivated by a desire to investigate the overlap of attorneys and accountants in a tax setting. Increasingly, the societal and professional roles of attorneys and accountants have become blurred. This study can help in understanding the taxpayer's impressions of these two types of professionals in a tax environment. This study makes several contributions to the literature. It is the first study to examine how legal and accounting tax professionals are differentially demanded. Further, I extend Stephenson's (2010) work by exploring how her demand constructs may differentially affect the type of tax professional preferred. Additionally, I examine whether the demand for a specific tax professional is affected by context. In testing the hypotheses, I control for taxpayers' perceptions of the legal and accounting professions.

Considerable research has addressed the question of why individuals seek out the services of a tax professional. Taxpayers are not required to seek external assistance and may act on their own behalf or choose to hire someone. There are potentially a number of factors that may influence this choice. Understanding drivers of taxpayer demand can help tax providers to better meet the needs of their customers. Further, professions that offer tax services can further ensure that members are properly trained to meet these needs. Policy makers may encourage the use of tax professionals to advance the objective of accurate and timely reporting. Understanding why taxpayers seek out professionals is an important public policy issue since citizens may have to spend considerable resources in meeting complex reporting requirements. Potentially, the

taxpayer's perceived need to hire a highly trained professional could lead to dissatisfaction with the tax system.

In a hierarchical regression, the variable for accuracy was significant in a simple regression of the four Stephenson constructs. In a second tier of the regression, accuracy was again significant as were certain covariates. In the final tier of the regression, no independent variable was significant but certain covariates were significant including client advocacy which was highly significant. The results do demonstrate that taxpayers perceive professional differences between a tax accountant and a tax attorney. Many of the results and the rationales underlying the hypotheses seem to be in the right direction as far as showing the expected demand for a specific tax professional.

While the hypotheses as stated were not fully supported, there are some interesting observations that can be made. Firstly, this research successfully uses the Stephenson (2010) scale. This is the first time that this scale has been applied to a larger and diverse set of taxpayers. Additionally, taxpayers differentiate tax accountants and tax attorneys on various professional features such as organizational skills, research skills, critical thinking skills and privileged communication. Further, the role of client advocacy is important in forming a taxpayer's choice.

The remainder of this paper is organized as follows. In section II, I review the literature on the demand for tax services. I also review the Sociology of the Professions literature to identify the characteristics of the legal and accounting professions. In section III, I develop the hypotheses and in Section IV, I explain the research design and instrument development. In section V, I discuss the results of the experiment and in Section VI identify the implications. Section VII contains a discussion of areas for future

research and in section VIII, I provide a conclusion. The instrument is included in Appendix A.

CHAPTER II: LITERATURE REVIEW

Taxpayer Demand

Early demand research used surveys to determine taxpayers' motivations for hiring a professional. Collectively, this research has identified several motivations including filling out an accurate return (Collins et al., 1990); minimizing the tax liability (Collins et al., 1990); reducing the risk of an IRS audit (Klepper et al., 1991; Smith & Kinsey, 1987) and IRS penalties (Dubin et al., 1992). These and other studies also examined how personal traits and situations of the taxpayer influenced the motivation to hire a professional (Hite et al., 1992).

Taxpayer choices of return preparation services can be evaluated from an economics theory perspective. Under an informational aspect of assistance theory, risk neutral taxpayers are not sure of their true taxable income and tend to over-report their tax liability because the cost of under-reporting exceeds the cost of over-reporting due to IRS penalties. Taxpayers hire a tax preparer to reduce uncertainty and thereby lower the amount of reported tax liability (Scotchmer, 1989). One perspective is that tax preparers are more than just passive scribes whose function is to relieve their clients of the mechanical requirements of preparing a return. Instead, the tax preparer provides information on the legal requirements and penalties, develop strategies for reducing tax liability, and provide counsel on the risks of executing such strategies (Mazur & Nagin, 1987).

Prior research focusing on taxpayer compliance uses a deterrence theory framework (Erard, 1993; Klepper & Nagin, 1989; Milliron & Toy, 1988; Reckers et al., 1994). Under this theory, taxpayers are deterred from noncompliant behavior based on probabilities of detection and the severity of sanctions. The United States Congress has used this theory to justify the many compliance rules that currently exist. Increasingly, as the complexity of the tax law increases, taxpayers are including tax professionals to assist them with avoiding an IRS audit, time efficiency and tax liability minimization. There are significantly fewer tax adjustments made by an IRS audit on paid preparer returns than on self-prepared returns (Hite & Hasseldine, 2003).

Stephenson (2010) developed a scale to measure taxpayers' motivation to hire tax preparers. Using prior literature, she identifies categorical reasons why taxpayers hire professionals and created a series of questions that explore the validity of her constructs. Using both factor and confirmatory analysis of the responses, Stephenson found four separate constructs that explain taxpayer demand: 1) legal compliance; 2) time savings; 3) money savings; and 4) protection from/ avoidance of the IRS. She created a scale consisting of 27 questions to identify which of these specific constructs drives an individual's demand for the services of a professional because a person may be motivated by multiple reasons.

Fleischman and Stephenson (2012) provide further insight into the decisions related to hiring tax professionals. They investigated demographics and key perceptions of clients to determine what factors are associated with the motivations to hire tax practitioners. Using the four constructs identified in Stephenson (2010), they found that client perceptions of tax advocacy are positively associated with all four motivations.

They also found that female clients are more likely to hire a tax preparer to save time and be legally compliant. Taxpayers with children were more concerned with legal compliance while taxpayers with more complex returns were likely to hire a tax preparer for legal compliance and to gain protection from the IRS.

Sakurai and Braithwaite (2003) investigated Australian taxpayers' perceptions of their ideal tax practitioners. They found three dimensions underlying taxpayer judgments: 1) A creative, aggressive tax planning type who is well networked and familiar with the policies and enforcement rules of the tax office; 2) A cautious minimizer of tax who avoids conflict while maintaining sophistication about tax-planning opportunities; and 3) A low risk, no-fuss practitioner who is honest and risk averse. Their research indicates that taxpayers will seek out practitioners who have the attributes they most highly value; but when the taxpayer perceptions are combined with these ideals, the only two dimensions that emerge are tax avoidance and doing the right thing. The authors were unable to distinguish between tax practitioners who are seen to provide cautious versus aggressive advice in both planning and reporting.

Research has shown that clients and professionals may not share an understanding of what each one expects of the other. Taxpayers report higher levels of income when the tax law is ambiguous, and tax professionals assert that it is their clients who demand such aggressive tax reporting (Spilker et al., 1999). Furthermore, taxpayers view the tax system as less equitable than tax preparers (Schisler, 1994). Christensen (1992) revealed that tax preparers' perceptions of what clients expect differs significantly from what is actually expected by the taxpayer. While taxpayers indicate they hire a professional for accuracy reasons, the tax professionals believe that tax minimization is the primary

reason. Stephenson (2007) analyzed this conflict and found that tax professionals equate client advocacy with aggressive tax positions while taxpayers hire preparers to increase accuracy and reduce the probability of an audit. Other research investigating the relationship between taxpayers and tax professionals finds that the taxpayer does not want to be audited and if they are audited, holds the tax preparer responsible (Schisler & Galbreath, 2000). This expectations gap between what the taxpayer is seeking and what the tax preparer is providing may create inefficiencies in the relationship of the taxpayer and tax professional. A better understanding of what taxpayers want and expect from their tax professional can minimize these inefficiencies.

Sociology of the Professions Literature

The legal and accounting professions both operate within societal norms. While both professions have some overlap in the services and protections they offer, each profession maintains its own set of rules and regulations regarding admission, practice and ethics (Daicoff, 1997; Hooks, 1991; Kultgen, 1988; Wyatt, 2004; Zeff, 2003a, 2003b). The professions complement each other and oftentimes work in conjunction to address risk reporting and rules interpretation (Kirchner, 2004). The roles of specific tax professionals often blur when addressing a specific client need (Abbin, 1994).

Accounting ethical standards require an accountant to serve the public interest and honor the public's trust when providing services to clients (AICPA, 2016). While many in the legal profession (including Supreme Court Justices) also advocate the role of attorneys in representing the public good (Alito, 2009; Ginsburg, 2001), the ethical standards for an attorney do not mention the attorney's role in enforcing the public welfare. Instead

attorneys are charged with zealously representing their clients within the bounds of the law (American Bar Association, 1980).

The expectations and norms of each profession, including specific obligations, impact the ways tax practitioners execute their duties. An attorney's professional behavior often focuses on the lawyer's function as an advocate (Schwartz, 1978). Attorneys have an orientation that in part focuses on privileged communication. Accountants, especially those trained in auditing, are more likely to have detailed documentation about how decisions are reached. They are subject to more rigorous peer review processes such as those sponsored by the AICPA that monitor minimum practice standards for tax professionals. Accountants are more likely to exercise some degree of professional skepticism because this trait is indoctrinated as part of the auditing education process. Some people may view accountants as generally more conservative, partly because the profession itself has included conservatism as part of its conceptual framework for many years (FASB, 1980).

The differences in the professions have been validated by limited research. Cloyd and Spilker (2000) compared accounting and law students on their ability to mitigate confirmation bias. They found that when conducting research on an ambiguous tax issue, law students are less prone to confirmation bias than are Masters of Accounting students. They found that professional training is able to reduce the amount of confirmation bias.

From an ethical perspective, accountants may resolve their conflict of interest between client loyalty and objectivity by reference to the duty of care to the public rather

than to the client.³ Although CPAs have a duty to be a client advocate, they must balance this against the ideal of serving the public good espoused in the AICPA Code of Ethics. The legal profession emphasizes the duties of competence, loyalty and confidentiality owed to clients, and it raises the lawyer-client relationship above the duties owed to society. The utilitarian doctrine of legal privilege further enhances the pivotal role of the relationship (Italia, 2008). These different professional features lead to differences in how the professional relationship with the client is established and maintained. Each profession has a unique code of ethics and set of rules that govern its members' behaviors and activities. Society expects that each professional will maintain the obligations that his or her respective code of ethics requires.

At one time, an accountant rendering services involving complex issues of Federal Income Tax Law was held to be the unauthorized practice of law (Virginia Law Review, 1954). Jensen (1991) reflects that tax lawyers are lumped together with accountants in the public mind. He recollects an earlier perception where it was thought that a tax lawyer is a person good with numbers but who does not have enough personality to be an accountant. In 1975, a leading mergers and acquisitions attorney at a large law firm stated that accounting has become too important to be left to the accountants (Freund, 1975). Today, the prohibition against tax practice by accountants no longer exists, and tax functions and tasks are performed by both accountants and attorneys; however, the roles of different types of tax professionals are still not clearly defined (Cuccia, 1995).

³ In the Congressional hearings on KPMG, the committee pointed out that the firms had stolen billions of dollars from U.S. citizens. This statement serves to remind observers that the accounting profession has a duty to serve the public interest.

The accounting scandals of the early 2000s provide an opportunity to look at the different roles that attorneys and accountants played and how each profession was perceived by the public. The Enron debate was partly due to shortcomings of both the accounting and legal professions and both were culpable (Rhode & Paton, 2002). However, the Sarbanes-Oxley Act exclusively focused on reforms of the accounting profession. Forbes magazine reported that Enron's lawyers had their eyes wide shut (Forbes, 2002).

Rostain (2006) addresses how the increase of tax attorneys in the tax department of public accounting firms led to the tax-shelter controversies that resulted in the 2003 Congressional hearings and ultimately the deferred prosecution agreement of KPMG in 2004. Although KPMG had the largest consequences, all the major firms were involved in illegal tax shelters to one degree or another. Rostain argues that the culture brought by the attorneys increased the risk environment of the tax departments of the major firms. Her arguments suggest that the professional cultures of attorneys and accountants differ.

Enron and the tax shelter crisis indicate that the members of the two professions have been treated differently by regulatory authorities. This differential treatment may in part be a result from the characteristics that distinguish each profession. These characteristics are likely perceived by the general public and in part drive the demand for taxpayer choice. To date, there has not been any research that has confirmed these perceptions.

Context of Tax Situation

Taxpayers seek professional advice in both planning (pre-transaction) or in reporting/compliance (post-transaction). The context of the situation can affect the role of

the professional. In a compliance context, tax preparers exploit ambiguity in tax rules to assist clients in reaching favorable reporting positions. Tax professionals play an important role in tax matters in assisting the government to enforce tax law (Tan, 1999). In a planning context, tax professionals provide valuable services to clients by reducing uncertainty about how clients should structure and report transactions (Cloyd & Spilker, 1999). Further, a professional may use either planning or compliance activities to assist in generating additional business. For example, an accountant or an attorney who offers compliance services may be seeking to establish a relationship with a client that could lead to future business transactions involving the use of the tax professional. There has been relatively little research on how context may influence demand for a professional tax advisor.

CHAPTER III: HYPOTHESIS DEVELOPMENT

As mentioned previously, research has not addressed the factors that contribute to the selection of a particular type of tax professional. Collectively, the research has shown that the majority of taxpayers are motivated to hire a professional for one of four reasons. This current research proposes that these reasons also motivate the type of professional demanded.

For taxpayers who seek technical compliance, I propose that the taxpayer will elect to hire a tax accountant over an attorney. First, because CPAs have adopted the principle to serve the public interest (AICPA, 2016), they are less likely to seek aggressive interpretations of the tax code, in turn leading to stricter compliance. It is important to note that Stephenson's legal or technical compliance construct could very well be characterized as accuracy.⁴ Later, I propose a hypothesis around the concept of tax compliance. For that, the definition is about the act of reporting a historical tax transaction without consideration of the aggressiveness or accuracy of that position.

Tax accountants also have the influence of the AICPA in structuring the tax practice. The AICPA publishes a tax practice quality control guide that details "a process to provide a firm with reasonable assurance that it and its personnel (owners, partners, officers, employees, and other associates of the tax practice) will comply with applicable professional, statutory, and regulatory requirements regarding its tax practice."

⁴ One of Stephenson's measurements for legal compliance is the participant's agreement with the statement "I expect my tax professional to advise me not to take deductions that fall into ambiguous areas of the law."

Furthermore, the voluntary AICPA peer review program includes evaluation of the quality of services. CPAs have specific Statements on Standards for Tax Services (AICPA, 2009b), which impose specific obligations beyond regulatory requirements in the conduct of providing professional tax services. Many CPAs also practice in a firm that offers audit services. Audit practice (i.e., documentation, planning, supervision, and review) likely influences the tax practice side of the firm. Taken together, these standards and practices have influenced the acculturation process for tax CPAs leading to accountability for judgments, and less variance in the conduct of the work product and in the interpretation of the law. The American Bar Association does not similarly regulate its members or the creation of their work product.

The accounting profession has long observed the convention of conservatism. At one point, conservatism was part of the FASB Conceptual Framework (FASB, 1980). Although the framework does not currently include conservatism as it may imply bias, the judgments and behaviors of accountants often reflect this convention that existed for decades. In fact, even though conservatism was omitted from the FASB Conceptual Framework, some of the FASB standards still have asymmetric recognition of gains and losses which is consistent with a conservative perspective. Conservatism in tax work is consistent with strict interpretation and application of the law.

In accordance with the above arguments, I propose the following:

H1a: Taxpayers who demand professional tax assistance to improve technical compliance (i.e., accuracy) prefer to hire a tax accountant rather than a tax attorney for professional assistance.

Next, I propose that taxpayers who are interested in time savings will prefer an accountant over an attorney. First, it is important to point out that this refers to the time

savings of the taxpayer. It is possible that either of the two types of professionals will actually provide a significant time savings over the other but there are some aspects of the professions that may differentially impact the taxpayer's perception of time savings.

One of the requirements for a taxpayer is to organize the documentation and identify relevant facts. This could potentially be a time-consuming task. For example, a commercial fisherman may have daily fish sales, bait purchases, equipment purchases and repairs, fuel purchases, etcetera. All of these, which may be in the form of paper receipts, would have to be organized in order to complete the tax return. I contend that the taxpayer is more likely to seek out an accountant for this task. In some cases, dealing with the paperwork is akin to preparing cash basis financial statements which is certainly a strength of the accountant over the attorney. Thus, I hypothesize the following:

H1b: Taxpayers who demand professional tax assistance to improve time savings prefer to hire a tax accountant rather than a tax attorney for professional assistance.

For Stephenson's third demand construct, money savings, I propose that taxpayers will seek an attorney over an accountant. In this context, money savings is not related to the fees of the professional but to the overall lower tax liability of the taxpayer.

Both the American Bar Association's Code of Professional Conduct and the AICPA's Statements on Standards for Tax Services indicate that a responsibility of tax professionals is to advocate for their clients. Mason and Levy (2001) define client advocacy as a state of mind where one's primary loyalty belongs to the taxpayer. They developed a scale measuring a tax practitioner's level of client advocacy. Prior research has used this scale to determine the existence of client advocacy and its effects on tax

practitioner's judgments and decisions.⁵ Stephenson (2007) used this scale to measure the degree of taxpayer loyalty exhibited by the tax professional. She found that CPAs and non-CPAs demonstrate similar client advocacy.

Client advocacy, as measured by the Mason and Levy scale, is directed at the professional's state of mind towards the client. Their questions in the scale tend to be oriented towards measuring how aggressive the professional will be on behalf of the taxpayer. The taxpayer, however, might perceive advocacy in a different way. For example, the taxpayer may not desire an aggressive position because of personal risk preferences and may not necessarily view an aggressive professional as an advocate. Stephenson (2007) also measured the taxpayer's perceptions of advocacy and found that tax professionals exhibit higher advocacy than that recognized by their clients. In this 2007 study, she found that taxpayer demand for a practitioner affects the perceived level of client advocacy offered. If CPAs and attorneys are viewed differentially, then her results suggest that taxpayers may demand a specific type of professional.

Although all tax practitioners are charged with advocating for their client, an attorney—through their training, broad scope of privileged communication and code of ethics—are more likely to be aggressive in their interpretation and analysis of tax issues. The attorney has an ethical obligation to zealously represent the client. As a practical matter, this means that the attorney will explore a significant range of options and evaluate the risks of those options. The attorney must operate within the bounds of the law but is trained to explore options that push up against that boundary if it is in the best

⁵ See Bobek et al. (2010) for a list of research that has included advocacy as a construct of interest.

interest of the client. As such, the attorney is likely to be more aggressive on average in interpreting the law than an accountant might be.

With aggressive positions, the savings to the taxpayer is greater; however, with that comes additional downside risks (e.g., notices, audits, tax court challenges, and need for revenue rulings). The attorney, being an expert in legal processes and procedures, is better able to anticipate and manage these downside risks. Thus, the costs of an aggressive position are likely to be less with an attorney, resulting ultimately in additional money savings.

These arguments lead to the third part of H1:

H1c: Taxpayers who demand professional tax assistance for money savings prefer to hire a tax attorney rather than a tax accountant for professional tax assistance.

The last Stephenson construct is protection from/avoidance of the IRS. I propose that taxpayers who are motivated by this reason will prefer to hire an attorney over an accountant. Avoidance of the IRS could mean a variety of things such as avoiding notices, audits, and penalties, or minimizing these items when facing a contentious tax issue. Although accountants can represent clients in the tax court, attorneys are more extensively trained in legal processes and procedures, particularly as the seriousness of the tax matter escalates. This training, in turn, leads to enhanced negotiation skills and a more nuanced touch that incorporates the technical aspects of the law with an understanding of the risks of litigation.

The legal profession has the important characteristic of having a broad scope of privileged communication with clients. The taxpayer may be more willing to disclose

information to the attorney knowing that their conversation is privileged.⁶ By having a deep understanding of the facts disclosed by the taxpayer, the attorney is better able to defend the taxpayer if the matter is questioned.

Research has shown that law students are more likely to consider a range of possibilities whereas accounting students are more likely to exhibit information search biases (Cloyd & Spilker, 2000). By considering alternative choices and outcomes, the attorney can better match the risk preferences of the client with potential outcomes of the tax matter. Overall, this research supports the contention that attorneys see a broader range of possibilities which allows them to better manage the possibilities and risks of a situation.

Thus, these arguments lead to the last part of the hypotheses regarding Stephenson's demand constructs and the choice of a tax practitioner:

H1d: Taxpayers who demand professional tax assistance for protection from the Internal Revenue Service prefer to hire a tax attorney rather than a tax accountant for professional tax assistance.

I also propose that the type of setting (planning versus compliance) influences the selection of the tax professional. As stated previously, a compliance setting is one where the taxpayer is reporting on a historical transaction whereas a planning context is one where the transaction is anticipated but has not yet been consummated.

I first propose that when a taxpayer faces a planning scenario, he or she is more likely to engage an attorney. As previously discussed, the attorney's training affords them the ability to see a greater range of possibilities. This is a useful skill in a planning

⁶ Accounting professionals also enjoy privileged communication in certain criminal tax matters, but in most jurisdictions, CPAs are not afforded this outside of that limited situation. See https://www.aicpastore.com/Content/media/PRODUCER_CONTENT/Newsletters/Articles_2010/CPA/Jun/AccountantClientPrivilege.jsp for further information on privilege and the CPA.

context. Further, as the taxpayer considers implementing planning advice, the attorney has skills beyond those of an accountant. For example, in estate planning, after the taxpayer knows the consequences of the options, he or she would need to implement them by creating a will or establish a trust. As these are primarily legal functions, the taxpayer may prefer to use the same practitioner in the planning and execution phases. Another example, in a planning scenario where the taxpayer is setting up an entity, either the accountant or attorney can provide equivalent planning guidance, but when the taxpayer actually executes the transaction, the skills of the attorney, e.g. creating a legal documentation for a corporation, would be needed.

This leads to H2a:

H2a: In a planning context, taxpayers who demand professional tax assistance prefer to hire a tax attorney over a tax accountant for professional assistance.

In a scenario involving tax compliance i.e., reporting a historical tax transaction, I argue that the taxpayer will prefer the accountant. The accountant is primarily charged with reporting on historical events through preparation of financial statements and tax returns. In general, CPAs involved in either accounting or auditing roles are viewed as being experts in data gathering, organization and documentation. In a compliance setting, these skills are quite valuable and are likely to be perceived by the taxpayer as strength of the accounting professional. Anecdotally, CPAs may have a greater market share of compliance work. However, there are a number of attorneys (primarily in small practices) who also offer these services.

H2b: In a tax compliance context, taxpayers who demand professional tax assistance prefer to hire a tax accountant over a tax attorney for professional assistance.

CHAPTER IV: RESEARCH DESIGN AND INSTRUMENT DEVELOPMENT

Participants

To recruit participants, I used Qualtrics survey. Criteria for participation were that the subjects must be those who made investments and use the services of a tax professional. They had to have earned at least \$150,000 and have investable wealth of at least \$50,000. One hundred sixty eligible participants took the survey.

Research Design

Participants were randomly assigned to one of two scenarios. The two tax scenarios were adapted from prior research. The first involved a real estate transaction where the taxpayer could be considered an investor or a dealer. This is similar to a tax situation used by Cloyd and Spilker (1999). Under tax law, these two types of real property holders have different tax consequences regarding characterization of income and deductibility of losses. The second scenario involves a bicycle racing activity that could be considered either a hobby or a business. This situation was adapted from Bobek et al. (2010). Under tax law, these activities have different tax consequences regarding deductibility of losses. For each scenario, the context of the scenario was either planning or compliance.

Upon reading the assigned information for that scenario within the context assigned, participants indicate their preference for seeking advice from a tax professional on a six point Likert-like scale where one end was “definitely choose a tax accountant” and the other end was “definitely choose a tax attorney”. Participants were then

presented with a manipulation check question asking whether they had been assigned to a planning context or a compliance context.

Next, participants were given the opposite scenario and the opposite context to what was first assigned. For instance, if a participant was initially assigned to the real estate scenario in a planning context, he was then given the bike scenario in a compliance context. The participant answered the same question regarding his or her preference for the tax professional he or she would seek advice from, and a manipulation check question seeking confirmation of the context of the second scenario. The design of the study ensured that each participant received both the real estate scenario as well as the biking scenario and also received both planning and compliance context scenarios.

After the assignment to the different scenarios, the four demand constructs were measured using Stephenson's scale to assess the participants' motivation to seek out a tax professional. I then specifically asked which type of tax professional is more likely to be preferred for each of Stephenson's demand constructs using a six-point Likert-type scale with endpoints being a tax accountant and a tax attorney. Then, I identified characteristics of the professions as discussed in the hypothesis development section (i.e., conservatism, privileged communication) and asked participants to assess which type of tax professional is more likely to be preferred for each of these characteristics using a six-point Likert-type scale with endpoints being a tax accountant and a tax attorney. Using the same six-point scale, I asked the questions from the Mason and Levy (2000) instrument on client advocacy. The questions were adapted so that they were answered from the perspective of how the taxpayer perceives the difference of the nine advocacy constructs between the two types of tax professionals. Additionally, participants

answered two questions to measure their tax risk preferences as well as demographic information, including prior experience with the IRS or with an accountant or attorney.

See Appendix A for the instrument.

Manipulation Check Questions

Of the one hundred sixty initial participants, eighty-eight (55%) correctly answered both manipulation check questions. Further investigation indicates (125/160) 78.125% correctly answered the real estate scenario manipulation check question compared to (113/160) or 64.375% for the biking scenario manipulation check question. In the planning context, (126/160) 78.75% correctly answered the manipulation check question while (102/160) 63.75% correctly answered the manipulation check question in the compliance context.

This indicates that there might be some issues with the scenarios as well as with the compliance context. With respect to the different scenarios, it is possible that neither scenario was familiar to the respondents. Different types of activity might have provided more favorable results for the scenarios. With respect to the different contexts, a stronger manipulation might have produced more favorable results. Participants may not have understood that the reporting of a transaction can be performed by a tax professional who differs from the professional who had planned the transaction.

Demographics

The results include only the eighty-eight participants who correctly answered both manipulation check questions. Demographically, of the eighty-eight final subjects (48/88) 54.6% of the participants were presented with the real estate scenario first while (46/88) 52.3% of participants received the planning context first. Of the final participants, 58%

were women (51/88) and 81.8% (71/88) had children. Slightly over 26% (26.1%) owned their own business, and 69.3% used a financial planner. Of the eighty-eight participants, 78.4% had greater than \$250,000 in retirement, 28.4% have had contact with the IRS, and 19.3% have been audited. Slightly more than 36% (36.4%) have had prior experience with a tax attorney, and 81.8% have had prior experience with a CPA. See Table 1 for full demographics.

Table 1
Demographic Information of Participants (n=88)

Gender:		
Female	51	58.0%
Male	37	42.0%
Age:		
Under 25	2	2.3%
25-35	17	19.3%
36-45	26	29.6%
46-55	22	25.0%
56-65	14	15.9%
Over 65	7	8.0%
Household Income:		
\$100,000 or below	0	0.0%
\$100,000 - \$250,000	62	70.4%
\$250,000 - \$500,000	19	21.6%
\$500,000 - \$1,000,000	3	3.4%
Above \$1,000,000	4	4.50%
Been Audited:		
Yes	17	19.3%
No	69	78.4%
Other	2	2.3%
Use Financial Planner:		
Yes	61	69.3%
No	27	30.7%
Have Children:		
Yes	72	81.8%
No	16	18.2%

Have Greater than \$250,000 in Retirement:		
Yes	69	78.4%
No	19	21.6%
Highest Level of Education:		
High School	5	5.7%
Associate	10	11.4%
Bachelors	42	47.7%
Masters	19	21.6%
Ph.D. / J.D.	9	10.2%
Other	3	3.4%
Number of Trades:		
None	9	10.2%
1-3	16	18.2%
4-20	34	38.6%
21-100	26	29.6%
Over 100	3	3.4%
Contact with IRS:		
Yes	25	28.4%
No	62	70.5%
Other	1	1.1%
Experience with Tax Attorney:		
Yes	32	36.4%
No	56	63.6%
Experience with CPA:		
Yes	72	81.8%
No	16	12.8%

CHAPTER V: RESULTS

Hypotheses H1 (a-d)

Hypotheses H1 (a-d) investigates the relationship of the four Stephenson constructs with the taxpayers' choice of a tax professional. Initially, I validated the scale used by Stephenson to identify a taxpayer's demand for a tax professional. Using principal component analysis, I used participant's responses to the 27 questions that Stephenson used to develop her scale. Using the four constructs that she determined, I created a component matrix using Varimax rotation with Kaiser Normalization. Within the saving time construct as well as the saving money construct, all questions properly loaded with factor scores of at least .498. On the construct of accuracy (technical compliance), all questions except for "It is okay to skip a tax deduction or two as long as it means I'll not be audited" correctly loaded. This question was not included in the analysis. On the construct of IRS protection, all questions except for "I don't want to pay too much or too little on my taxes" correctly loaded. This question was not included in the analysis. Cronbach alpha scores for each construct were greater than .74.

TABLE 2a**Scale Development Items for Measuring the Motivations of a Taxpayer
(Based on Stephenson 2010)***

Item #	Construct	Statement
1	Time	It takes so long to do tax returns, I would rather let a professional handle it
2	Time	I have my taxes professionally prepared because I don't have time to do it myself
3	Time	I have my taxes professionally prepared because I am too busy to do tax returns
4	Time	I would rather pay a tax preparer and spend less time on my taxes
5	Time	I have my taxes professionally prepared and although it costs me money, it saves me valuable time
6	Time	It's okay to pay a little more to have a professional prepare my taxes as long as it doesn't take my time
7	Time	It takes so long to read the instructions and tax forms; it's easier to have a tax professional take care of those things
8	Time	If I prepare my own taxes, I would have to spend a lot of time finding the right tax forms and researching things
9	IRS	The IRS won't prosecute me personally if my tax professional is wrong about something
10	IRS	If I paid enough to have my taxes prepared, I could end up without any tax liability
11	IRS	When my tax preparer signs my return, that means that I'm not responsible for mistakes on it
12	IRS	I have my taxes professionally prepared so that if the IRS questions it, I won't be the one who gets in trouble
13	IRS	I have my taxes professionally prepared so that I know I'll never have to face the IRS
14	IRS	It is okay to skip a tax deduction or two as long as that means I'll not be audited
15	Money	My tax professional saves me money
16	Money	Even though I pay a fee, I come out ahead financially with a tax professional
17	Money	My tax professional usually reduces my tax bill
18	Money	I have my taxes professionally prepared because it saves me money overall
19	Money	The refund I get each year is more than I pay a tax professional
20	Money	I have my taxes professionally prepared so I can pay the lowest tax amount allowed under the current law
21	Accuracy	I would rather be protected from penalties than save money on my taxes
22	Accuracy	I would rather pay a little more in taxes and ensure I haven't broken any laws
23	Accuracy	I would rather be protected from penalties than save money on tax preparation charges
24	Accuracy	I expect my tax professional to advise me not to take deductions that fall into ambiguous areas of the law
25	Accuracy	I have my taxes professionally prepared because it is important to me that I pay exactly what I am supposed to in taxes
26	Accuracy	The advice I receive from my tax professional should be conservative
27	Accuracy	I don't want to pay too much or too little on my taxes

*Stephenson (2010) identifies four motivations that taxpayers have for demanding a tax professional. These are: 1) time savings [Time], 2) protection from/ avoidance of the IRS [IRS], 3) money savings [Money] and 4) technical compliance [Accuracy].

TABLE 2b
Factor Analysis- Stephenson Items using Varimax Rotation*

Item #	Component			
	Money Savings	Time Savings	Technical Compliance (Accuracy)	Protect from / Avoidance of IRS (IRS)
1	.069	.715	.175	.165
2	.008	.736	-.250	.037
3	.197	.716	-.173	.155
4	.225	.771	.105	-.046
5	.305	.611	.324	-.117
6	-.045	.498	.216	.061
7	.075	.552	.234	.195
8	.198	.505	.176	-.186
9	-.001	-.042	.215	.803
10	.155	-.046	-.068	.640
11	.059	.048	.047	.777
12	-.220	.038	-.089	.714
13	.385	.102	.160	.667
14	.035	.158	.035	.310
15	.863	.096	.179	.050
16	.651	.101	.177	.147
17	.675	.235	.087	.103
18	.852	.137	.056	-.006
19	.629	-.009	.282	.260
20	.625	.161	-.095	-.134
21	-.016	-.006	.780	.161
22	.030	.092	.722	.015
23	.036	.154	.613	.261
24	.290	-.011	.515	-.051
25	.028	.139	.680	-.238
26	.154	.027	.458	.161
27	.108	.142	.373	-.026
Cronbach Alpha	.839	.839	.839	.744

*In this analysis the extraction of principal component analysis using Varimax rotation with Kaiser Normalizations was used. The rotations converged in 5 iterations.

These results lend support for use of the Stephenson scale for investigating the demand for a tax professional. The two questions that did not properly load could be attributed to the tax sophistication of the participants. These participants had income of at least \$150,000 and they made investments. The majority of participants had between four and 100 trades using stocks and bonds in the past year. These participants might not be as comfortable discussing their views on taking deductions to avoid being audited or their opinions regarding payment of too much or too little taxes. Nonetheless, the validation of the four constructs and the proper loading of the vast majority of the questions confirm Stephenson's analysis of taxpayers' motivation to demand tax professionals. This is the first study that uses Stephenson's scale successfully with a diverse group of taxpayers.

Table 3 Panel B shows a correlation matrix of the four Stephenson constructs. Consistent with Stephenson's analysis of demand, the four constructs are correlated with each other. This indicates that taxpayers demand can be motivated by one or more of these constructs. Oftentimes, a taxpayer's motivations to demand a tax professional are a combination of various factors. While Stephenson analyzed these from a scientific perspective, a taxpayer does not necessarily recognize the salient distinctions that she identifies. Interestingly, the relationships between these constructs shows statistical significance between the two hypotheses indicating preference for an accountant—time savings and accuracy ($p = .01$) and the two hypotheses indicating preference for an attorney— money savings and IRS protection ($p = .05$)

TABLE 3
Descriptive Statistics and Correlations on Stephenson Constructs

Panel A: Descriptive Statistics (N= 176)		
	Mean	Std. Deviation
Money Savings	2.97	.996
Time Savings	2.71	.922
Accuracy	2.47	.862
IRS	4.72	1.225
Dependent Variable ¹	3.43	1.577

¹Dependent Variable is a measure of preference between tax attorney and tax accountant measured on a Likert type scale between 1 and 6, with 1 indicative a strong preference for a tax accountant and 6 indicative of a strong preference for a tax attorney.

Panel B: Pearson Correlation Matrix (N=176)					
		Time Savings	Accuracy	IRS	Dependent Variable
Money Savings	Correlation	.347**	.280**	.189*	.042
	Sig. (2-tailed)	.000	.000	.012	.582
Time Savings	Correlation		.232**	.125	-.023
	Sig. (2-tailed)		.002	.098	.765
Accuracy	Correlation			.160*	-.094
	Sig. (2-tailed)			.033	.214
IRS	Correlation				.057
	Sig. (2-tailed)				.450

To evaluate the hypotheses, ANOVA was used to analyze the relationships in a three-hierarchical regression. In the first stage of the regression, the dependent variable is a continuous variable indicating a taxpayer's preference for a specific tax professional. This includes the 176 observations across both scenarios. Participants indicated their choice after each scenario on a six point Likert-like scale with "Definitely prefer a tax accountant (attorney)" assigned a value of 1 (6); "Very likely to prefer a tax accountant (attorney)" assigned a value of 2 (5); and "Likely to prefer a tax accountant (attorney)" assigned a value of 3 (4). For this stage of the regression, the independent variables were the four Stephenson constructs. Results of the model were not significant ($p = .520$). Further, the individual constructs were not significant in a one-tailed test (money savings, $p = .194$; time savings, $p = .363$; Accuracy, $p = .071$; IRS Protection, $p = .198$). Interestingly, however, the t statistic for the coefficients on timing and accuracy both indicate support for the rationale of preferring an accountant while the coefficients on money and IRS indicate support for the rationale of preferring an attorney. Thus, within the first hierarchy of the regression, there are indications that the hypothesized relationships exist.

The next level of the hierarchical regression adds dichotomous control variables of prior experience with a tax attorney, having greater than \$250,000 in a retirement account, prior experience with a CPA, and prior contact with the IRS. The variables of prior experience represent taxpayers who have experience with tax professionals and/or the IRS. The variable of greater than \$250,000 in a retirement account represents taxpayers who have the financial means and sophistication to make investments that could require the assistance of a tax professional. This regression model was significant

($p = .023$). Additionally, the independent variable of accuracy was significant ($p = .021$). Other independent variables were not significant. Further, as in the prior hierarchy, the coefficients on time savings and accuracy both indicate support for the rationale of preferring an accountant, and the coefficients on money savings and IRS protection indicate support for the rationale of preferring an attorney. The implications of these results indicate that high-financial, sophisticated taxpayers who have prior experience with tax professionals or tax matters are seeking specific tax professionals for different purposes.

The last hierarchal regression also includes client advocacy as a continuous variable. Client advocacy is measured by the Mason and Levy (2001) scale. Initially, I use confirmatory factor analysis to validate that the questions asked load properly on a single construct. Factor analysis indicated that all questions properly loaded with the exception of “Which of the professionals thinks that their primary obligation is to the tax system, then to the taxpayer?” This can be explained by the use of sophisticated taxpayers in the sample. These taxpayers were perhaps unwilling to see a tax professional as having obligations beyond the client needs. These taxpayers often have complex tax issues and are more concerned with the advice given to them. The validated scale had a Cronbach alpha = .820.

TABLE 4
Factor Analysis- Client Advocacy Questions

Panel A: Client Advocacy Statements from Mason and Levy (2001) as adapted by Stephenson (2007)	
Item #	Statement
1	When examining a tax return, my preparer should tend to point out reasonable positions that could have been taken to minimize liability
2	The taxpayer has the right to structure transactions in a way that yield the best tax result, even when the law is unclear
3	It is important for my preparer to use trends in the law by trying to establish a pattern of more favorable treatment for the taxpayer and then extending this pattern to the taxpayer's position
4	It is important for my preparer to interpret unclear/ambiguous laws in favor of the taxpayer
5	Where no judicial authority exists with respect to an issue, the taxpayer is entitled to take the most favorable tax treatment
6	My preparer should apply ambiguous tax law in the taxpayer's benefit
7	My preparer believes that their primary obligation is to the tax system, then to the taxpayer
8	It is important for my preparer to encourage taxpayers to pay the least amount of taxes possible
9	My preparer thinks that in an instance where no judicial authority exists with respect to an issue and where the Internal Revenue Code and Regulations are ambiguous that the taxpayer is entitled to take the most favorable tax treatment

Panel B: Principal Component Factor Analysis	
Item #	Correlation Factor
1	.472
2	.786
3	.608
4	.744
5	.756
6	.602
7	-.078
8	.509
9	.803
Cronbach Alpha	.820

TABLE 5
Descriptive Statistics and Correlations on the Regression Variables

Panel A: Definitions of Variables in Regression	
Variable	Definition
Dependent Variable	The preference of a taxpayer for either a tax accountant or a tax attorney
Money Savings	One of the four Stephenson constructs- the motivation of a taxpayer to seek professional tax assistance because the professional will save the taxpayer money.
Time Savings	One of the four Stephenson constructs- the motivation of a taxpayer to seek professional tax assistance because the professional will save the taxpayer time.
Accuracy	One of the four Stephenson constructs- the motivation of a taxpayer to seek professional tax assistance because the professional will technically comply with the requirements of the law
IRS	One of the four Stephenson constructs- the motivation of a taxpayer to seek professional tax assistance because the professional will protect the taxpayer from and help the taxpayer to avoid the IRS
\$250,000+	Dichotomous variable indicating whether the taxpayer has at least \$250,000 in retirement savings
IRSContact	Dichotomous variable indicating whether the taxpayer has had previous contact from the IRS
Tax_Atty	Dichotomous variable indicating whether the taxpayer has experience with a tax attorney
CPA	Dichotomous variable indicating whether the taxpayer has experience with a CPA
ClientAdv	The measure of a taxpayers perceptions of the professional's client advocacy (adapted from Mason and Levy (2001))

Panel B – Descriptive Statistics (n= 176)		
	Mean	Std. Deviation
Dependent Variable	3.43	1.577
Money Savings	2.97	.996
Time Savings	2.71	.922
Accuracy	2.47	.862
IRS	4.72	1.225
\$250,000+	1.23	.420
IRSContact	1.73	.472
Tax_Atty	1.64	.482
CPA	1.19	.424
ClientAdv	3.78	.908

Panel C: Correlations									
	2	3	4	5	6	7	8	9	10
Dependent Variable (1)	0.042 <i>0.291</i>	-0.023 <i>0.383</i>	-0.094 <i>0.107</i>	0.057 <i>0.225</i>	-0.087 <i>0.126</i>	-0.158 <i>0.018</i>	0.107 <i>0.078</i>	0.124 <i>0.05</i>	0.212 <i>0.002</i>
Money Savings (2)	1	0.347 <i>.000**</i>	0.28 <i>.000**</i>	0.189 <i>.006**</i>	0.151 <i>.023*</i>	0.126 <i>.047*</i>	-0.004 <i>0.477</i>	0.251 <i>.000**</i>	0.218 <i>.002**</i>
Time Savings (3)		1	0.232 <i>.001**</i>	0.125 <i>.049*</i>	0.06 <i>0.213</i>	0.021 <i>0.391</i>	-0.071 <i>0.174</i>	0.115 <i>0.065</i>	0.122 <i>0.053</i>
Compliance(4)			1	0.16 <i>.017*</i>	0.045 <i>0.275</i>	-0.091 <i>0.115</i>	0.028 <i>0.355</i>	0.147 <i>.026*</i>	-0.038 <i>0.308</i>
IRS(5)				1	0.031 <i>0.342</i>	-0.156 <i>.019*</i>	0.055 <i>0.233</i>	-0.138 <i>.034*</i>	0.366 <i>.000**</i>
\$250,000+ (6)					1	0.026 <i>0.365</i>	0.128 <i>.045*</i>	0.137 <i>.035*</i>	0.12 <i>0.057</i>
IRSContact(7)						1	0.064 <i>0.2</i>	0.036 <i>0.316</i>	-0.11 <i>0.073</i>
Tax_Atty (8)							1	-0.046 <i>0.273</i>	0.042 <i>0.288</i>
CPA (9)								1	-0.105 <i>0.083</i>
Client Advocacy (10)									1

** . Correlation is significant at the 0.01 level (1-tailed).

* . Correlation is significant at the 0.05 level (1-tailed).

With the inclusion of the client advocacy measure as a continuous co-variate, the model for this third hierarchal regression was significant ($p = .003$). However, under this model, none of the independent variables were significant. In looking at a correlation table for this third hierarchal regression model, the dependent variable is significantly correlated with IRS contact as well as with Client Advocacy. Additionally, the independent variable of money savings is significantly correlated with the other independent variables as well as with prior experience with a CPA, having greater than \$250,000 in a retirement account, and with client advocacy.

Table 6
Hierarchal Regressions; Dependent Variable: Tax vs. Atty.

Panel A: Coefficients							
		Model 1		Model 2		Model 3	
	Predictio n	Coef.	t-statistic	Coef.	t-statistic	Coef.	t-statistic
Constant			5.432		3.915		2.654
Money Savings	+	.072	.866	.084	.985	.038	.442
Time Savings	-	-.029	-.350	-.019	-.239	-.032	-.405
Accuracy	-	-.118	-1.475*	-.163	-2.063*	-.128	-1.629
IRS	+	.066	.852	.060	.768	.008	-.970
\$250,000+				-.129	-1.713	-.150	-2.021*
IRSContact				-.185	-2.436*	-.163	-2.163*
Tax_Atty				.144	1.920	.138	1.883
CPA				.168	2.148*	.192	2.477*
Client Advocacy						.220	2.713**
R-Square			.019		.099		.138
Adjusted R-Square			-.004		.056		.091
*t-statistic Significant at .05 level (one tail)							
** t-statistic Significant at .01 level (one tail)							

Panel B: ANOVA^a					
	Sum of Squares	df	Mean Square	F	Sig.
Model 1					
Regression	8.100	4			
Residual	426.940	171	2.025	.811	.520 ^b
Total	435.040	175	2.497		
Model 2					
Regression	43.262	8			
Residual	391.777	167	5.408	2.305	.023 ^{*c}
Total	435.040	175	2.346		
Model 3					
Regression	59.891	9	6.655	2.945	.003 ^{**d}
Residual	375.149	166	2.260		
Total	435.040	175			
a: Dependent Variable: Preference for Tax accountant or tax attorney a					
b: Predictors: (Constant) Money savings, Time Savings, Accuracy, IRS					
c: Predictors: (Constant) Money savings, Time Savings, Accuracy, IRS, \$250,000+, IRSContact, Tax_Atty, CPA					
d: Predictors: (Constant) Money savings, Time Savings, Accuracy, IRS, \$250,000+, IRSContact, Tax_Atty, CPA, ClientAdv					

Additional analysis and support for some of the rationales of the hypotheses is found by looking at the general impressions of the participants. Table 7 summarizes the responses to questions asked regarding the participant's impressions as to which of the tax professionals are most likely to provide the desired feature. Ninety percent of participants thought an accountant was best able to help prepare an accurate return. This is consistent with H1a. With respect to which professional is most likely to save time, 91% of participants thought an accountant would be best. This is consistent with H1b. Over 85% of participants thought an accountant was best able to help minimize taxes. This is inconsistent with H1c. With respect to which professional is best able to represent the taxpayer before the IRS with positions taken—72% thought an attorney was best, consistent with H1d. Other impressions not associated with the hypotheses include 84% believing an attorney was better able to have privileged communication; 73% believing an accountant had better organizational skills, and 66% believing an accountant is most likely to reflect conservatism. These results give support for the rationales of the time savings, accuracy, and IRS protection hypotheses.

TABLE 7
Participant Impressions of Professional Features (n=88)

Professional Feature	Accountants		Attorneys	
	n	%	n	%
Prepare Accurate Return	79	89.7%	9	10.3%
Save Time	80	90.9%	8	9.1%
Represent before IRS	25	28.4%	63	71.6%
Minimize Taxes	75	85.2%	13	14.8%
Critical Thinking Skills	35	39.8%	53	60.2%
Conservatism	58	65.9%	30	34.1%
Organizational Skills	64	72.7%	24	27.3%
Research Skills	23	26.1%	65	73.9%
Knowledgeable about Tax Matters	50	56.8%	38	43.2%
Protect Public Good	36	40.9%	52	59.1%
Privileged Communication	14	15.9%	74	84.1%

Hypotheses H2 (a-b)

Hypotheses H2 (a-b) investigated the relationship between the planning and compliance contexts and the demand for a specific type of tax professional. Table 8 shows the planning versus compliance contexts across both scenarios. In each context, participants' responses were recoded from 1 to 6 with 1 being 'definitely prefer tax accountant' and 6 being 'definitely prefer tax attorney'. A score from 1-3 indicated a preference for an accountant, and a score of 4-6 indicated a preference for a tax attorney. Across both scenarios, the mean score for planning was 3.57 while the mean score for compliance was 3.28. Using a paired sample test, these results were not significant.

TABLE 8
Paired Sample Test- Planning vs. Compliance
(Both Real Estate and Biking Scenarios)

Panel A: Descriptive Statistics				
	Mean	N	Std. Deviation	Std. Error Mean
Planning	3.57	88	1.567	.167
Compliance	3.28	88	1.583	.169

Planning and Compliance Scores based upon 6 point scale:

1. Definitely Prefer Tax Accountant
2. Very Likely to Prefer Tax Accountant
3. Likely to Prefer Tax Accountant
4. Likely to Prefer Tax Attorney
5. Very Likely to Prefer Tax Attorney
6. Definitely Prefer Tax Attorney

Panel B: Paired Sample Test								
	Paired Differences					t	df	Sig
					95% Confidence Interval of the Difference			
	Mean	Std. Deviation	Std. error Mean	Lower	Upper			
Planning – Compliance	.284	1.982	.211	-.136	.704	1.344	87	.182

In looking at the different scenarios separately, within the real estate scenario, the mean planning score was 3.96 while the mean compliance score was 3.66. Within the biking scenario, the mean planning score was 3.05 while the mean compliance score was 2.94. Using ANOVA, neither of the scenario analyses provided significant results.

TABLE 9a
Planning vs. Compliance Contexts
(Real Estate scenario only)

Panel A: Descriptive Statistics				
	Mean	N	Std. Deviation	Std. Error Mean
Planning Context	3.96	50	1.525	.216
Compliance Context	3.66	38	1.681	.273
Total	3.83	88	1.592	.170

Planning and Compliance Scores based upon 6 point scale:

1. Definitely Prefer Tax Accountant
2. Very Likely to Prefer Tax Accountant
3. Likely to Prefer Tax Accountant
4. Likely to Prefer Tax Attorney
5. Very Likely to Prefer Tax Attorney
6. Definitely Prefer Tax Attorney

Panel B: ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1.971	1	1.971	.776	.381
Within Groups	218.473	86	2.540		
Total	220.443	87			

TABLE 9b
Planning vs. Compliance Contexts
(Biking scenario only)

Panel A: Descriptive Statistics				
	Mean	N	Std. Deviation	Std. Error Mean
Planning Context	3.05	38	1.488	.241
Compliance Context	2.94	50	1.391	.197
Total	2.99	88	1.426	.152

Planning and Compliance Scores based upon 6 point scale:

1. Definitely Prefer Tax Accountant
2. Very Likely to Prefer Tax Accountant
3. Likely to Prefer Tax Accountant
4. Likely to Prefer Tax Attorney
5. Very Likely to Prefer Tax Attorney
6. Definitely Prefer Tax Attorney

Panel B: ANOVA					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	.274	1	.274	.133	.716
Within Groups	176.715	86	2.055		
Total	176.989	87			

Despite these lack of results, further investigation leads to some interesting observations. In looking at the frequencies of responses for specific types of tax professionals within each scenario, I find that in the real estate scenario participants preferred an attorney rather than an accountant in a planning context. Further, in the biking scenario, participants preferred an accountant rather than an attorney in the compliance context. These preferences are consistent with my predictions. While the full results do not offer significance, some of the trends appear to be consistent with

predictions in these limited observations. Further testing and further adjustments of the scenarios and manipulations could lead to more significant results.

TABLE 10a
Cross Tabulations and Chi Squared Tests
Tax Attorney vs. Tax Accountant
Planning vs. Compliance
Real estate Scenario Only

Panel A; Cross Tabulations			
	Planning	Compliance	Total
Tax Accountant	18	16	35
Tax Attorney	32	22	54
Total	50	38	88

Panel B: Chi-Square					
	Value	df	Asymp. Sig. (2 sided)	Exact Sig. (2 sided)	Exact Sig. (1 sided)
Pearson Chi-Square	.339	1	.560		
Continuity Correction	.131	1	.718		
Likelihood Ratio	.339	1	.561		
Fisher's Exact Test				.660	.358
Linear by Linear Association	.336	1	.562		
N- Valid Cases	88				

TABLE 10b
Cross Tabulations and Chi Squared Tests
Tax Attorney vs. Tax Accountant
Planning vs. Compliance
Biking Scenario Only

Panel A: Cross Tabulations			
	Planning	Compliance	Total
Tax Accountant	23	34	57
Tax Attorney	15	16	31
Total	38	50	88

CHAPTER VI: IMPLICATIONS

The results of this research give insight into the specific demand for different tax professionals. Taxpayers view both tax accountants and tax attorneys as competent professionals who can assist taxpayers with tax issues. A majority of participants perceive tax accountants as being better able to save the taxpayer time and to provide an accurate and compliant return. A majority of participants believe that tax accountants are better able to help with compliance matters. The majority of participants view tax attorneys as best able to help provide protection from the IRS and better able to help with tax planning. These results are important from a taxpayer's perspective in helping the taxpayer determine the appropriate tax professional for the specific tax problem at hand. The tax profession will benefit from these results in better understanding the specific demand that taxpayers have for different tax professionals. As the professional roles of the different tax professionals has blurred, these results can help clarify a specific taxpayer's demand process.

A model that includes the four Stephenson constructs, when combined with covariates including client advocacy, is significant in explaining a taxpayer's choice of different tax professionals. While the results presented do not indicate support for the hypotheses, nonetheless, the responses indicate that the rationales for the different hypotheses were correct in three of the four Stephenson constructs and was correct in distinguishing planning and compliance contexts. This leads to the conclusion that

taxpayers do distinguish the roles that different tax professionals play. This is important for both the accounting and legal professions as they continue to define the roles they serve within society.

CHAPTER VII: FUTURE RESEARCH

This research begins the process for better understanding the roles of different tax professionals. Stephenson (2010) identified four constructs representing demand for a tax professional. Future research can further clarify the situations in which taxpayers demand different types of tax professionals. The scenarios described in this research (especially the biking scenario) did not allow the participants to understand the planning and compliance contexts. Scenarios that taxpayers are better able to relate to will give future research a greater chance to demonstrate significant results. This research used relatively sophisticated taxpayers as a sample. It is possible that use of different taxpayers would lead to different results.

The rationales behind the hypotheses appear valid with respect to three of Stephenson's constructs. Future research can build upon these rationales. Specifically, taxpayers find accountants to be more likely to demonstrate the role of conservatism as well as being better organized. Attorneys have better research and critical thinking skills and are better able to have privileged communication. The relative importance of each of these professional features can be flushed out.

The role of client advocacy in the context of the demand for a tax professional is of interest. Taxpayer's perceptions of their tax professional play an important role in effecting taxpayer choice. Within different tax contexts, it appears that these perceptions may mediate or moderate the choices of a tax professional. Future research can use client

advocacy as an independent variable in attempting to understand the role that these taxpayer perceptions play in the choice of a tax professional.

Further, the addition of more participants might provide greater power to the study. Of the one hundred and sixty initial participants, only eighty-eight correctly answered both manipulation check questions. Due to the nature of the scenarios and the challenges that this presented, the results may have been influenced by the number of respondents.

CHAPTER VIII: CONCLUSIONS

Taxpayers have different tax professional choices for tax advice. The motivation of the taxpayer in seeking professional tax advice can be time savings, money savings, accuracy, or protection from the IRS. A taxpayer may be motivated by more than one of these factors. Advice is sought in both planning and compliance contexts. This research leads to successful use of Stephenson's (2010) scale in identifying a taxpayer's motivation. This is the first study that applies her scale to a larger sample of taxpayers.

The ultimate choice of a taxpayer in choosing a specific tax professional is complex with many variables influencing the decision-making process. Demographics and impressions of the taxpayer, the context of the advice, and the specific scenario in which advice is sought are some of the factors that help us understand these taxpayer decisions.

Taxpayers perceive professional features such as organizational skills, research skills, critical thinking skills, and privileged communication to be different between tax accountants and tax attorneys. A model which includes key demographic criteria of taxpayers as well as the taxpayer's views on the professional's client advocacy is shown to be significant in determining whether a taxpayer chooses a tax accountant or a tax attorney in seeking tax advice.

The scenarios used in this research did not appear to resonate with the participants. This may have resulted in participants not fully understanding the nature of the tasks required. The manipulation of planning versus compliance could be

strengthened to allow participants the ability to determine the type of tax professionals they may prefer in these contexts. This is especially true for more sophisticated taxpayers. While the specific research conducted here did not provide significant results, many of the results and the rationales underlying the hypotheses appear to be in the right direction.

APPENDICES

APPENDIX A: Survey Instrument

Consent Form

Evaluating the Demand for Tax Professionals: Tax Accountants or Tax Attorneys

INFORMED CONSENT

Thank you for your interest in this research project. This study pertaining to the demand for a tax professional is being conducted by Leigh Rosenthal, PhD. student, and Dr. Julia Higgs, Associate Professor of Accounting, at Florida Atlantic University. Your participation is completely voluntary, and you are free to withdraw at anytime.

In this survey, you will first be asked questions to determine if you meet the profile of the type of taxpayer we would like as a participant. Some of these questions are related to your financial situation including your income level, investment choices, and investable assets. We ask these questions to screen participants. If you do not meet our profile, you will not be allowed to complete the survey. We will give you two tax scenarios which are representative of the types of tax situations that qualifying participants could potentially face. You will be asked to make some judgments related to those scenarios. We then ask questions about your views on tax issues and tax providers. It is important to note that whether a taxpayer uses a tax professional is solely the choice of a taxpayer. It is not required for any taxpayer to use the services of a tax professional. Further, using a tax professional may not fully protect a taxpayer from any errors of the tax professional or from any liability arising from the taxpayer's or tax professional's activities. You should be able to complete the tasks within 30 minutes. In the survey you will be asked questions to determine if you understood the facts that were provided in the scenario. If you don't complete these simple comprehension questions correctly, you cannot complete the survey. Participants who complete the study will be compensated according to the method identified by the external survey company.

The authors do not collect any personally identifying information about the participants. We are required to disclose any potential risks associated with university research. In this case, you may have some mental fatigue or discomfort from discussing your financial situation. At any time, you are free to leave the survey however, only those who complete the task will receive the compensation. The survey company collects names only to compensate participants.

The research has potential benefits to society in that the results may illuminate choices made by taxpayers. The benefits to the participants are thus indirect. Your personal benefits are limited to the compensation you will receive if you complete the study. You may also find it to be an interesting exercise as it has what the authors believe to be interesting scenarios for which you have to make some judgment.

The data of the study will remain completely confidential, unless disclosure of any information is required by law. The data will be maintained in a password protected

computer server managed by Qualtrics- Online Survey Software and Insight Program. The individual survey results will remain confidential and only the researchers will have access to the records, however we may provide data to editors of journals if the results are considered for publication. The researchers do not have access to identifying information of the participants. Only summarized data will be communicated externally. While every effort will be expended to ensure the security of the data, there are no absolute guarantees regarding the transmission of the data through third parties.

If you have questions, call or e-mail the investigators, Leigh Rosenthal at (407)-823-2964 (lrosent7@fau.edu) or Dr. Julia Higgs at (561) 297-3636 (jhiggs@fau.edu).

I consent I do not consent to participate in this research study

SCREENING QUESTIONS

The following questions help us to determine your experience with certain financial transactions and financial professionals. Our study hopes to better learn when individuals hire financial professionals.

Check all that apply:

I directly invest in the market by buying stocks and bonds.

I indirectly invest in the market through my retirement fund

I own investment (e.g. rental) real property

I invest excess funds in certificates of deposit, treasury bills or interest bearing accounts

I invest in jewelry, art, automobiles, etc. for purposes other than my own pleasure.

None of these apply (individual is removed from study)

How many trades did you make last year by buying stocks and bonds (including those that you made for your retirement funds)?

0

1-3

4-20

21-100

over 100

Do you own your own business?

Yes No

If yes, is this the primary source of your income?

Yes No

How many investment properties do you own?

0

1-3

4-7

7-15

over 15

Do you use the services of a financial planner on a regular basis?

Yes No

o you use the services of a tax professional? Check all that apply.

- Annual tax return preparation
- Estate and gift planning
- Tax planning and transaction structuring
- I use a tax professional for other reasons
- I do not use the services of a tax professional (exclude from survey)

Businesses often define individuals by investable net worth. For example, luxury car dealers will target customers with certain income or wealth levels.

Do you earn more than \$150,000 per year?

- Yes No (answer of no, the person exits the survey)

Do you have investable wealth of \$50,000 or more? (This excludes the value of your home, cars, and retirement accounts). This wealth may already be invested in other assets.

- Yes No (answer of no, the person exits the survey)

Do you have more than \$250,000 in a retirement account?

- Yes No

Are you a CPA?

- Yes No

Are you an attorney?

- Yes No

Introduction

You are being invited to participate in a research project conducted by Leigh Rosenthal, Ph.D. student and Julia Higgs, Ph.D. at Florida Atlantic University (FAU). The purpose of this research project is to investigate taxpayer decision making- specifically the choices made by taxpayers when seeking a tax professional for tax advice. The questionnaire will take about 20 to 30 minutes of your time. There are no anticipated risks associated with this study.

For the duration of this study, please adopt the role of a taxpayer who is seeking advice from a tax professional. Information about the professional and the specifics of the advice you are seeking will be given to you. You will be asked questions related to the advice and the professional who will give you the advice. You will also be asked a few questions about yourself to help categorize your responses.

Your participation in this study is voluntary. All information obtained during the course of this study will be collected using methods to ensure that your identity to the researchers is anonymous. You must be at least 18 years of age to participate in this study. If you decide to participate in this study, please understand that your participation is voluntary and you have the right to withdraw your consent or discontinue participation at any time without penalty. If you have **questions, concerns, or complaints, please contact: Leigh Rosenthal, Kenneth Dixon School of Accounting, College of Business Administration, (407) 823-2964, (Leigh.rosenthal@ucf.edu); or Dr. Julia Higgs, Faculty Supervisor, Florida Atlantic University, College of Business, School of Accounting, jhiggs@fau.edu.**

Questions or complaints about research participants' rights may be directed to the FAU Institutional Review Board (IRB). Research at FAU involving human participants is carried out under the oversight of the IRB. This research has been reviewed and approved by the IRB. For information about the rights of people who take part in research, please contact:

FAU Division of Research- IRB, 777 Glades Road, Boca Raton, FL 33431

By continuing, you are indicating that you understand the above and voluntarily consent to participate in the study.

{Scenarios will be randomized}

Scenario 1 (adopted from Cloyd and Spilker (1999))

Background Information

For the next portion of this study, please adopt the role of a taxpayer who plans to seek tax advice from a tax professional. Assume you have purchased real estate and need professional tax advice to determine the tax consequences of being considered an investor in real estate or a dealer in real estate. This classification is important because it may affect your taxable income and/or income tax determination.

In general, an investor in real estate generally reports capital gains and losses on the sale of their real estate holdings (capital assets). A dealer in real estate generally reports ordinary gains and losses on the sale of their real estate holdings (non-capital assets). There are different tax rates and different tax consequences that could apply to capital gains and losses as compared to ordinary gains and losses. From a tax perspective, sometimes you would prefer to be considered an investor in real estate (if the sale of the real estate results in a gain) and sometimes you would prefer being to be considered a dealer in real estate (if the sale of the real estate results in a loss).

Client Information (MANIPULATIONS)

PLANNING

Two years ago, you purchased a single parcel of 10 acres of undeveloped land. Other than the purchase of your personal residence, this is your first and only real estate purchase. At the time you were confident that the land would appreciate in value due to the planned construction of a regional shopping mall nearby. The land was zoned for “retail/commercial” and your intention was to sell the entire parcel in a single transaction after construction of the shopping mall began. Unfortunately, plans for the shopping mall have recently fallen through and you are unable to find a buyer for the entire parcel of property

Since you have been unable to sell the entire parcel, you are considering other options with respect to the property. In order to make the property more marketable you are considering subdividing the land into individual lots for residential development and then selling the individual lots. You are considering hiring an engineer to assist in subdividing the property into about 10 individual lots and to determine the location of streets, etc.

You have conducted some preliminary research to determine how to **plan** for this transaction. You learn that the tax treatment depends on whether you are considered to be a real estate dealer or a real estate investor. The determination of whether a taxpayer is a dealer or an investor with respect to a particular property is based on several factors. Some of these factors include the taxpayer’s purpose for acquiring the property, the taxpayer’s intent regarding the holding of the property, the amount of sales activity engaged in by the taxpayer with respect to the property, and the level of involvement of the taxpayer in the development and sale of the property. Tax authorities have stressed that no one factor is determinative and that each case must be individually evaluated on its own facts and merits.

This determination of whether a taxpayer is a dealer or investor is important because the tax rates on gains from the sale of property can be very different and the deductibility of losses from the sale of the property can also be very different.

Because you are not sure how to specifically **plan** for the transaction, you are seeking tax professional advice to help with your **planning** of the transaction.

A close business colleague has recommended either a tax accountant or a tax attorney. Both the tax accountant and tax attorney charge a comparable fee for the services provided. Both the tax accountant and tax attorney are well respected in the community and both have represented many satisfied clients who are engaged in real

estate transactions and both are considered knowledgeable about real estate and the tax consequences of real estate.

COMPLIANCE

Two years ago, you purchased a single parcel of 10 acres of undeveloped land. Other than the purchase of your personal residence, this is your first and only real estate purchase. At the time you were confident that the land would appreciate in value due to the planned construction of a regional shopping mall nearby. The land was zoned for “retail/commercial” and your intention was to sell the entire parcel in a single transaction after construction of the shopping mall began. Unfortunately, plans for the shopping mall fell through and you are unable to find a buyer for the entire parcel of property.

Since you were unable to sell the entire parcel, you considered other options with respect to the property. In order to make the property more marketable you decided to subdivide the land into individual lots for residential development and then sell the individual lots. You hired an engineer to assist in subdividing the property into about 10 individual lots and to determine the location of streets, etc. You are able to sell all of the lots in the current year.

You have conducted some preliminary research to determine how to **report** the tax consequences of this transaction. You learn that the tax treatment depends on whether you are considered to be a real estate dealer or a real estate investor. The determination of whether a taxpayer is a dealer or an investor with respect to a particular property is based on several factors. Some of these factors include the taxpayer’s purpose for acquiring the property, the taxpayer’s intent regarding the holding of the property, the amount of sales activity engaged in by the taxpayer with respect to the property, and the level of involvement of the taxpayer in the development and sale of the property. Tax authorities have stressed that no one factor is determinative and that each case must be individually evaluated on its own facts and merits.

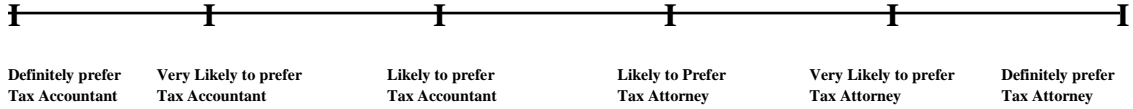
This determination of whether a taxpayer is a dealer or investor is important because the tax rates on gains from the sale of property can be very different and the deductibility of losses from the sale of the property can also be very different.

Because you are not sure how to specifically **report** this transaction, you are seeking professional tax advice to help with your **reporting** of the transaction.

A close business colleague has recommended either a tax accountant or a tax attorney. Both the tax accountant and tax attorney charge a comparable fee for the services provided. Both the tax accountant and tax attorney are well respected in the community and both have represented many satisfied clients who are engaged in real estate transactions and both are considered knowledgeable about real estate and the tax consequences of real estate.

Part 1- Dependent Variable

Considering the scenario you just read and using the scale indicated, please indicate your preference for seeking advice from a specific type of tax professional:



Part 2- Manipulation Check

Which is an accurate description of the scenario for which you were seeking tax advice:

_____ **You are seeking advice to help plan the transaction**

_____ **You are seeking advice to help report the transaction**

Scenario 2 (adopted from Bobek et al, 2010)

PLANNING

For two years, you have become increasingly active in off-road bicycle racing. You have participated in approximately 20 races. You have been nationally ranked by the National Off-Road Bicycle Association. This ranking has led to sponsorships that have provided you with bicycles, clothing and entry fees. Although you have won a few of the races you have entered, your expenses to date related to racing have exceeded your racing income.

You are anticipating continuing to enter races and you have conducted some preliminary research to determine how to **plan** for this transaction. You learn that the tax treatment depends on whether you are considered to be engaged in a business or a hobby. If considered to be engaged in a business, any losses from the activity would be deductible on your tax return. If the activity is considered to be a hobby, you are restricted to the amount of expenses you can deduct. Case law has determined that taxpayers who are engaged in an activity for profit are considered to be conducting a business. Treasury Regulations provide guidance regarding when an activity is considered to be engaged in for a profit and include relevant factors including the manner in which the taxpayer carries on the activity, taxpayer expertise, the time and effort expended, and the success of the taxpayer.

Because you are not sure how to specifically **plan** for the transaction, you are seeking tax professional advice to help with your **planning** of the transaction.

A close business colleague has recommended either a tax accountant or tax attorney. Both the tax accountant and tax attorney charge a comparable fee for the services provided. Both the tax accountant and tax attorney are well respected in the community and both have represented many satisfied clients who are engaged in both business and hobby activities. Both of the professionals are considered knowledgeable about the tax consequences of business and hobbies.

COMPLIANCE

For two years, you have become increasingly active in off-road bicycle racing. You have participated in approximately 20 races. You have been nationally ranked by the National Off-Road Bicycle Association. This ranking has led to sponsorships that have provided you with bicycles, clothing and entry fees. Although you have won a few of the races you have entered, your expenses to date related to racing have exceeded your racing income.

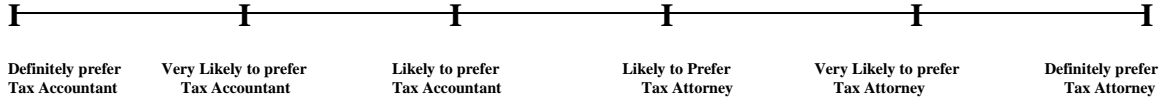
You are anticipating continuing to enter races and you have conducted some preliminary research to determine how to **report** the tax consequences of this transaction. You learn that the tax treatment depends on whether you are considered to be engaged in a business or a hobby. If considered to be engaged in a business, any losses from the activity would be deductible on your tax return. If the activity is considered to be a hobby, you are restricted to the amount of expenses you can deduct. Case law has determined that taxpayers who are engaged in an activity for profit are considered to be conducting a business. Treasury Regulations provide guidance regarding when an activity is considered to be engaged in for a profit and include the manner in which the taxpayer carries on the activity, taxpayer expertise, the time and effort expended, and the success of the taxpayer.

Because you are not sure how to specifically **report** this transaction, you are seeking professional tax advice to help with your **reporting** of the transaction.

A close business colleague has recommended either a tax accountant or tax attorney. Both the tax accountant and tax attorney charge a comparable fee for the services provided. Both the tax accountant and tax attorney are well respected in the community and both have represented many satisfied clients who are engaged in both business and hobby activities. Both of the professionals are considered knowledgeable about the tax consequences of business and hobbies.

Part 1- Dependent Variable

Considering the scenario you just read and using the scale indicated, please indicate your preference for seeking advice from a specific type of tax professional:



Part 2- Manipulation Checks

Which is an accurate description of the scenario for which you were seeking tax advice,:

_____ You are seeking advice to help plan the transaction

_____ You are seeking advice to help report the transaction

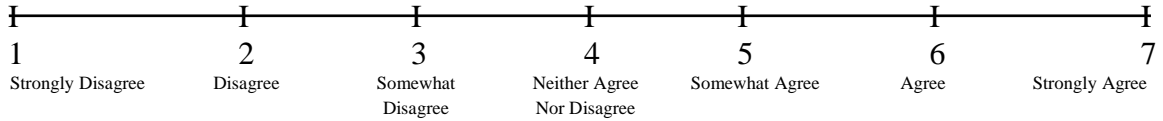
Part 3

In general, please describe the reason(s) why you are motivated to seek professional tax advice

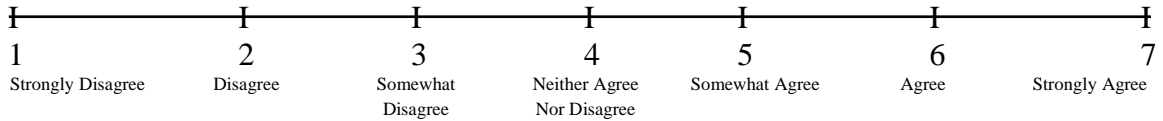
Part 4 – Stephenson Scale (co-variates)

In general and in thinking about any potential tax issues and return preparation by a tax practitioner that is required, please answer the following questions:

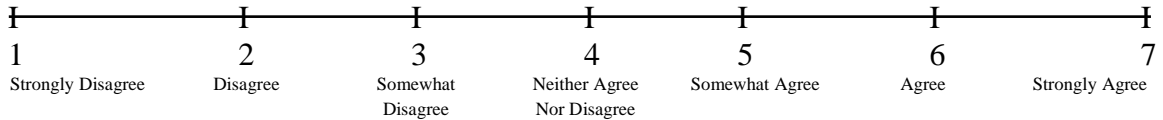
1. It takes so long to do my tax return, I would rather let the tax practitioner handle it.



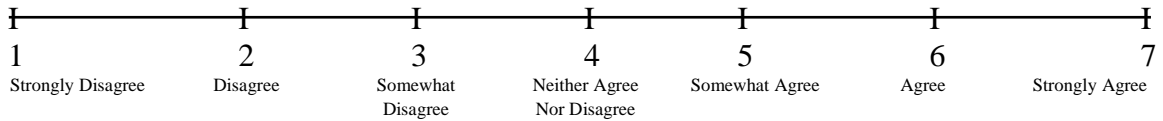
2. I have my taxes prepared by the tax practitioner, because I don't have time to do it myself.



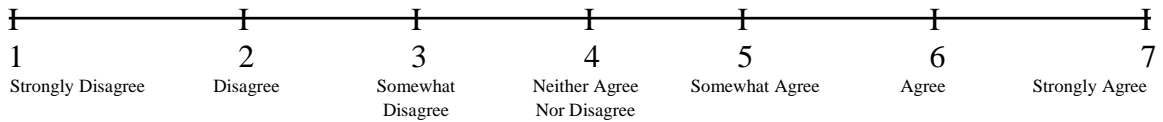
3. I have my taxes prepared by the tax practitioner, because I am too busy to do tax returns.



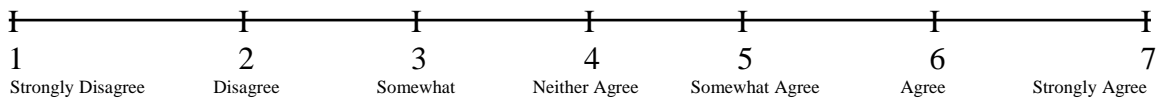
4. I would rather pay the tax practitioner and spend less time on my taxes.



5. I have my taxes prepared by the tax practitioner and although it costs me money, it saves me valuable time.

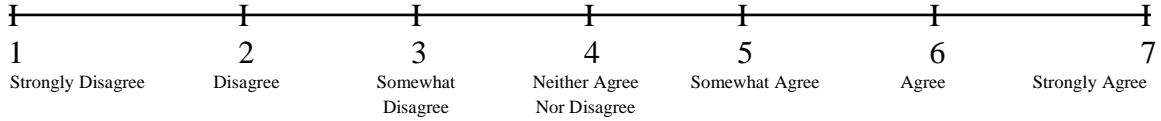


6. It is okay to pay a little more to have the tax practitioner prepare my taxes as long as it doesn't take my time.

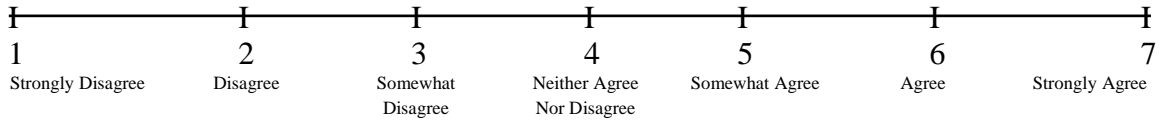


Disagree Nor Disagree

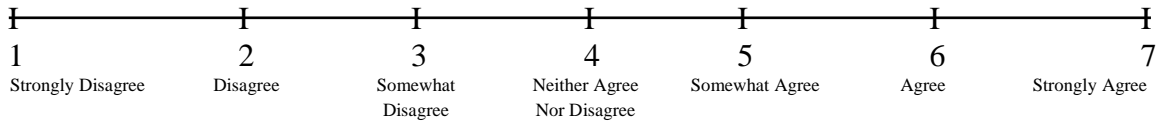
7. It takes so long to read the instructions and tax forms, it's easier to have the tax practitioner take care of those things.



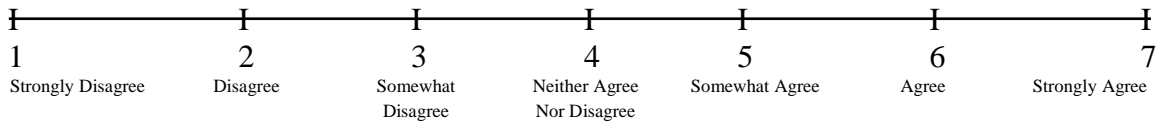
8. If I prepare my own taxes, I would have to spend a lot of time finding the right tax forms and researching things.



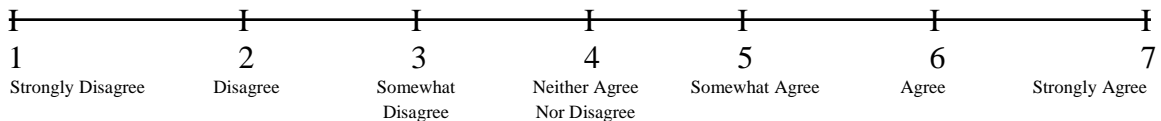
9. The IRS won't prosecute me personally if the tax practitioner is wrong about something.



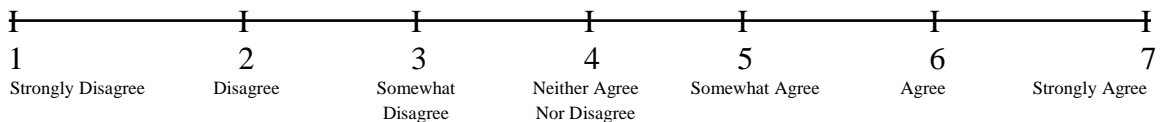
10. If I paid enough to have my taxes prepared, I could end up without any tax liability.



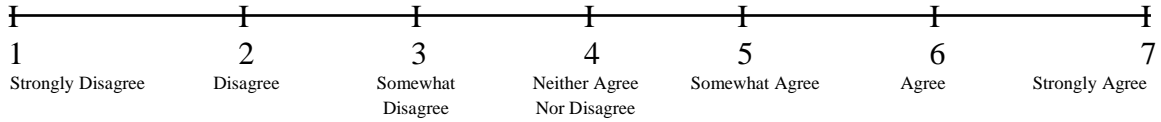
11. When the tax practitioner signs my return, that means I am not responsible for mistakes on it.



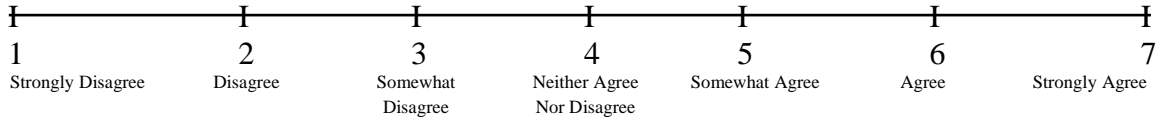
12. I have my taxes prepared by the tax practitioner so that if the IRS questions it, I won't be the one who gets in trouble.



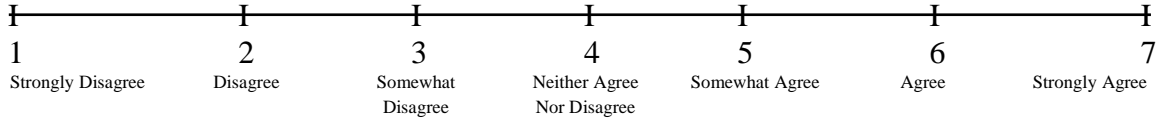
13. I have my taxes prepared by the tax practitioner so that I know I'll never have to face the IRS.



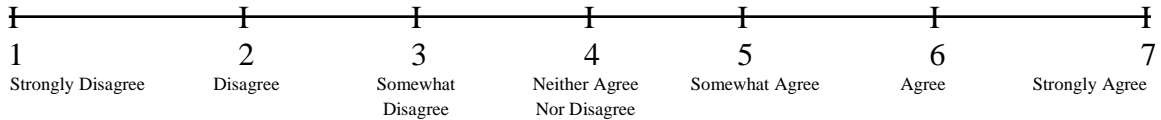
14. It is okay to skip a tax deduction or two as long as it means I'll not be audited.



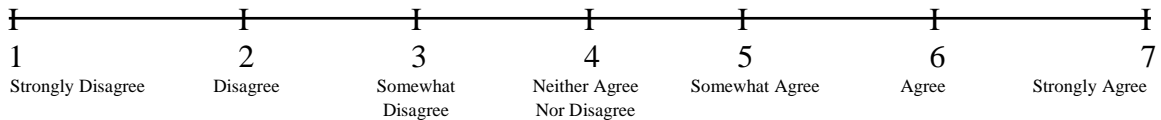
15. The tax practitioner saves me money.



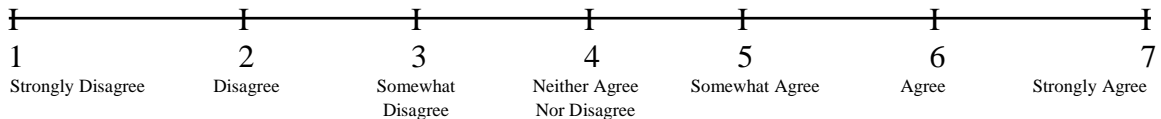
16. Even though I pay the professional a fee for services, I come out ahead financially with the tax practitioner.



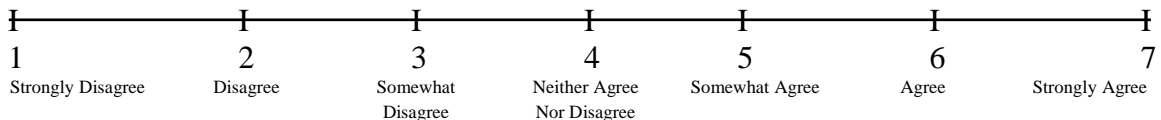
17. Using the tax practitioner will reduce my tax bill.



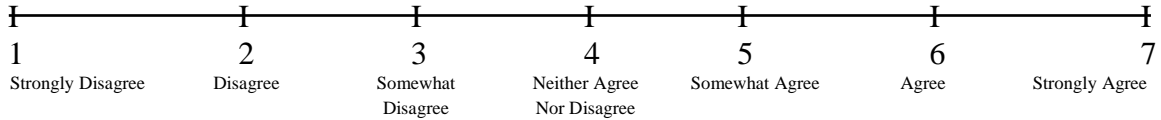
18. I have my taxes prepared by the tax practitioner, because it saves me money overall.



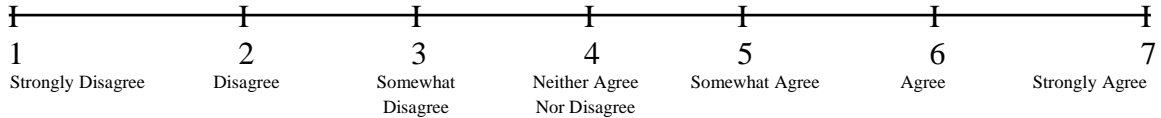
19. Using the tax practitioner will help me to obtain a refund.



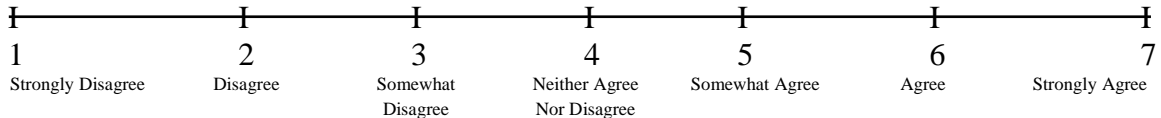
20. I have my taxes prepared by the tax practitioner so I can pay the lowest tax amount allowed under the current law.



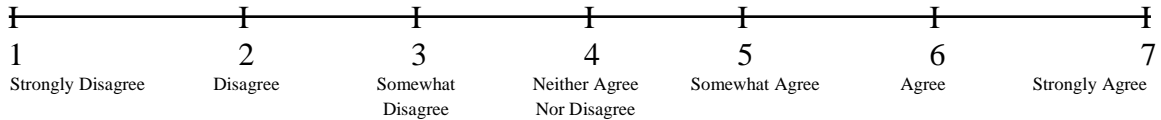
21. I would rather be protected from penalties than save money on my taxes



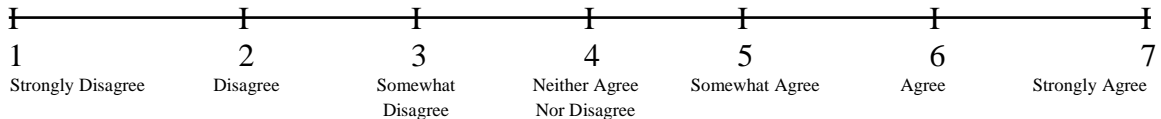
22. I would rather pay a little more in taxes and ensure I haven't broken any laws.



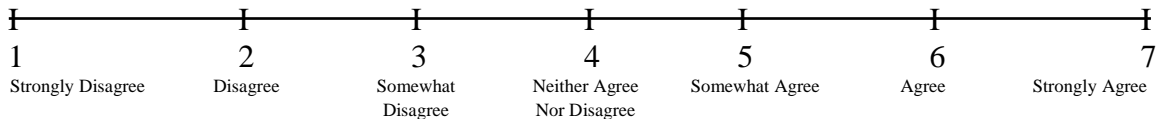
23. I would rather be protected from penalties than save money on tax preparation charges.



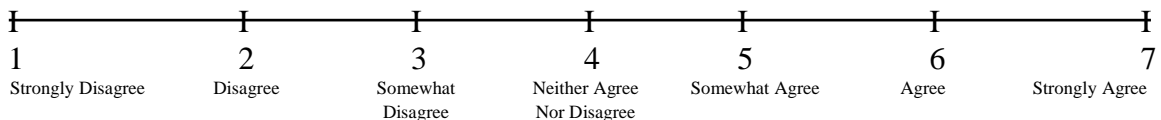
24. I expect the tax practitioner to advise me not to take deductions that fall into ambiguous areas of the law.



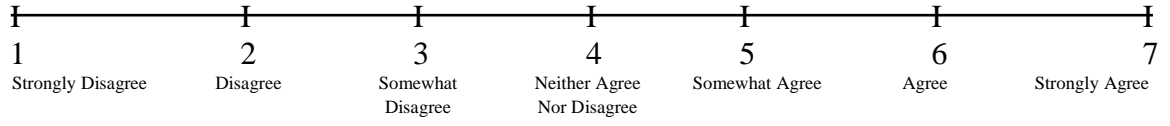
25. I have my taxes prepared by the tax practitioner because it is important to me that I pay exactly what I am supposed to in taxes.



26. The advice I receive from the tax practitioner should be conservative.



27. I don't want to pay too much or too little on my taxes.



Part 5- General Impressions

Using the following scale, please indicate your general response to the question;

(Slider scales)

1. Which of the professionals do you believe is most likely to help you prepare an accurate return?

I-----I-----I-----I-----I-----I
Tax Accountant Tax Attorney

2. Which of the professionals do you believe is best able to represent you before the IRS if there was an issue with the position taken?

I-----I-----I-----I-----I-----I
Tax Accountant Tax Attorney

3. Which of the professionals do you believe is most likely to help you minimize your taxes?

I-----I-----I-----I-----I-----I
Tax Accountant Tax Attorney

4. Which of the professionals do you believe is most likely to help you save time?

I-----I-----I-----I-----I-----I
Tax Accountant Tax Attorney

5. Which of the professionals do you believe has better critical thinking skills?

I-----I-----I-----I-----I-----I
Tax Accountant Tax Attorney

6. Which of the professionals do you believe is most likely to reflect conservatism

I-----I-----I-----I-----I-----I
Tax Accountant Tax Attorney

7. Which of the professionals do you believe has better organizational skills?

I-----I-----I-----I-----I-----I

Tax Accountant

Tax Attorney

8. Which of the professionals do you believe has better research skills?

I _____ I _____ I _____ I _____ I _____ I
Tax Accountant **Tax Attorney**

9. Which of the professionals do you believe is more knowledgeable on tax matters?

I _____ I _____ I _____ I _____ I _____ I
Tax Accountant **Tax Attorney**

10. Which of the professionals do you believe is better able to protect the public good?

I _____ I _____ I _____ I _____ I _____ I
Tax Accountant **Tax Attorney**

11. Which of the professionals do you believe is better able to have privileged communication?

I _____ I _____ I _____ I _____ I _____ I
Tax Accountant **Tax Attorney**

Mason and Levy Client Advocacy Constructs

12. Which of the professionals do you believe is most likely to point out reasonable positions that could have been taken to minimize tax liability

I _____ I _____ I _____ I _____ I _____ I
Tax Accountant **Tax Attorney**

13. Which of the professionals do you believe thinks the taxpayer has the right to structure transactions in ways that yield the best tax result, even if the law is unclear in an area

I _____ I _____ I _____ I _____ I _____ I
Tax Accountant **Tax Attorney**

14. Which of the professionals do you believe thinks it is important to use trends in the law by trying to establish a pattern of more favorable treatment for the taxpayer and then extending this pattern to the taxpayer's position

I _____ I _____ I _____ I _____ I _____ I
Tax Accountant **Tax Attorney**

15. Which of the professionals do you believe thinks it is important to interpret unclear/ambiguous laws in favor of the taxpayer?

_____ I _____ I _____ I _____ I _____ I
Tax Accountant Tax Attorney

16. Which of the professionals do you believe thinks that where no judicial authority exists with respect to an issue, the taxpayer is entitled to take the most favorable tax treatment

_____ I _____ I _____ I _____ I _____ I
Tax Accountant Tax Attorney

17. Which of the professionals do you believe thinks they should apply ambiguous tax law in the taxpayer's benefit

_____ I _____ I _____ I _____ I _____ I
Tax Accountant Tax Attorney

18. Which of the professionals do you believe thinks that their primary obligation is to the tax system, then to the taxpayer

_____ I _____ I _____ I _____ I _____ I
Tax Accountant Tax Attorney

19. Which of the professionals do you believe thinks that it is important to encourage taxpayers to pay the least amount of taxes possible?

_____ I _____ I _____ I _____ I _____ I
Tax Accountant Tax Attorney

20. Which of the professionals do you believe thinks that in an instance where no judicial authority exists with respect to an issue and where the Internal Revenue Code and Regulations are ambiguous that the taxpayer is entitled to take the most favorable tax treatment

_____ I _____ I _____ I _____ I _____ I
Tax Accountant Tax Attorney

Part 6 Ranking scales

In thinking about the following characteristics of tax professionals in general, please rank these characteristics with 1 being the most important and 10 being the least important (Presented in random order)

Tax Accountant

- _____ Research skills
- _____ Critical Thinking Skills
- _____ Ability to Save the Taxpayer Money
- _____ Ability to Save the Taxpayer Time
- _____ Ability to Assist the Taxpayer with IRS Audits
- _____ Ability to Protect the Taxpayer from the IRS
- _____ Ability to Prepare Accurate Tax Returns
- _____ Ability to protect the Public good
- _____ Ability to be a client advocate
- _____ Ability to engage in privileged communication

Tax Attorney

- _____ Research skills
- _____ Critical Thinking Skills
- _____ Ability to Save the Taxpayer Money
- _____ Ability to Save the Taxpayer Time
- _____ Ability to Assist the Taxpayer with IRS Audits
- _____ Ability to Protect the Taxpayer from the IRS
- _____ Ability to Prepare Accurate Tax Returns
- _____ Ability to protect the Public good
- _____ Ability to be a client advocate
- _____ Ability to engage in privileged communication

Part 7- Risk Scale

If you were evaluating a potential tax deduction for your individual tax return, how certain would you want to be of your tax position before taking a deduction?

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

[Slider]

If you were evaluating a potential tax deduction for your individual tax return and engaged a paid tax preparer for assistance, how certain would you want your paid preparer to be of your tax position before taking a deduction?

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

[Slider]

Part 8- Demographic Questions

What is your age?

- Under 25
- 25-35
- 36-45
- 46-55
- 56-65
- 66+
- prefer not to answer

What is your gender?

- Male
- Female

What is your highest level of education?

- High school or equivalent
- Associate
- Bachelors
- Masters
- PhD/ J.D.
- Other

What is your annual Household income?

- \$100,000 or below
- \$100,000 - \$250,000
- \$250,000 - \$500,000
- \$500,000 - \$1,000,000
- Above \$1,000,000
- Prefer to not answer

Do you have any children?

- No
- Yes

If you do have children- what are the ages? Please check all that apply.

- Under 5
- 5-20
- Over 20

Have you ever been contacted by the IRS requesting additional information?

- Yes
- No
- Prefer not to answer

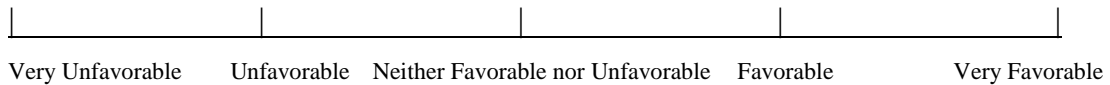
Have you ever been audited by the IRS?

- Yes
- No
- Prefer not to answer

Do you have any experience with attorneys (such as being involved in a lawsuit or seeking professional advice from an attorney)?

- Yes
- No
- Prefer not to answer

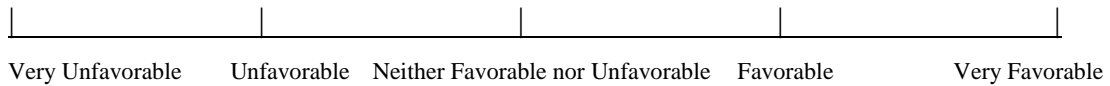
If yes, what was your general impression of the experience?



Do you have any experience with tax attorneys (such as planning or compliance)?

- Yes
- No
- Prefer not to answer

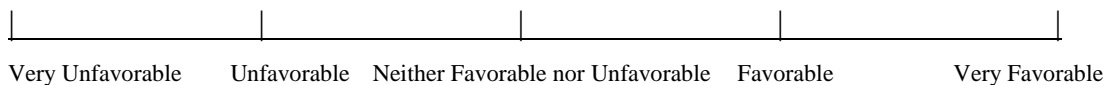
If yes, what was your general impression of the experience?



Do you have any experience with a CPA on tax matters (such as return preparation or planning)?

- Yes
- No
- Prefer not to answer

If yes, what was your general impression of the experience?



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