

A QUALITATIVE STUDY OF CUSTOMER SATISFACTION
ON HOW TAXPAYER ANXIETY UNDER TAX INVESTIGATION IS RELIEVED
FROM THE LIVED EXPERIENCES OF TAX ACCOUNTANTS:
AN INTERPRETATIVE PHENOMENOLOGICAL ANALYSIS

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DECLARATION

This work has not previously been accepted in substance for any degree and is not being concurrently submitted in candidature for any degree.

Signed NG Kwok Yin..... (candidate)

Date 28 June 2025.....

STATEMENT 1

This thesis is the result of my own investigations, except where otherwise stated. Where correction services have been used the extent and nature of the correction is clearly marked in a footnote(s). Other sources are acknowledged by footnotes giving explicit references. A bibliography is appended.

Signed NG Kwok Yin..... (candidate)

Date 28 June 2025.....

STATEMENT 2

I hereby give consent for my thesis, if accepted, to be available for deposit in the University's digital repository.

Signed NG Kwok Yin..... (candidate)

Date 28 June 2025.....

Abstract

Using the Interpretative Phenomenological Analysis (IPA) methodology, this qualitative phenomenological research focused on the relief of taxpayer anxiety by tax accountants in defending tax investigations, while ensuring customer satisfaction, in the context of people-based professional services in Hong Kong. Customer satisfaction was assessed by the customer satisfaction measurement tool, which is called SERVPERF (service performance) in the three dimensions of responsiveness, reliability and empathy in this study. The IPA methodology used in this study included IPA's foundation pillars of interpretative phenomenology and ideography.

Interpretative phenomenology involves interpreting the research data representing the phenomena of taxpayer anxiety, relief thereof and customer satisfaction. Ideography involves interviewing by the researcher face-to-face with the individual participants, who were ten tax accountants, each having a minimum of 20 years of tax investigation experience, to gather their firsthand experience in relieving taxpayer anxiety in defending tax investigations while achieving customer satisfaction. The research data was gathered by using semi-structured questions prepared beforehand, complemented by follow-up queries posed during individual interviews. Practical contribution of the study was formulation of guidelines for tax accountants in Hong Kong to serve clients in defending tax investigation while ensuring customer satisfaction. Theoretical contributions on the dimensions of the measurement of customer satisfaction in people-based professional service were discussed. A limitation of this study was the absence of participation from taxpayers who underwent tax investigations, which might have unpleasant experiences.

Keywords

#TaxpayerAnxiety #TaxAccountants #CustomerSatisfactionInPeople-basedProfessionalService #InterpretativePhenomenologicalAnalysis #TaxMorale
#TaxInvestigation

ABBREVIATIONS

DBA – Doctor of Business Administration

DIPN – Departmental Interpretation and Practice Notes of IRD

ECT – Expectation Confirmation Theory

IPA – Interpretative Phenomenological Analysis

IRD – Inland Revenue Department of Hong Kong

SERVPERP – Service performance

SERVQUAL – Service quality

VAT – Value added tax (a tax on the sale value of goods)

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[55,196 words]

CHAPTER ONE - INTRODUCTION

Section A – Introduction

Section B – Research problem statement and research gap

Section C – Research aim, research objectives and research questions

Section D – Significance

Section E – Research paradigms, theoretical and conceptual frameworks, and
sampling

Section F – Methodology

Section G – Assumptions and limitations

Section H – Structure of the dissertation

Section A – Introduction

The researcher has been working in the field of taxation for 40 years in Hong Kong, providing professional services, which include defending tax investigations on behalf of taxpayer clients. Taxation services are fundamentally people-based professional services. During meetings with clients to defend tax investigations, the researcher observed that clients often exhibited anxiety and common complaints of insomnia during the investigation period. The researcher has for years noted that taxpayers under tax investigation experienced significant worries and anxiety. In addition, the

taxpayer clients always asked when the tax investigation will be completed and the possibility of imprisonment. Yet, the researcher did not have a chance to understand what exactly had caused the taxpayer clients anxious. This research aims to investigate the causes of taxpayer anxiety and evaluate how tax accountants in Hong Kong is able to relieve the taxpayer anxiety in serving their clients to achieve customer satisfaction, as there have been, to the knowledge of the researcher, rare instances of grievances from taxpayers engaging tax accountants in defending tax investigations. To maintain rigor in research, taxpayer anxiety must be evidenced to be present by established medical standards and customer satisfaction, by an objective customer satisfaction measurement tool called SERVPERF (service performance). Moreover, the study of customer satisfaction is pivotal for marketing scholars, as satisfied and loyal customers tend to make repeat purchases, thereby increasing sales revenue or service fees (Taylor & Baker 1994; Bowen & Chen 2001; Chiu et al, 2012). In practice, tax accountants who deliver satisfactory services often receive client referrals. It follows that the aims of this research are to examine taxpayer anxiety and the ways the tax accountants, in receiving taxpayer anxiety, achieve customer satisfaction. Thus, the taxpayer anxiety is a problem area for research.

For the approach and methods to conduct this research, this research employed qualitative approach and through face-to-face interviews with 10 tax accountants who are called Participants. From the study of extant literature, anxiety is caused by uncertainty of the future events (Strongman, 1995; Miceli & Castelfranchi, 2005). On the question of finding out how the taxpayer anxiety was relieved by the tax accountants, the researcher took fact-to-face meetings with the 10 Participants with semi-structured questions prepared beforehand, for the purpose of exploring their firsthand lived experiences with the taxpayers by gathering in-depth, rich and nuanced

data from them, each of whom possessed a minimum of 20 years of experience in tax investigations. To assess the customer satisfaction performance of the tax accountants, a customer satisfaction measurement tool called SERVPERF (service performance) was utilized. The SERVPERF (service performance) tool was developed by the marketing academics (Parasuraman et al, 1985), which measures customer perceptions of service quality, focusing on the actual perceived performance of a service, rather than comparing the expectations of customers prior to the performance of the service and the performance actually perceived (Adil et al, 2013).

Section B - Research problem statement and research gap

The research problem focuses on why the taxpayers under tax investigation experienced anxiety and in what ways the taxpayer anxiety was relieved by the tax accountants to achieve customer satisfaction. This research focused on tax investigation as a specialized function within the broader scope of tasks performed by tax accountants, which includes general tax consultancy, ensuring compliance through the filing of annual tax returns, and undertaking tax planning. This study highlighted the achievement of customer satisfaction by the tax accountants in the service of defending tax investigation on behalf of the taxpayer clients by the removal of any uncertainty which the customer taxpayers might face and providing effective solutions for issues encountered by them during the lengthy period of investigation. The research gap was on how the taxpayer anxiety was relieved by the tax accountants with customer satisfaction. Regarding tax anxiety in tax investigation, searching 4 data bases (ProQuest, EBSCO, Google search and ResearchGate) found no literature by inputting keywords of “taxpayer anxiety”, “tax investigation”, “tax fear” except

Fennel, C. C. and Fennell L. A. (2003), which discussed fear and greed in tax policy but not anxiety in tax investigation. Therefore, it is safe to say that there tends to be little or no research on the relief of the anxiety of taxpayers under tax investigation.

Taxpayers under tax investigation were anxious about the uncertainties during tax investigation. This anxiety was intensified by the fact that it is often the taxpayer's first experience with an Inland Revenue Department (IRD) investigation. In Hong Kong, it is uncommon for the same individual to be subject to a second tax investigation.

Section C - Research aim, research objectives and research questions

Research aims

This research aimed to study taxpayer anxiety during tax investigation, and the ways the tax accountants relieved taxpayer anxiety while achieving customer satisfaction.

Research objective

The research objective was to address the research problem where the taxpayers under tax investigation were anxious about the progress and results of the tax investigations, and the ways by which their anxiety was relieved by the tax accountants with satisfactory service.

Research questions

Following the research objectives, this research is guided by the following 3 research questions: -

Research Question 1: What are the symptoms and causes of taxpayer anxiety during a tax investigation?

Research Question 2: How is taxpayer anxiety relieved by the Participants with customer satisfaction?

Research Question 3: How is the achievement of customer satisfaction by the Participants demonstrated?

All these three questions are open questions, feasible to explore from the participants and relevant to the research aims. The purpose of Research Question 1 was to ascertain the existence of taxpayer anxiety in tax investigation, which is the essential element in this study. Research Question 2 was to understand and identify the ways by which the tax accountants relieved taxpayer anxiety to achieve customer satisfaction, which is feasible to obtain replies from the Participants. Achievement of customer satisfaction by the work of the tax accountants was assessed objectively by the customer satisfaction measurement tool called SERVPERF (service performance). Research Question 3 sought to prove taxpayers' satisfaction, which is significant because it indicated relief from taxpayer anxiety, and satisfaction with the tax accountants' service is the core and essential element of this study. Anxiety was relieved when the triggering event (tax investigation) was removed (Boschen et al, 2009). Evidence of taxpayers' satisfaction of the work done by the tax accountants demonstrated or supported the relief of anxiety during tax investigations.

Section D – Significance

This study holds significance in exploring and understanding the causes of taxpayer

anxiety and how the tax accountants could relieve taxpayer anxiety, while achieving customer satisfaction. After this research, the best way to serve taxpayers under tax investigation with customer satisfaction was formulated. As elaborated in Chapter 5 – Discussions and Conclusions, the best practices obtained from the tax accountants who took part in this study were formulated as to assist future tax accountants to serve taxpayer clients under tax investigations.

Section E – Research paradigms, theoretical and conceptual frameworks, and sampling

Research paradigms

Research paradigms offer the philosophical foundation for conducting research. There are two research paradigms: positivism and interpretivism, each employing quantitative and qualitative research methods respectively. Positivism advocates are of the view that knowledge is revealed from a neutral and measurable (quantifiable) observation of activity, action or reaction, that if something is not measurable in this way it cannot be known for certain and that anything that cannot be measured (that is quantified), is of little or no importance. Interpretivism advocates state that we can understand someone's reality through their experiences of their realities and proposed reliance on questioning and observation to discover or generate a rich and deep understanding of the phenomenon being investigated (University of Nottingham, 2025). This study, by adopting the interpretivism paradigm, aimed to explore the research aims and answer the research questions from the lived experience of the Participants in defending tax investigation for their clients and in the relief of the

taxpayer anxiety to achieve customer satisfaction.

Theoretical framework

There are three key areas in this study: **taxpayer anxiety** under tax investigation, **relief of taxpayer anxiety** and **customer satisfaction** achieved by the tax accountants in the relief of taxpayer anxiety. To address taxpayer anxiety, the definition and symptoms of anxiety adopted by the medical profession were used as they provided an objective standard to determine how taxpayers under tax investigation were experiencing anxiety. Employing an objective standard addresses a common concern that it is a limitation of the qualitative research approach that the latter may be subjective. For assessment of customer satisfaction, the Expectation Confirmation Theory posited by Oliver (1980) and the customer satisfaction measurement tool called SERVPERF (service performance) developed by Parasuraman et al (1985) were employed in this study. Customer satisfaction theory and customer satisfaction measurement tool provide an objective framework for assessing a tax accountant's performance to achieve customer satisfaction in defending tax investigation on behalf of their clients.

Initial conceptual framework

At the start of the study, the researcher expected that the tax accountants achieved customer satisfaction, by reference to the 5 dimensions of the customer satisfaction measurement (Parasuraman et al, 1985): namely, responsiveness, reliability, tangibles, assurance and empathy and by the experience and technical skill to deal with the IRD officers.

Post-study conceptual framework

After the research, it was found that out of the five dimensions of the customer satisfaction measurement (Parasuraman et al, 1985), only three are relevant for defending tax investigation: namely, responsiveness, reliability, and empathy because tangibles were not used by the Participants in defending tax investigation and assurance was not relevant as assurance refers to the assistance provided by the employees of the professionals whereas tax accountants commonly work alone in serving clients in defending tax investigation (Chapter 4 – Findings).

Sampling

Creswell (2013) stated the minimum number of participants for phenomenological research to be between 3 and 10 while Sim et al (2018) supported that for homogeneous samples, the number of participants ranging between 5 and 8 is adequate for qualitative research. In the context of interpretative phenomenological analysis (IPA), a sample size between 3 and 10 was sufficient (Smith et al, 2009; Sim, et al, 2019). This sample size of 10 in this research adhered to the standards for IPA research, as it examined a phenomenon among a group of homogeneous participants who have similar experiences of defending tax investigation.

Section F – Methodology

This study, which was based on interpretivism to explore the lived experience of the participants who were tax accountants defending tax investigation on behalf of their client, employed Interpretive Phenomenological Analysis (IPA) method to obtain the

participants' data to examine the symptoms and causes of the taxpayer anxiety under tax investigation and the ways adopted to relieve taxpayer anxiety by the tax accountants to achieve customer satisfaction.

The data for research was obtained from the 10 Participants who are purposively selected tax accountants, each of whom have at least 20 years of experience in tax investigation, which is intensive tax investigation experience. Their lived experiences formed the research data, which was the answers of the Participants to the semi-structured questions prepared beforehand, preceded with open questions, allowing flexibility in securing data from these Participants and then by follow-up questions to their answers. These interviews were recorded, interpreted, and themed. Since the semi-structured questions are orderly covered for the research questions on (a) taxpayer anxiety symptoms, (b) taxpayer anxiety causes, (c) relief of anxiety by tax accountants examined by quality customer satisfaction theories and customer satisfaction measurement tools and (d) demonstration of customer satisfaction achievement, coding and theming were done in an efficient manner, which aligned with the idea or recommendation that formal coding and theming are not compulsory in every case and reassembling could be done without coding (Yin, 2016, p.301). The interview data were reassembled, which was done by derived notes.

Alongside the qualitative approach, the Interpretive Phenomenological Analysis (IPA) methodology was adopted to conduct the research. The rationale for choosing IPA lied within its three core elements or foundation pillars: (a) understanding the phenomenon, (b) double interpretation or dual interpretation of the phenomenon, and (c) ideography of obtaining from each participant, in-depth, rich and nuanced data (Pietkiewicz and Smith, 2014). By understanding the phenomenon, the lived

experiences of the participants must be understood objectively first. Then, the interpretation process of IPA was often known as double hermeneutics or dual interpretation. It was because the participants make sense of their experience and accordingly, the researcher attempted to decode that meaning to make sense of what the participant wanted to express (Smith & Osborn, 2008 as in Pietkiewicz & Smith, 2014). IPA researchers try to understand what an experience (phenomenon or event) is like from the participant's perspective. Yet, the researcher is entitled to answer his or her own question: What and why is the participant trying to achieve this in his (the participant's) or her saying? IPA data analysis includes examining each participant's data, theming each participant's data and conducting an overall analysis of all participants' data. Analysis of each participant's data is manageable because of the limited number of participants in research, making nuanced data analysis feasible. Thus, the IPA was adopted in this study. As for the ideograph characteristic of IPA, each participant was interviewed, and the interview record formed the research data. The data of each of the participants was analyzed.

To measure customer satisfaction, the five dimensions of SERVPERF (service performance) (Parasuraman et al, 1985) were used as benchmarks, namely, responsiveness, reliability, tangibles, assurance and empathy. In the context of this study, servicing clients requires the work experience of the participants and technical skills to handle the IRD officers' enquiries and demands.

To illustrate and evaluate the quality service observed in this research, customer satisfaction theory developed by Olivia (1980) were referenced in this study. The data findings and data interpretation were thoroughly discussed in Chapter 4 – Findings.

Ethical and confidentiality considerations

The Participants were free to answer, decline, or withdraw from the interviews at any point. Participation in the interviews was voluntary, enabling the Participants to share their experiences freely with the researcher. The identity of the Participants was preserved as they were identified only by letters A to K, with J missing to avoid confusion between I and J. The identities of the taxpayers were not mentioned in the study.

The study did not involve direct contact with the taxpayers because the Participants could not disclose taxpayer clients' identities owing to their professional obligations to maintain client confidentiality. Instead, data was gathered from the Participants who had first-hand experience with taxpayer clients. Furthermore, to protect the Participants' anonymity, the Participants are referred to by code names or letters throughout this dissertation.

Richness and verbatim principle, and validity of data

During data collection, the researcher conducted face-to-face interviews with the Participants, adhering to the richness principle to gather comprehensive information. Participants shared their lived experiences freely, and all statements were recorded without regard to the researcher's personal views. The researcher documented the Participants' speeches and transcribed the interviews in their entirety on the day of the interview to ensure accuracy or prevent loss of memory. As guided by the verbatim principle, the exact data obtained would form the data of the research. Thus, the exact wordings of the Participants were quoted in Chapter 4 – Findings. The data

collected was validated through triangulation, which involved comparing participants' data against secondary sources, such as the data provided by each of the 10 Participants.

Section G – Assumptions and limitations

Assumption of accurate account of the lived experiences of the Participants

The researcher assumed that a minimum of 20 years' experience in tax investigation gained by the individual participants was intensive enough to form the data profile for this research. It is also assumed that the Participants were willing to disclose what they could remember from their experiences and give an accurate and honest account of their lived experiences. Methodologically, the researcher assumed that in-depth interviews with the Participants, with the semi-structured questions and follow-up questions on spot captured an accurate and honest account of the lived experiences of the Participants.

Researcher's positionality assumption

The researcher, with 20 years' experience in defending tax investigation, assumes that the semi-structured questions prepared before the interviews with the Participants were open questions and the follow-up questions during the interviews could obtain sufficient, accurate and honest account of the Participants' lived experiences.

Researcher's knowledge in the subject topic of the IPA research

A researcher should be knowledgeable in the subject matter of the IPA to conduct research (Pietkiewicz & Smith, 2014; Alase, 2017). For instance, Johnathn Smith, a prominent psychologist and an IPA advocate, conducted numerous research on the pains and illnesses of his patients. The researcher has more than 20 years of experience in defending tax investigations. Thus, the researcher is qualified to conduct this research.

Limitations

Common limitations in qualitative phenomenological research include small sample size, dependence on the participants' articulation in data collection and limited transferability in data interpretation. A specific limitation of this research is the restriction of preserving client confidentiality due to professional ethics; hence the Participants did not provide the contacts of the taxpayers for face-to-face interviews by the researcher. Furthermore, given the fact that experiences with tax investigations are generally unpleasant, taxpayers are understandably reluctant to engage in interviews. Consequently, locating and inviting taxpayers to share their personal experiences regarding tax investigations is challenging, if not impossible. To address this limitation, face-to-face interviews were conducted with the Participants who had first-hand experience of the taxpayers who felt anxious in defending tax investigations. The data obtained from these interviews with the Participants formed the research data of this study.

Section H – Structure of the dissertation

This dissertation comprises five chapters.

Chapter 1 introduces the research background, aims, objectives and questions, theoretical framework and conceptual theories, approach and methodology for conducting the research, and justification for using qualitative approach with interpretative phenomenological analysis (IPA) methodology. It also discusses the significance of the research, along with its limitations.

Chapter 2 presents a literature review that establishes the theoretical framework employed in the research. It addresses the concept of anxiety, outlines customer satisfaction theories, and introduces customer satisfaction measurement tools.

Chapter 3 details the research paradigms, research methodology, including phenomenology, design, approach, data collection, participant selection, sampling, interpretative phenomenological analysis (IPA) methodology and data credibility.

Chapter 4 presents the research findings, which address the three research questions on the symptoms and causes of taxpayer anxiety, the achievement of customer satisfaction by the participants in the relief of taxpayer anxiety and demonstration of customer satisfaction provided by the tax accountants.

Chapter 5 discusses the two new themes emerged from the study, namely, the formulated guidelines for tax accountants to serve clients under tax investigation with the goal of achieving customer satisfaction and the promotion of tax morale to curb tax evasion, and recommendations on future study regarding people-based professional services.

CHAPTER TWO – LITERATURE REVIEW

Section A – Introduction

Section B – Theoretical framework

Section C – Significance of literature review

Section A - Introduction

The research aims of this study are to examine taxpayer anxiety during tax investigation and explore how the tax accountants relieve the taxpayer anxiety to achieve customer satisfaction. By conducting an interpretive inquiry into these aims, this study would address the following research questions.

Research Question 1: What are the symptoms and causes of taxpayer anxiety during a tax investigation?

Research Question 2: How is taxpayer anxiety relieved by the Participants with customer satisfaction?

Research Question 3: How is the achievement of customer satisfaction by the Participants demonstrated?

The research methodology adopted in this research is Interpretative Phenomenological Analysis (IPA), which has been used by psychologists or medical doctors to study various illnesses and diseases, such as patients with ventricular assist

devices (Chapman et al, 2007); patients experiencing chronic fatigue (Dickson et al, 2008); the challenges faced by middle-aged adults, aged between 38 and 53, placed in nursing homes, people therein which are mostly old aged elderlies, after acquiring brain injuries (Dwyer et al, 2019); and patients with chronic benign low back pain (Smith & Osborn, 2006). Up to 2006, there were 52 articles on health psychology found to be conducted on illness by IPA (Joanna M. B. & Wearden A. J., 2006). In this research, there are three key areas: taxpayer anxiety, relief of taxpayer anxiety and customer satisfaction. This research was to explore on how taxpayer anxiety under tax investigation was relieved by the tax accountants, who are not psychologists or medical doctors but by satisfactory customer service. Thus, there appears to be a gap for research: taxpayer anxiety was relieved by tax accountants. This study sought to fill the research gap relating to the relief of taxpayer anxiety, which was achieved by customer satisfaction in serving the taxpayers under tax investigation by tax accountants.

With the three research questions in mind on the study of anxiety, together with customer satisfaction, customer satisfaction measurement tools, tax evasion, prevention of tax evasion by tax morale, and the underlying tax structure for promotion of tax morale, the researcher conducted extant literature review in the following 7 areas:

- (1) Nature, causes, relief and symptoms of anxiety,
- (2) Expectation Confirmation Theory (ECT) in the 1970s,
- (3) Customer satisfaction measurement model SERVQUAL (service quality) and its variant SERVPERF (service performance) developed from the 1980s,

- (4) Customers' input in purchase of service,
- (5) Determinants of a well-structured tax system,
 - (i) canons of taxation,
 - (ii) redistribution of income and wealth as a function of taxation
- (6) Determinants of tax evasion, and
- (7) Tax morale.

Section B – Theoretical framework

This section presents theories identified through literature review, which serve as the foundation for this study. Topics such as nature, causes, symptoms of anxiety, customer satisfaction theories and their development, as well as customer satisfaction measurement tools or models were researched upon. In addition, to offer an institutional perspective of tax collection and tax evasion, the five canons of taxation, determinants of tax evasion, and theories related to promoting tax morale to reduce tax evasion were also studied.

B1 – Anxiety

Nature of anxiety

Anxiety is defined as “an emotion characterized by feelings of tension, worried thoughts, and physical changes like increased blood pressure” (American Psychological Association, 2024; Michigan Technological University, 2024). Anxiety is considered a future-oriented, long-acting response broadly focused on a diffused threat. Anxiety involves fear or worries that they cannot control (Casarella, 2023). To

put the theory in context, taxpayer anxiety is a future-oriented, long-acting response broadly focused on the tax investigation they are facing, over which they have no control regarding its progress, duration and outcomes. Anxiety impacts daily activities (Lazarus, 1991). Anxiety leads to a sense of helplessness and helplessness turns the arousal into anxiety through the unavailability of plans or actions which worsen anxiety (Amstadter 2008; Starr & Davila 2012). That will further develop into desperation if the uncertainty is not removed for long (Strongman, 1995). Freud had two theories of anxiety and saw anxiety as (a) everyday phenomenon which is short-lived and requires no medical attention or treatment and (b) a way of explaining neuroses (Freud, 1917; 1926 in Strongman, 1995). Thus, Freud viewed anxiety, in one perspective, to be a common, short-lived experience in daily life (Freud 1917, 1926 in Strongman 1995), such as students feeling anxious during exams, which usually requires no medical treatment. However, when anxiety persists more than a short duration (for instance, students' anxiety during examination), anxiety disorder develops (Craske et al, 2009). When anxiety disorder lasts for more than 6 months, the illness is called general anxiety disorder (Tyrer & Baldwin, 2006).

Anxiety disorder

Anxiety disorder persists for longer periods and may need medical intervention (Craske et al, 2009). In this study, anxiety of taxpayers refers to anxiety disorder, as tax investigations can last for months or even over a year. Therefore, owing to the duration of the tax investigation period of 18 months on average (Chapter 4 – Findings), which is a long period, the term "anxiety" used in the dissertation title is to mean "anxiety disorder" and even "general anxiety disorder" when the illness goes on for more than 6 months as anxiety disorder and even general anxiety disorder because the terms in strict medical sense are less familiar to common people.

Generalized Anxiety Disorder (GAD)

Anxiety over six months is general anxiety disorder with symptoms of sleeping difficulty, unsatisfying sleep or impairment of social function, including avoiding human contacts (Tyrer & Baldwin, 2006). When anxiety persists or intensifies over a period of at least six months, Generalized Anxiety Disorder (GAD) is often diagnosed; in other words, a continuous intolerance of uncertainty for 6 months will develop into GAD (Gentes & Ruscio, 2021). In essence, GAD is characterized by constant, uncontrollable worrying (Johns Hopkins Medicine, 2024). The most prevalent symptoms of GAD include difficulty falling or staying asleep (insomnia), and an inability to relax. Yet, hypertension is not a symptom of anxiety or general anxiety disorder, but anxiety/GAD is likely to exacerbate hypertension, and it means hypertension will be improved when the anxiety or the triggering event for the anxiety is gone (DeMartini et al, 2019). Untreated GAD can lead to serious issues, and it has a strong correlation to coronary heart disease and sudden deaths (Kawachi et al, 1994). The likelihood of taxpayers experiencing anxiety disorders, or even GAD during tax investigations is imminent due to symptoms such as insomnia, avoiding meeting IRD officers, and uncertainty regarding additional taxes, penalties, potential imprisonment, and inability to resolve the uncertainty until the completion of the tax investigation, as the study found in Chapter 4 – Findings. Uncertainty of future events is the cause of anxiety (Strongman, 1995; Miceli & Castelfranchi, 2005)

Anxiety symptoms are professionally classified in medical profession (National Health Service (2022)). Noticeable symptoms for anxiety disorder include **insomnia**

(American Psychological Association 2024a; Michigan Technological University, 2024). Individuals with insomnia may have moderate anxiety disorder, necessitating medical attention and treatment. National Health Service (2022) identifies anxiety disorder symptoms to include difficulty of getting to sleep or staying asleep and **avoiding behaviour** where an individual may go to great lengths to avoid a situation, which they believe could induce anxiety. If anxiety persists after the triggering event (e.g. tax investigation) continues, it can develop into an anxiety disorder with symptoms of sleeping difficulties. Some clients of the Participants experienced insomnia and avoided meeting with IRD officers during the tax investigation period (Chapter 4 – Findings).

Causes of anxiety

Strongman (1995), in his article of “Theories of Anxiety”, gave a concise account of the various psychologists and academics on theories of anxiety and posited that uncertainty is the cause of anxiety. Izard (1977, 1991) viewed anxiety as being dependent on uncertainty (Izard, 1977, 1991 as in Strongman, 1995). Lazarus (1991) believes anxiety is characterized by uncertainty and existential threat (Lazarus, 1991 as in Strongman 1995). There is a significant association of intolerance of uncertainty with general anxiety disorder (GAD) (Gentes & Ruscio, 2021), which is developed after anxiety unresolved for 6 months and might result in potential health consequences for the taxpayers under tax investigation. Thus, uncertainty of future events is the cause of anxiety and if it persists for a period over 6 months, the persistence of anxiety over 6 months is the cause of GAD.

Relief of anxiety

Removal of the triggering events that cause anxiety might alleviate the tension. (Boschen et al, 2009). Anxiety disorder can potentially be treated and untreated anxiety disorders can pose serious effects on a person's wellbeing and social relationships (Mendlowicz & Stein, 2000). Anxiety can be relieved or alleviated when uncertainties created by the triggering events (tax investigation) are cleared. A decrease in hypertension may indicate a reduction in anxiety disorder and the resolution of the event that triggered the anxiety (DeMartini et al, 2019).

In summary, insomnia and avoiding meeting people are symptoms of anxiety and anxiety disorders, and that hypertension is related to anxiety in that anxiety exacerbates anxiety/GAD. The likelihood of taxpayers experiencing anxiety disorders, or even GAD during tax investigations is imminent due to symptoms such as insomnia, avoiding meeting IRD officers, and uncertainty regarding additional taxes, penalties, and potential imprisonment, and inability to resolve the uncertainty until the completion of the tax investigation (Chapter 4 - Findings). Anxiety can only be relieved or removed when uncertainties created by the triggering events (tax investigation) are cleared. A decrease in hypertension may indicate a reduction in anxiety disorder and there is cessation of the event that triggered the anxiety.

Taxpayers under tax investigation often suffer insomnia, a symptom common in anxiety, stress, fear, and depression. Although these four emotional illnesses share the same symptom of insomnia, their causes differ. Business management research studies have been conducted on stress, fear, and depression (Holmlund-Rytkönen & Strandvik, 2005; Pustovit et al, 2024; Colomba, 2005). Below gives a brief understanding of stress, fear, and depression to highlight that anxiety is distinct from

these other three emotional illnesses. Thus, the emotional illness of taxpayers under tax investigation is not stress, fear or depression.

Stress

Stress, which is recognized as both a human emotion and a subject of business management research (Haque et al, 2016; 2018), involves changes that affect nearly every body system and influence how individuals feel and behave. Stress is a normal response to everyday pressure but can become detrimental when it disrupts an individual's daily functioning. By inducing mind-body changes, stress directly contributes to psychological and physiological disorders and diseases, thereby affecting mental and physical health and reducing the quality of life (American Psychological Association, 2024b). Causes of stress are different from anxiety. Stress, which arises from changes and pressure on individuals, although they share the common symptom of insomnia (Matsuda & Kikutani, 2024).

Fear

Fear is a spontaneous, short-term response to a specific and identifiable threat. Kirkegaard (1844 in Strongman, 1995) distinguished fear from anxiety by stating that fear focuses on a real object which may cause physical harm, whereas anxiety is independent of a real object. A fearful person avoids the feared object, while an anxious person experiences uncertainty of the future. For an individual experiencing anxiety to continue living normally, this anxiety must be addressed and managed (Kirkegaard 1844 in Strongman, 1995). Fischer (1970 in Strongman, 1995) stated that

anxiety involves both an anxious experience and the perception of either oneself or another person being anxious (Fischer, 1970 as cited in Strongman, 1995). Anxiety is distinct from depression, which is a emotional illness, although they share similar symptoms, such as sleeping difficulties.

Depression

Depression is featured by a distinct persistent feeling of sadness and a loss of interest in previously enjoyed activities and patients with depression often experience low energy levels and diminished enthusiasm for hobbies and pastimes they once loved (Watson et al, 2019). Some individuals with depression may also have thoughts of self-harm. Depression can impair cognitive functions such as thinking and memory, and it can disrupt eating and sleeping patterns (Richardson & Adams, 2018).

Thus, anxiety disorder, which is caused by uncertainty and different from stress in nature, results from changes in daily work or life. It also contrasts with fear, which is triggered by a short-term identifiable real object threat with potential physical harm, and from depression, which is characterized by a persistent feeling of sadness and loss of interest in activities. Although all these mental illnesses share the common symptom of sleeping difficulties, anxiety is an emotion characterized by feelings of tension, worried thoughts, and physical changes such as increased blood pressure (American Psychological Association 2024a; Michigan Technological University 2024). Anxiety is a future-oriented, long-acting response broadly focused on a diffuse threat. It involves worry that individuals perceive to be beyond their control (Casarella 2023). Anxiety leads to feelings of helplessness, and this helplessness

transforms arousal into anxiety through the lack of available plans or actions, thus exacerbating further anxiety (Amstadter 2008; Starr & Davila 2012). If uncertainty persists for a prolonged period, it may worsen the sense of helplessness and escalate into General Anxiety Disorder (GAD) if the anxiety disorder remains unresolved for 6 months or more.

B2 - Expectation Confirmation Theory (ECT) in 1970s

Expectation Confirmation Theory (ECT)

Given customer satisfaction is one of the two key elements, apart from anxiety, in this research, it is essential to review the existing literature on customer satisfaction theory of Expectation Confirmation Theory (ECT). ECT, which was a conceptual theory for customer satisfaction proposed by Oliver (1980) who concluded that satisfaction occurs when performance delivered by good seller/service provider meets or exceeds expectations of the buyer of goods/services. ECT, originating in market research, explains customer satisfaction with the purchase and repurchase of goods and services. Dissatisfaction also plays a crucial role in assessing overall satisfaction or otherwise. Expectation Disconfirmation Theory (EDT) later emerged, also by Oliver (1993), focusing on whether expectations are met (confirmation) or not (disconfirmation). Satisfied customers are likely to repurchase, whereas dissatisfied ones are not. Client expectations are determined by their purchasing experiences, peers, social media, and influencers.

Expected Confirmation Theory (ECT) has been employed since 1980 in various research fields, including the study of the sale of durable and non-durable goods

(Churchill & Surprenant, 1982), sale of automobile repurchase (Oliver, 1993), camcorder repurchase (Spreng et al, 1996), restaurant service (Swan & Trawick, 1981), sale of photographic products (Dabholkar et al, 2000), business professional services (Patterson & Spreng, 1997), end-user information system satisfaction research (Au et al, 2002), E-commerce continuance decisions (Bhattacharjee, 2001) and evaluation of urban services (Van Ryzin, 2004). These studies indicate that more research was conducted on the sale of products compared to the provision of services.

However, there are limitations of the Expectation Confirmation Theory (ECT): -

- (a) Some customers either demand extremely high expectations or tolerate very low expectations (Shukla et al, 2023).
- (b) Some loyal customers may not notice improvements in service, such as enhanced information system performance compared to the initial stage (Premkumar & Bhattacharjee, 2008).
- (c) ECT assumes that expectations remain static, while in reality, a consumer's expectations can change over time with usage experience, knowledge gained, and influence from peers and social media (Bhattacharjee & Premkumar, 2004).
- (d) Some researchers have raised concerns regarding the timing of expectation measurement, suggesting that it should be conducted prior to purchase, as this aligns with the definition of customer expectation. However, identifying the prospective customer and ensuring they subsequently make the purchase poses significant challenges. Consequently, many researchers opt to measure expectations post-purchase and post-use, as it is more straightforward to identify individuals who have made purchases (Shukla et al, 2023).
- (e) Expectancy Confirmation Theory (ECT) suggests that a user's decision to repurchase or continue using a product is influenced by their previous usage

experiences. However, this theory may not apply to certain products or services that are typically purchased only once in a lifetime, such as cataract surgery or defending tax investigation. In these cases, consumers lack prior personal experience with these services providers. Selection of certain goods sellers or service providers is influenced by word-of-mouth recommendations of the consumer's peers, and not prior purchase by or consumption experience of the customer. Consequently, ECT does not adequately explain the factors influencing customers' selection of specific goods sellers or service providers.

- (f) Sale gifts could be the initiative for purchase and not past usage experience (Kang et al, 2009).
- (g) Reasons for purchase could be owing to habit, social influence, a need for uniqueness and purchase cost, apart from expectation. (Limayem et al, 2007).

Consumer decision-making regarding the purchase of products or services is influenced by factors beyond mere expectation. When expectation is not the primary motivator for a purchase, the discrepancy between expectation and actual performance cannot serve as an accurate measure of customer satisfaction.

One challenge associated with the ECT theory is the method to collect data to demonstrate expectations and performance. The method to collect data must be evaluated in terms of cost, accuracy, relevance, reliability, and practicality. Surveys are commonly utilized as a prevalent and straightforward method to collect data on expectations and performance. However, analyzing other data such as customer complaints, feedback, and both positive and negative word-of-mouth information, although more complex and time-consuming than surveys, offers valuable insights

that reflect consumers' experiences with products or services. Apparently, there was no method of objective standard collecting data on customer's expectation and performance to make use of the ECT theory.

Therefore, the crucial problem with the ECT theory was the lack of an objective standard for measuring customer satisfaction. This problem was resolved by Parasuraman et al (1985), who developed the customer satisfaction measurement tool known as SERVQUAL (service quality) and its variant SERVPERF (service performance).

B3 - Customer satisfaction measurement tool of SERVQUAL (service quality) and its variant SERVPERF (service performance)

Oliver (1980) posited a theory that customer satisfaction is a function of a client's expectations and the performance (or perception) of the goods seller/service provider. At that time, there was no model or tool to measure customer satisfaction. In 1985, academics in marketing, Parasuraman, Zeithaml, and Berry developed ten dimensions to measure customer satisfaction (Parasuraman et al, 1985). These dimensions included reliability, responsiveness, competence, access, courtesy, communication, credibility, security, understanding/knowing the customer, and tangibles. The scholars later identified similarities in some dimensions and reduced the ten dimensions to five: tangibles, responsiveness, reliability, assurance, and empathy, as introduced in the RATER Model (Zeithaml et al, 1990 p.135). These five dimensions, along with clients' expectations prior to purchasing goods/services and their final perception of the purchased goods/services, constitute the seven factors of customer satisfaction in the SERVQUAL (service quality) assessment (Parasuraman et al, 1988). The

SERVQUAL (service quality) assessment and the RATER Model have been highly regarded in the study of customer satisfaction, as Parasuraman, Zeithaml, and Berry published their research in 8 articles (Parasuraman et al, 1985, 1988, 1990, 1991a, 1991b, 1993, 1994a, 1994b). For nearly three decades from 1985 to 2013, 53 notable articles were published on SERVQUAL (service quality) and the RATER Model, along with articles by Parasuraman, Zeithaml and Berry (Mauri et al, 2013).

Parasuraman et al (1985) focuses on the purchase of products and services. However, the reasons for the purchase of goods may be different from the purchase of services. Research on customer satisfaction with the purchase of services and service quality has been rapidly expanding. Berry and Parasuraman (1993) provided a comprehensive discussion on the early development of the service field. By the late 1980s and early 1990s, service quality had become a prominent research topic in marketing. Berry (1983) viewed service quality as a relationship between the service provider and the service buyer, rather than merely a transactional purchase. Berry developed relationship marketing, which is based on repeated purchases of goods or services without significant recognition. In this study, relationship marketing is of limited relevance since professional services such as defending tax investigations are typically engaged on a one-time basis, with no repeated service generally required by the same client. It is rare in Hong Kong to have a second tax investigation by the IRD.

Parasuraman et al had conducted research on service quality as well since 1983 (Berry et al, 1988). In 1985, they highlighted the challenge of determining service quality, which hinges on customer expectations and perceptions, and cannot be measured as easily as products. Their goal was to create a model or tool for evaluating service

quality. As part of this effort, they undertook an exploratory investigation to develop a general service quality evaluation model applicable to various service companies (Parasuraman et al, 1985). They selected four service sectors: retail banking, credit card services, repair and maintenance services, and brokerage firms. The investigation involved conducting 12 focus group interviews with consumers and 14 in-depth interviews with executives from these sectors. From these discussions, involving consumers who had recent interactions with the service companies and the executives, they identified 10 constructs that serve as common determinants of service quality. These 10 determinants, which were listed in Table 1 of the article (Parasuraman et al, 1985), is reproduced below: -

The 10 dimensions include the following items: -

- (a) *Reliability* involving consistency of performance and dependability.
- (b) *Responsiveness* concerning the willingness or readiness of employees to provide service. It involves timeliness of service.
- (c) *Competence* meaning possession of the required skills and knowledge to perform the service.
- (d) *Access* involving approachability and ease of contact.
- (e) *Courtesy* including politeness, respect, consideration, and friendliness of contact personnel including receptionists and telephone operators.
- (f) *Communication* meaning keeping customers informed in language they can understand and listening to them.
- (g) *Credibility* involving trustworthiness, believability, honesty. It involves having the customer's best interests at heart.
- (h) *Security* meaning freedom from danger, risk, or doubt.

- (i) *Understanding/knowing* the customers involving making an effort to understand the customer's needs.
- (j) *Tangibles* including the physical facilities, appearance of personnel, tools or equipment used to provide the service.

Their general finding is that service quality is a comparison between customer's expectations and perceptions of the services received. If perceived service exceeds expectations, it is satisfactory. If not, it is unsatisfactory. The expectations and perceptions are based on or judged by the above 10 determinants.

Parasuraman et al (1985) summarized the findings of their exploratory investigation and identified the above 10 determinants of service quality. They cautioned executives, managers, and academics to be wary of incorporating too many new elements in service provision, as excessive novelty can be detrimental. Additionally, they advised against overpromising to customers, as this can raise expectations to unrealistic levels, leading to initial business gains but ultimately resulting in customer disappointment and reduced repeat business (Berry et al, 1985).

In 1988, Parasuraman et al advanced to the second stage of developing the SERVQUAL (SERVICE QUALITY scale as a tool for evaluating service quality measurement. They discovered that some of the initial 10 dimensions overlapped and subsequently reduced them to 5 dimensions: tangibles, reliability, responsiveness, assurance, and empathy. These 5 dimensions were found to be internally distinctive and less correlated with each other. The prioritization of these 5 dimensions was identified in the following order: (i) reliability, (ii) assurance, (iii) responsiveness, (iv) tangibles, and (v) empathy (Parasuraman et al, 1988) and described in the following ways:

Reliability – The ability to perform the promised service independently and accurately.

Assurance – The knowledge and courtesy of employees and their ability to convey trust and confidence.

Responsiveness – The willingness to help customers and to provide prompt service.

Tangibles – The physical facilities, equipment, personnel, and communication materials.

Empathy – The provision of caring, individualized attention to customers.

Empathy pertains to an understanding of the internal experiences and emotions of another person. It involves comprehending the client's situation and responding with compassion. On the other hand, sympathy relates to recognizing and feeling concern for someone else's trouble, grief, or misfortune. Sympathy is often a reaction to someone's personal crisis and involves feelings of sorrow toward them; whereas empathy is about attending to the specific needs of the client, whereas sympathy is about expressing concern and sorrow for their distress.

In the summer of 1990, Parasuraman et al, having expanded their study on service quality before 1990, summarized their 3 phases of study on improving service quality (Berry et al, 1990). In the first phase, through focus group interviews and in-depth interviews with executives and managers of service providers, they identified 10 dimensions of quality service. In the second phase, they surveyed nearly 1,000 customers from various service companies, including credit cards, long-distance telephone services, product repairs, and retail banking. From this, they identified 5

key dimensions of service quality: tangibles, reliability, responsiveness, assurance, and empathy, derived from the 10 dimensions in the first phase study. Finally, in the third phase, they addressed internal limitations from the previous phases and conducted a large-scale study focusing on service providers. Berry et al (1990) stated that “In this article we attempt to answer a fundamental question: What must every company interested in improving service do to actually improve it? We answer interns of five service imperatives: define the service role, compete for talent (and use it), emphasize service teams, go to reliability and be great at problem resolution”. As for the final dimension of problem resolution, customers tend to be impressed when problems are resolved quickly but dissatisfied when issues remain unresolved for an extended period (Berry et al, 1990).

The report highlighted the importance of resolution of clients’ problems with delivery of quality service. Customers were asked to give replies about problems encountered, problems resolved and recommend the service. The response of yes to “problem encountered” and yes to “problem resolved” received higher service quality than other respondents and give yes to “recommend the service”. That proved the importance of problem resolution in service provision or industry.

The terms pertaining to customer satisfaction, as used by Oliver and Parasuraman et al, generally refer to the same concept. Customer satisfaction is determined by the relationship between the customer's expectations and the supplier's performance (or the customer's perception of the service), while service quality involves comparing expectation and perception.

In December 1990, Parasuraman et al conducted service quality studies on 15

companies across various industries, including retail banking, credit card companies, repair and maintenance firms, brokerage firms, and a long-distance telephone company. They provided the following guidelines for conducting service quality research (Parasuraman et al, 1990):

(a) Measure service provider's performance against customers' expectations. The difference between the performance and expectation is the service quality gap, of which the service provider is to improve.

(b) Measure performance against competition. The service provider should be aware of its performance and reduce the gap between its own performance and the competitors.

(c) Measure the relative importance of service dimensions and attributes. The service provider should ask respondents of customers, managers, and front-line staff to rank the 5 dimensions of SERVQUAL (service quality) . In the study by Parasuraman et al, within a total of 100-point allocation, the 5 dimensions of SERVQUAL (service quality) rank with the priority of (i) reliability (32 points), (ii) responsiveness (22 points), (iii) assurance (19 points), (iv) empathy (16 points), and (v) tangibles (11 points).

(d) Conduct employee research in the internal service between the employees of a service provider. An employee within a service provider is also a customer of the internal operation within a company. The performance of the staff internally affects the performance of the service provider to the final customer.

(e) Conduct ongoing research. A study of the performance of a service provider shows only a snapshot of the service quality of the service provider at

one moment. Yet, the service quality of the service provider should be maintained on a going-concern basis.

(f) Service quality study can be conducted by qualitative and quantitative methods.

In 1991, Parasuraman et al refined the SERVQUAL (service quality) model and published a paper for a paper for “refinement and reassessment of the SERVQUAL (service quality) scale” (Parasuraman et al, 1991). They reported that since the development of the SERVQUAL (service quality) model in 1985, numerous studies conducted by various researchers have utilized this model to evaluate service quality, which demonstrated the general acceptance of the SERVQUAL (service quality) model in the academic circle. Additionally, they conducted their own study on service quality using the SERVQUAL (service quality) model across 3 types of services: telephone repairs, retail banking, and insurance. Following a pretest involving responses to questionnaires from a sample of 300 customers, they conducted a comprehensive survey that yielded 1,936 responses, achieving a return rate of 21%. In their study, they used the original 22-item SERVQUAL model, which encompasses two parts: expectation and perception. The expectation segment involved asking customers about the level of service quality they anticipated or what should be delivered by the service provider under the categories defined by the 22 items across 5 dimensions: *tangibles*, *reliability*, *responsiveness*, *assurance*, and *empathy*. Most customer responses were close to "strongly agree," with an overall mean expectation score of 6.2 on a 7-point scale ranging from “1 Strongly disagree” to “7 Strongly agree.” These replies validated that the 5 dimensions of tangibles, reliability, responsiveness, assurance, and empath are effective factors for measuring

customer satisfaction.

Berry et al (1990), having received feedback from managers, modified the two dimensions of "tangibles" and "assurance," to better capture the meaning of these dimensions. One original item under "tangibles," which stated, "The appearance of the physical facilities of telephone companies should be in keeping with the type of services provided," was revised to "Materials associated with the service (such as pamphlets or statements) will be visually appealing in an excellent telephone company." Additionally, an item under the original "assurance" category, which read "Telephone company employees should get adequate support from their companies to do their jobs well," was amended to "Employees in excellent companies will have the knowledge to answer customer questions" because customers could more meaningfully evaluate the knowledge of employees than behind-the-scenes support. In the study, customers were asked to provide feedback on the **importance priority** of the five dimensions. Participants were requested to allocate a total of 100 points across the five dimensions, and the results were summarized in Table 5 of the article as follows:

Mean Number of Points Allocated Out of 100 Points

Dimensions	All companies
Tangibles	11
Reliability	32
Responsiveness	23
Assurance	19
Empathy	<u>17</u>
Total	102

Numbers exceeding 100 owing to rounding.

Critiques of the 22-item SERVQUAL (service quality)

The 22-item SERVQUAL (service quality) was subject to critiques from Cronin and Steven (1992): -

- (a) Perceived service quality is a form of attitude, a long-term overall evaluation, whereas satisfaction is a transaction-specific measure (Bitner, 1990; Bolton & Drew, 1991; Parasuraman et al, 1988)
- (b) They concluded that the 22-item SERVQUAL (service quality) adequately defines the domain of the service quality, and they used the same 22 items in their study of the relationship amongst service quality, customer satisfaction and purchase intention. Yet, different service providers may have different focus of items under each dimension.
- (c) The study of the critiques supports that perceived service quality leads to satisfaction as proposed by Parasuraman et al. Satisfaction has a stronger and more consistent effect on purchase intention than service quality does.
- (d) Service quality of the highest level does not necessarily result in purchase intention. Factors such as convenience, price, or availability of the service can also play a significant role in enhancing purchase intention.
- (e) Managers and researchers may evaluate individual aspects of service quality for different service provision. Consequently, different items may be considered valuable by different service providers. Customers of different services may have a different interest in considering items under each dimension of customer satisfaction. This is understandable because there is no universal tool for evaluating customer satisfaction and service quality for different services and different customers.

Parasuraman et al (1994a) responded to the critiques of Cronin and Steven (1992): -

- (i) Their research provided a strong support for defining service quality as the discrepancy between customers' expectations and perceptions.
- (ii) SERVQUAL (service quality) is designed to measure perceived service quality, which is an attitude at a given point of time. SERVQUAL (service quality) is a tool to obtain a reading of the attitude level, not a statement about how that attitude level was developed.
- (iii) Customer service is a transaction-specific assessment (consistent with the customer satisfaction/dissatisfaction literature) whereas service quality is a global assessment (consistent with service quality literature). However, on careful reflection, they then believe that this distinction may be revised since some studies have modeled service quality as an antecedent of customer satisfaction. In Parasuraman et al (1988), they argued in favor of "customer satisfaction leads to service quality". In other words, the relationship between customer satisfaction and service quality was not settled by Parasuraman et al. The direction of causality between service quality and customer satisfaction is an important unresolved issue. Reality is that practitioners and press often use the terms service quality and customer satisfaction interchangeably.
- (iv) They identified two comparative norms for service quality assessment: desired service (the level of service a customer believes can and should be delivered) and adequate service (the level of service the customer considers acceptable). They acknowledged that this issue remains unresolved.
- (v) Parasuraman et al were strongly in favor of the multi dimensions, the 5 dimensions of the SERVQUAL (service quality) and was against the uni-

dimensionality of the tool proposed by the critique because

- (A) The significant regression coefficients in the 5 dimensions could be found for each of the 5 dimensions, indicating that each dimension has its own independence or specific value.
- (B) The 5 dimensions in SERVQUAL (service quality) tool provided relative importance of the 5 dimensions to management and critical information to the manager to identify service problem areas for improvement, for example, manager can identify reliability as the most critical to improve rather than tangibles.
- (C) Within each of the 5 dimensions, customers may fill in their items. Parasuraman et al (1991) suggested giving customers a definition of the 5 dimensions and asking them to fill in items in each of the dimensions the SERVQUAL (service quality) model.

Lee et al (1990) raised the following 3 questions: -

- (a) The authors favor the performance-based measures of service quality because it explains more of the variation in service quality than does the difference between expectation and performance. Service managers should therefore emphasize the performance perceived by customers, rather than the difference between perceived performance and customers' prior expectations. It follows that SERVPERF (service performance) only (and excluding data to be collected from clients' expectations) is preferable. The empirical reality is that customers' purchase intention is influenced by price, availability of service and not solely by the highest expectation.
- (b) Good service quality may not secure customers' purchase. Service quality is

an antecedent to customer satisfaction, and customer satisfaction has a significant impact on influence on purchase intention. Empirical evidence is that even though certain service providers could provide the highest quality, customers do not purchase. It is because the customer's intention to purchase is influenced not only by service quality but other factors such as price, availability, and convenience of getting the service. The service manager should be aware of this because merely the highest service quality may not be the sole factor in the customer's intention to purchase.

- (c) The service manager should differentiate between facility/equipment-based services and people-based services. Examples of facility/equipment-based services include automatic car washes and vending machines, whereas window cleaning and accountancy are considered people-based services. Facility/equipment-based services require a focus on “tangibles” and the maintenance or change of equipment or machines. In contrast, people-based services require attention to “responsiveness”.

In summary, the following matters are resolved regarding the customer satisfaction measurement model for SERVQUAL (service quality) and its variant SERVPERF (service performance) :

- (a) Olivia posited in 1980 the Expectation Confirmation Theory (ECT) that customer satisfaction is the discrepancy between customers' expectations and the performance of the service provider. When customers' perceived performance of the service provider or perception is greater than expected, the customer is satisfied with the service. If the perception by the customer is less than expected, the customer is not satisfied.

- (b) Parasuraman et al (1985), having taken research into some service companies, devised SERVQUAL (service quality) which is a model or tool to measure customer satisfaction, and which consisted of 10 dimensions of customer **expectation** as Part 1 and 10 dimensions of customer **perception** as Part 2. The difference between the 10 dimensions of expectation and 10 dimensions of perception is customer satisfaction. SERVQUAL (service quality) is a reliable model or tool to assess customer satisfaction.
- (c) After conducting research, Parasuraman et al reduced the 10 dimensions of SERVQUAL (service quality) to 5 dimensions in 1988: tangibles, reliability, responsiveness, assurance, and empathy. This reduction was made due to the overlapping among some of the original 10 dimensions, making it reasonable to eliminate the redundant ones. Each of the 5 dimensions contains items of coherency.
- (d) Therefore, the revised tool is known as a 22-item SERVQUAL (service quality) model with both the expectation and perception dimensions.
- (e) Subsequent research has demonstrated that the SERVPERF (service performance) model, which relies exclusively on customer perception or performance assessment, is a reliable and practical tool for measuring customer satisfaction, as affirmed by service managers. Furthermore, employing the SERVPERF (service performance) model addresses the pragmatic issue that often arises when it is not feasible to obtain the customer's expectations prior to purchase. This challenge is particularly evident in studies involving the professional service of defending tax investigation, where obtaining data from taxpayer customers regarding their expectations prior to engagement of the tax accountants can be difficult.
- (f) Parasuraman et al accepted that the number of items under each of the 5

dimensions can be varied to suit the research of study of a particular individual service provider. The 5-dimension, 22-item SERVQUAL (service quality) model is not a universally applicable tool for measuring customer satisfaction across all service sectors. The number of dimensions may be modified; for instance, in this study, the tangibles and assurance dimensions were dispensed with since there are no physical elements involved, and staff assistance is of minimal significance in the context of professional service of defending tax investigation. Furthermore, the number of items in each of the 5 dimensions may be increased or decreased to align with the distinct needs of various services.

(g) In certain situations, the actions of customers can influence customer satisfaction. Examples include patients in medical services, students in educational programs, gym members, and taxpayers during tax investigations. This is pertinent to this study on the relief of the taxpayer anxiety under investigation because tax accountants rely on information such as bank statements, financial statements, and business details, which are all provided by taxpayers (Chapter 4 - Findings).

(h) Resolution of customers' problems is important in customer satisfaction. Customers will be impressed when problems are solved shortly but at a loss when a problem is not resolved for a long time (Berry et al, 1990).

The terms of "customer satisfaction" and "service quality" are used interchangeably by researchers/academics and press. Thus, the difference between the two terms has been unresolved.

This study used SERVPERF (service performance) model of measuring customer

satisfaction among the taxpayers who were under tax investigation and who were assisted by the tax accountant Participants. The expectation part of SERVQUAL (service quality) was not employed because it was not possible or practical to seek the presence of the taxpayers to take part in the interviews and provide their expectation. Those taxpayers who had an unpleasant experience in defending tax investigation are not willing to participate in interviews and tell their bitter experience once again. The Participants are professionally obliged to keep confidentiality of the customers who cannot be present in this study. The dimension of tangibles in the SERVPERF (service performance) tool was not used because facility/equipment plays a very little or insignificant part in the service by the Participants. The assurance dimension was also not used because the job of defending tax investigation is mainly handled by the tax accountant with little staff assistance or staff assistance is of insignificant value.

From a review of extant literature, there is a customer satisfaction theory of relationship marketing and a customer satisfaction measurement tool of Kano model. They are briefly mentioned here with the reasons why they are not employed in the research.

Relationship marketing

In 1983, Berry, one of the pioneers of customer satisfaction theory, extended the study of customer satisfaction to relationship marketing, which focuses on building long-term relationships between customers and service providers. Berry published a follow-up article in 2002 to discuss the development of relationship marketing (Berry, 2002). However, within the academic field, there is no established model for relationship marketing comparable to the customer satisfaction theory pioneered by Parasuraman, Zeithaml and Berry. In their 2014 research, Yadav and Singh (2014) examined seven databases to identify articles on relationship marketing from 1983 to

2012. They discovered that there is no consensus on a relationship marketing model. The databases used included Emerald, Taylor and Francis, Science Direct, JSTOR, Springer, Sage HSS Online, and Wiley-Blackwell. Out of 900 identified articles/papers, 558 were deemed relevant. Common dimensions of relationship marketing include vision, strategy, technology, process, and activity. However, additional sub-dimensions remain unsettled.

Essentially, the relationship marketing model has not been standardized, unlike the 5 dimensions in customer satisfaction theory or Berry's Expectation Confirmation Theory, which suggests that customer satisfaction depends on expectation and performance (for products) or perception (for services). This short note on relationship marketing, as part of the development of customer satisfaction theory, serves merely as a reference for the theoretical development in customer satisfaction since a widely accepted model for relationship marketing has yet to be established for research purposes. Additionally, clients in tax investigations are generally one-time clients and do not rely on long-term client relationships maintained by service providers, which is the basis of relationship marketing theory.

Relationship marketing theory was not employed for two reasons. First, its dimensions have not been theoretically settled; second, tax accountants' engagement in defending tax investigations did not rely on building relationships with clients, who were typically one-time clients with no prior professional engagement experience.

Kino model, a customer satisfaction measurement tool

The Kano model, developed and introduced in 1984 by Dr. Noriaki Kano, a professor of quality management at the Tokyo University of Science, is a tool for evaluating

customer satisfaction. However, this study will not utilize the Kano model to investigate tax defending services, as the Kano model is primarily designed to assess customer satisfaction in product purchases rather than people-based services (Sauerwein et al 1996). Defending tax investigation is a people-based service.

Customer satisfaction is influenced not only by the quality of service or product but also by the customers themselves. The attainment of high service quality can be contingent on these customer inputs, as explained below.

B4 – Customers’ input in purchase of service

Bitner et al (1997) posited that the customer’s perception of performance may also be influenced by their own contributions or input. For instance, in certain service provision scenarios, such as patients providing health information, illness history data to doctors, and willingness to take drugs on regular basis, students’ attitudes and eagerness to learn during educational sessions, clients’ enthusiasm in fitness training, and clients’ willingness to disclose company issues in corporate management consultancy services, customer inputs play a significant role. This principle is equally applicable to consultancy services for rebutting IRD officer allegations in defending tax investigations. Clients’ extensive information, including accounting records, bank statements, and business operation details, is required to comprehend the client's business and enable tax accountants to devise strategies to defend tax investigations. The prompt and accurate provision of these inputs by taxpayers under tax investigation directly impacts the performance of, and customer satisfaction with, the tax accountants.

In addition to evaluating customer satisfaction achieved by tax accountants, a new

theme emerged in the literature review regarding the promotion of tax morale to address tax evasion. Besides, during face-to-face interviews with the Participants, data was collected on tax evasion and its prevention, which was inescapable because the interviews were on defending tax investigation. Promotion of tax morale is a way to prevent tax evasion. The study of tax morale includes the concept of tax morale and the foundations of tax morale: the attributes of effective and ineffective tax systems; whereas tax evasion is associated with weaknesses in the tax system, such as corruption among tax officials and public dissatisfaction with the government. A comprehensive literature review was conducted to identify the elements of an effective tax system, the determinants of tax evasion, the rationale behind promoting tax morale to reduce tax evasion, and strategies for implementing tax morale initiatives. The following includes the literature review on the elements of a good system, tax evasion, and tax morale.

Section B5 – Determinants of a good tax system by adoption of five canons of taxation with exclusion of “taxing for growth”

Meaning of a good tax system from Adam Smith’s book “Wealth of Nations” of 1776 to the 21st century

In his seminal work, "An Inquiry into the Nature and Causes of Wealth of Nations" (1776), Adam Smith outlined four canons of taxation essential for a sound tax system: (a) convenience of collection, (b) economy of collection, (c) certainty of collection, and (d) equity (Alam, 2021). At that time, taxation was limited to land taxes, stamp duties, customs duties, and excise duties, with no taxation on income. Income tax was only introduced in Britain in 1799, thirty-three years after the publication of "The Wealth of Nations" (Moran, 2008). Adam Smith's four canons of taxation, established in 1776, remain relevant and applicable to the present day. In 2011,

Adam Smith's 4 canons of taxation was reiterated by the UK Parliament (2011): "(1) Tax should bear as lightly as possible upon production so as least to check the increase in the general fund from which taxes must be paid and the community maintained," (convenience of collection), (2) that tax be easily and cheaply collected and fall as directly as may upon the ultimate payers (economy of collection at low cost)– (3) so as to take from the people as little as possible in addition to what it yields the Government, (adequacy), (4) that taxes should be certain – so as to give the least opportunity for tyranny or corruption on the part of officials, and the least temptation to law-breaking and evasion on the part of tax payers, (certainty to prevent tax evasion/tax avoidance) and (5) that tax should bear equally on all so no-one gains an advantage. (fairness of collection)". Adam Smith's 4 principles of taxation are considered the criteria for an effective tax system due to his extensive experience in the field. Smith served as both a tax collector and a consultant to the Chancellor of the Exchequer (Moran, 2008) and is widely recognized as the father of capitalism.

The contemporary perspective on taxation considers that an effective tax system should meet five essential criteria: fairness, productivity or adequacy, simplicity, transparency, and administrative ease (Bastable, 1903 p.229; Oklahoma Policy Institute, 2025). Adequacy means that taxes must provide enough revenue to meet the basic needs of society (Oklahoma Policy Institute, 2025). This contrasts with Adam Smith's four canons of taxation, which emphasize (a) convenience of collection, (b) economy of collection, (c) certainty of collection, and (d) fairness, including equitable tax rules, along with the present day additional requirement of (e) productivity or adequacy of tax revenue collection. Adequacy refers to the production of sufficient tax collection to pay for the social expenditure, such as education and healthcare, which in turn means the government's ability to redistribute wealth and income within

society. To assess the effectiveness of a tax policy, it is necessary to consider the function of social welfare; and examination of the extent of redistribution is helpful to understand better the various tax reforms (Kaplow, 2003). Modern taxation principles emphasize the necessity of securing sufficient tax revenue to fund public expenditures (Bastable, 1903; Tanzi & Zee, 2001). The concept of adequacy was less pertinent during Adam Smith's era in 1776, as the demand for public services such as education, healthcare, and social services was not as significant as it is today. Furthermore, during Adam Smith's time, when emperors required funds for activities such as waging or defending wars, they often opted to borrow money rather than increase taxes. This approach was evident with British and French emperors during the Anglo-French wars before and after Adam Smith's time.

Effecting a bad tax system in the execution of “taxing for growth” policy

Relationship amongst tax collection adequacy, taxing for growth, inequality and redistribution

McBride (2012), in a Special Report titled “What is the Evidence on Taxes and Growth,” reviewed 26 articles, which dated back to 1983 and encompassed developed countries such as the United States, Canada, and EU countries, found that 23 of them indicated a decline in GDP with an increase in tax collection, while the remaining 3 found no relationship or no negative relationship between GDP and tax collection. These articles were published within 15 years prior to McBride's report, which had the following findings.

Tax reduction increases GDP growth

- (a) Lee and Gordon (2005) found that reducing corporate income tax by 1 percentage point raises annual growth by 0.1 to 0.2 points after studies covering 70 countries over the years from 1980 to 1997.
- (b) Reed (2008) found that a 1 % tax increase reduces GDP by 1.3 % after two years.
- (c) Romer (2010) concluded that a tax increase of 1% of GDP lowers real GDP by about 3% after about 2 years, mostly through negative effects on investment during the post-World War II period.
- (d) International Monetary Fund (2010) concluded that 1% tax increase reduces GDP by 1.3% after two years upon studies of 15 advanced countries over the last 30 years prior to McBride's report.
- (e) Ferede and Dahlby (2012) concluded that cutting the corporate tax rate by 10 percent points raises the annual per capita growth rate by 0.1 to 0.2 percent points for the Canadian provinces over the period 1977 to 2006, averaging over five-year periods.
- (f) From 1980s, taxes were reduced in Europe and United States.

Lower taxation has been shown to be ineffective in redistributing income or wealth.

Ostry et al (2014), in an International Monetary Fund (IMF) Staff Discussion Note addressing the relationship amongst the three factors of redistribution, inequality, and growth, indicated that inequality impedes progress in health and education, leading to reduced investment and economic instability. Inequality may adversely affect growth because it prevents the poor from maintaining good health and accumulating human capital (Perotti, 1996; Alesina & Perotti, 1996; Galor & Moav, 2004; Aghion, et al, 1999). Gunnarsson (2020) reported that from 1980, with the developed countries' revenue relying on labour tax (such as Salaries Tax in Hong Kong), had been

executing fiscal policy of lowering tax rate and reducing progressive rate of tax with flat income tax rate with aims to taxing for growth, ignore the function of taxation to redistribute income/wealth, with failure to redistribute income/wealth created inequality. Piketty (2014) highlights concern about increasing income and wealth inequalities and lowering taxes may boost GDP but also increases wealth disparity.

Joseph E. Stiglitz, a Nobel prize winner in economics, supports high taxation to facilitate redistribution.

“In a society marked by rising inequality, taxation has to be sensitive to impact on wealth and income distribution. We need progressive taxation – taxing those at the top at a higher rate than those with less income (p.94).... Ensuring that Europe maintains its high standard of living requires large revenues in ways that are efficient and fair. (p.93)” (Stiglitz, 2019)

(Researcher’s remarks: lower tax rates encourage the wealthy to save or invest more. Keeping cash in the bank results in a lesser multiplier effect and does not significantly benefit the economy. Consequently, lower tax rates allow affluent individuals to retain their earnings or increase investments, thereby boosting GDP. However, this approach fails to redistribute income or wealth to the less privileged. Simply put, the relationship amongst taxation, GDP, and distribution of wealth and income is this: reducing taxation increases GDP, which is referred to as taxing for growth. Nevertheless, taxing for growth diminishes the role of redistributing wealth and income to the less privileged.)

Section B6 – Determinants of tax evasion

Definition of tax evasion

This study adopts a working definition of tax evasion from Tax Crimes Handbook from Inland Revenue Service of the United States (Tax Crimes Handbook, 2009, p. 2) which states: “The most common attempt to evade or defeat a tax is the affirmative act of filing a false return that omits income and/or claims deductions to which the taxpayer is not entitled. The tax reported on the return is falsely understated and creates a deficiency. Consequently, such willful under reporting constitutes an attempt to evade or defeat tax by evading the correct assessment of the tax”. Tax evasion is under-reporting of income or overclaims of deductions in tax returns.

Determinants of tax evasion

Alm (1996) identified several factors leading to tax evasion in the United States, including the uncertainty and complexity of tax rules, and the relative ease of evading certain types of taxes. Ameyaw et al (2015) found that high tax rates and corruption are determinants of tax evasion. According to Alm et al (2015), the elements of uncertainty and complexity of tax law rules, high tax rates and corruption influence taxpayer behavior. Fuest and Riedel (2009) suggest that the shadow economy or illegal business activities are significant contributors to tax evasion. Richardson (2006) analyzed data from 45 developed countries, including those with the highest GDP, and concluded that tax evasion is lower in countries with simpler tax rules, perceived fairness in tax collection, higher levels of education (though this point is unresolved), employment income subject to withholding tax methods, and high tax morale. Mason and Lowry (1981) found that middle-income people are more willing to comply with the tax law and regulations, as they are anxious about the mental pressure, the tax compliance of high-and low-income earners is relatively low.

In summary, tax evasion tends to occur in environments where tax rules are

complicated and difficult to apprehend, IRD officers are corrupt, and tax collection is perceived as unfair. Adam Smith's four canons of taxation, namely convenience of collection, economy of collection, certainty of collection, and equity, suggest that violations of these principles may lead to tax evasion. Complex tax rules impede convenience and certainty of collection, corruption undermines the economy of collection, and perceived unfairness in tax collection affects taxpayers' morale to pay tax.

Section B7 – Tax morale

Tax morale refers to the intrinsic motivation or willingness of individuals to pay taxes (Torgler, 2004a; 2006). Individuals with high tax morale are inclined to fulfill their tax obligations, whereas those with low tax morale may resort to tax evasion. Tax morale evaluates an individual's attitude rather than their behavior (Torgler, 2004a). Frey and Holler (1998) argue that deterrence is an ineffective policy for increasing compliance, and empirical evidence suggests that enhancing deterrence through severe penalties and higher audit rates might even diminish tax morale. Penalties and audits have been found to be ineffective in preventing tax evasion (Dularif et al, 2019).

A country with a large share of shadow or informal economy, as concluded by Torgler (2005) that it is associated with low tax morale (and severe tax evasion), after examination of 17 Latin American nations. Further, when people believe in the honesty of other people to pay tax, their tax morale will increase (Frey & Torgler, 2007) People with less satisfaction with the current economic situation tend to have a lower tax morale. Later, Christiansen (2024) chose the South American countries to study tax evasion because about half of the economy there is shadow or

informal economy where tax evasion is inevitable. Christiansen (2024) found that the three countries with highest tax morale are Argentina, Paraguay and Venezuela and the following factors for tax evasion and tax morale:

- (a) People in countries with high tax morale hear little about others evading taxes.
Peer influence significantly affects tax morale and evasion behavior.
- (b) Tax morale, an important factor in reducing tax evasion, is linked to satisfaction with government performance, perception of fairness in the distribution of income and wealth, satisfaction with the living environment.
- (c) Older people are more willing to pay tax than younger people.
- (d) People of lower education, who earn less, may not be willing to pay tax while highly education people are more critical and attempt to evade tax, given their awareness of how tax revenue is used. People's education seems to be neutral in tax evasion.
- (e) Individuals' financial dissatisfaction lowers tax morale.

For peer influence, people tend to evade taxes if they see tax evasion as common and acceptable among peers (Frey & Torgler 2007). Conversely, they are more likely to pay taxes when they believe others are doing so (Alm et al, 1995). Peers who avoid taxes often influence others to cheat as well (Wallschutzky, 1984). The influence of peers on tax morale is supported by Fishbein and Ajzen's Theory of Reasoned Action (TRA). TRA posited that a person's voluntary behaviour is determined by their intention to perform the behaviour and that this intention is, in turn, a function of their attitude and subjective norms in the society (Fishbein & Ajzen 1975). Here in the case of tax morale, the subjective norm in society is peer's view to pay tax or not.

Torgler and Schaffner (2007) posited the following 5 determinants of strong tax morale:

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- (a) Effective and efficient administration,
- (b) Fairness of tax system,
- (c) Tax awareness,
- (d) Compliance perception amongst peers, and
- (e) Trusts in officials.

For tax fairness, Song and Yarbrough (1978) (as in Torgler & Schaffner, 2007) identified a correlation between fiscal inequality and tax evasion. Their research indicates that people may engage in tax evasion when they feel unfairly treated.

Regarding trusts in officials, respectful and fair treatment of taxpayers by tax officials can encourage respect for the tax system and compliance with tax regulations (Smith, 1992 in Torgler & Schaffner, 2007). When taxpayers feel controlled, they may not respect the tax system because they perceive that they are being forced to pay taxes. Further, when taxpayers feel disrespected and suspected of cheating, tax morale may decrease (Feld & Frey, 2002a). Torgler (2004b) found that tax morale was higher in Asian countries such as China, Japan, and India compared to OECD countries, and that if taxpayers trust the government, legal system, and national officers, they are, with national price, more willing to pay taxes. Torgler (2007) concluded that people pay taxes due to their moral principles, sense of fairness, and trust in the government. For trust in government, people who trust the government exhibit a stronger inclination towards tax morale. This is because those with trust in governmental institutions are

more willing to contribute to society through paying taxes (Torgler & Schaffner, 2007).

According to Kirchler (1999) and Slemrod (2007), people who are willing to pay taxes are influenced by factors beyond tax regulations. These factors include personal ethics, perceived fairness of the tax system, social norms, peer acceptance, and a sense of patriotism. Konrad and Qari (2012) found a strong correlation between tax compliance and patriotism. Sour (2004) concluded that to understand taxpayer compliance, it is necessary to consider psychological, sociological, and economic factors, beyond just tax regulations.

In summary, a tax system adopts the 5 canons of taxation: tax rules should be simple, transparent, and fair; tax collection should be sufficient to support redistribution; and tax administration should be straightforward while maintaining an appropriate tax rate to sustain economic growth over time. While a lower tax rate could stimulate economic growth and increase GDP, it might not effectively redistribute income or wealth, thus failing to reduce inequality, which is a consequence of a "taxing for growth" policy. Inequality can negatively impact long-term tax collection by limiting citizens' ability to achieve higher income levels through education, as lower levels of education may hinder people from earning more income to pay taxes in the future. A well-designed tax system must balance adequate tax collection for public expenditure, foster economic growth in terms of GDP, and ensure equitable distribution of income and wealth over the long term. An effective and efficient tax system is crucial for promoting tax morale, thereby helping to reduce tax evasion.

Promotion of tax morale as an additional measure to curb tax evasion

The two measures of heavy penalties and frequent audits, along with tax morale, have

both coercive and persuasive effects to reduce tax evasion. While heavy penalties and frequent audits alone have been adopted in Hong Kong to enforce compliance with tax regulations, promoting tax morale as an additional measure is recommended to foster voluntary compliance. Given the effectiveness and efficiency of the Hong Kong tax system, this study examines alternative or complementary methods beyond penalties and frequent audits to address tax evasion (Chapter 5 – Discussion and Conclusions).

Section C - Significance of literature review

This study focuses on the business management topic of customer satisfaction. The quality of customer satisfaction is measured using the customer satisfaction model SERVQUAL (service quality) or SERVPERF (service performance), which was developed by Parasuraman et al. This study primarily used the SERVPERF (service performance) model. The SERVPERF (service performance) model includes 22 items across five dimensions: (a) reliability, (b) responsiveness, (c) empathy, (d) assurance, and (e) tangibles. Parasuraman et al acknowledged that these 22 items can be adjusted to fit different service contexts since the SERVPERF (service performance) model is not a one-size-fits-all solution. However, they maintain that the five dimensions should be maintained. Based on the principles behind SERVPERF (service performance), this study adjusted to more than 22 items from the five dimensions of SERVPERF(service performance), excluding the dimension of tangibles, as the use of equipment is less relevant in the context of tax evasion defense services, and the dimension of assurance because staff assistance is insignificant in defending tax investigation by the tax accountants.

A review of the extant literature on tax evasion has highlighted a broader perspective

on its prevention. Penalty and punishment, which enforce compliance with tax rules, are not the only methods to address tax evasion. Promotion of tax morale, where people willingly to pay taxes due to respect for and trust in the government, tax rules, and tax administration by authorities, is a viable alternative or complement for curbing tax evasion.

Other views were enlightened after the literature review are on the fiscal policy of “taxing for growth”. Taxing for growth means to lower the tax collection with the aim to promotion of economy and increase of GDP. Yet the reality is that “taxing for growth” generated less tax to be collectible from corporations and high-income taxpayers. From the experience of the countries with taxing for growth in the 1980s, these countries suffered because with less revenue collected, the taxation function to redistribute income or wealth was diminished, resulting in less social benefits to be offered to the less privileged in the community.

The literature review illuminates various aspects including customer satisfaction, the nature, causes, and relief of anxiety, the essential requirements for efficient tax collection, the societal consequences of inadequate tax collection leading to inequality, reasons for tax evasion and the promotion of tax morale to mitigate tax evasion.

CHAPTER THREE – METHODOLOGY

Section A – Introduction

Section B – Interpretative phenomenological analysis (IPA)

Section C – Philosophical underpinnings

Section D – Research design

Section E – Data collection

Section F – Data collection sample

Section G – Data collection instrument

Section H – Data analysis

Section I – Credibility of data

Section J – Limitations and critiques

Section K – Summary

Section A – Introduction

This section outlines the research methodology to be used in this research with the explanations of why a methodology was chosen, what the chosen methodology was and how the methodology was used to conduct the research, as well as the alignment of the methodology with the research aims of the study. Methodology refers to the overall strategy employed in conducting research (Silverman, 1993). This study used Interpretative Phenomenological Analysis (IPA) as its research methodology. The

selection of a research methodology is contingent upon the research aims, which complement with research objectives and research questions. The aims of this research are to study taxpayer anxiety during tax investigation, and the relief of taxpayer anxiety by the tax accountants with customer satisfaction. The following are the three Research Questions:

Research Question 1: What are the symptoms and causes of taxpayer anxiety in a tax investigation?

Research Question 2: How is taxpayer anxiety relieved by the Participants with customer satisfaction?

Research Question 3: How is the achievement of customer satisfaction by the Participants demonstrated?

These three Research Questions are practice-based, which is common in a Doctor of Business Administration (DBA) thesis (Banerjee & Morley, 2012). These Research Questions related to “what” and “how” questions, which require qualitative approach to conduct the research. A qualitative approach refers to the exploration of the behaviour, perspective, feelings, and experiences of people, and the basis of qualitative research lies in the interpretative approach to social reality and in the description of the lived experience of human beings (Tuffour, 2017). The human beings referred to in this research are the taxpayers under tax investigation and the tax accountants who assisted the taxpayers to undergo the tax investigation. Thus, the research objectives were to explore the taxpayer anxiety in defending tax investigations and the relief thereof, as a social reality, was examined through a qualitative research approach. Regarding the interpretative nature of this qualitative research, IPA was employed because of its three foundation pillars: phenomenology,

hermeneutics or interpretative phenomenology and ideography. Phenomenology refers to the study of the lived experiences of the participants. Hermeneutics means interpretation and in IPA, interpretative phenomenology expands to double interpretation. Double interpretation refers to the interpretation of the Participants, who were the tax accountants and the interpretation of the researcher on how the Participants interpret the phenomenon of the taxpayer anxiety, relief of the taxpayer anxiety and achievement of customer satisfaction by the Participants. In addition, according to Tuffour (2017), qualitative research can be used to explore less understood topics, which in this study, is the taxpayer anxiety during tax investigation and the relief thereof. IPA was designed to understand and interpret individuals' experiences (Tuffour, 2017) and in this study, the lived experience of the tax accountant Participants in relieving the taxpayer anxiety with customer scarification archived. IPA was not built up in one day but evolved from phenomenology over time. Here below, the evolution of IPA is elaborated.

Section B – Interpretative phenomenological analysis (IPA)

Interpretative Phenomenological Analysis (IPA), which has its roots in phenomenology, was not established instantly but has evolved progressively over time. The development evolved from phenomenology (also known as descriptive phenomenology) to hermeneutic phenomenology, and eventually to its present form of research methodology. Phenomenology, as a research methodology, focuses on examining and describing how individuals experience phenomena from their own perspectives. To have a thorough understanding of IPA which has its traits in descriptive phenomenology and hermeneutic phenomenology, the evolution of the latter is outlined below.

Descriptive phenomenology

Phenomenology, developed Husserl (1990), focused on the lived experiences of individuals. Initially, it was purely descriptive, studying phenomena as they appeared. Husserl defined it as a “science of the acts and contents of consciousness” (Moran, 2000). It aimed to capture individual subjective perspectives and describe things as they were observed (Gill, 2015; Moran, 2000). According to Friesen et al (2012), phenomenology remained primarily descriptive rather than explanatory. Jackson et al (2018) stated that descriptive phenomenology aimed to accurately describe the structure of a phenomenon and to uncover what an experience meant to people and how they experienced it. Researchers set aside biases and focused on the immediate experience, describing those lived experiences objectively and bracketed out their view, without interpretation, was essential in descriptive phenomenology (Jackson et al, 2018).

Then, Heidegger (1962, p. 358) advocated taking an interpretive research approach in the examination of a phenomena. Heidegger, while stating phenomenology was to understand the personal lived experiences of the participants by the researcher, emphasizing that interpretation of the participants’ meaning-making process was central to any phenomenological inquiry. Later, Creswell et al (2007) described how phenomenology was developed by the German mathematician Edmund Husserl (1859–1939) and later expanded by Heidegger, Sartre, and Merleau-Ponty (Spiegelberg, 1982). As Creswell et al (2007) described, there were two main phenomenological approaches at that time: descriptive phenomenology and hermeneutical or interpretative phenomenology. Hermeneutics, derived from the Greek word Hermes, meaning the messenger of the gods, denoted interpretation. In

addition, Van Manen (1990) identified two approaches to phenomenology: empirical, transcendental, psychological, or descriptive phenomenology, and hermeneutical phenomenology.

Hermeneutic or interpretative phenomenology

Phenomenologists shifted from simply describing how phenomena appear to focusing on interpretative phenomenology. They distinguished between “phenomenon,” which refers to how something is perceived, and “phenomenology,” which emphasizes interpretation and understanding through reasoning (logos). Heidegger (1962, p. 49-58) emphasized the importance of hermeneutic phenomenology, which focused on how things both revealed and concealed themselves and that it is a process that inherently required interpretation. Gill (2015) posited that phenomenology encompassed both a philosophical movement and a broad range of qualitative research focusing on subjective human experiences and that what was initially concealed must be brought to light (revealed) through interpretive analysis. This view was supported by Smith (1990), whose study on pain and illness involved face-to-face interviews with patient participants, reflecting his expertise in psychology. An IPA researcher, like Smith, must possess substantial knowledge in the research subject to reveal what is hidden in the phenomenon as described or interpreted by the participants.

Interpretative Phenomenological Analysis (IPA)

IPA is grounded in interpretive phenomenology and based on three core elements or foundation pillars: phenomenology, hermeneutics (including double interpretation),

and ideography (Pietkiewicz and Smith, 2014).

Phenomenology

Phenomenology studies how people perceived objects and events, the exploration of which is based on the lived experiences of the people participating in the study, rather than simply describing phenomena based on the prescribed or predetermined systems, concepts, or scientific criteria (Pietkiewicz and Smith, 2014).

Hermeneutics

Hermeneutics is interpretation or clarification of the phenomenon or the overall lived experiences of all the participants. Heidegger (1996, p. 236) emphasized that the researcher should formulate the semi-structured questions in interviews so that the questioning did not distort the “very phenomenon under question”. Yet, as observed by Smith (2011a), participants interpret their lived experiences by their own sense because “they do not live in a hermetically sealed bubble”. The researcher’s understanding of the lived experiences of the participants is a third-party’s understanding of them, which is why it is a hermeneutical approach (Smith, 1996). IPA attempts to explore personal experience of the participants and is concerned with the individual participant’s personal perception or account of an object or event, as opposed to an attempt to produce an objective statement of the object or event itself (Smith & Osborn, 2003). Smith (2018) recommends researchers to be active in trying to understand the lived experiences of the participants rather than simply asking the participants to describe the experiences since the “analysis lies in the interview work done by the analyst”.

Double hermeneutics

Double interpretation refers to the process where the researcher interprets how

participants themselves interpret the participants' experiences (Pietkiewicz & Smith, 2014). This term is used because participants make sense of their world, and the researcher then tries to decode that meaning, interpreting what the participant intends to convey (Smith & Osborn, 2008 as in Pietkiewicz & Smith, 2014). IPA researchers aim to understand what an experience (phenomenon or event) is like from the participant's perspective and at the same time, the researcher seeks to answer the question: What is the participant trying to explain in their statement? (Smith & Osborn, 2008 as in Peitkiewicz & Smith, 2012). IPA researchers aim to understand an experience from the participant's perspective and seek to answer the meanings the participants are trying to convey. Smith and Osborn (2015) explained double hermeneutic in the way that "the participants are trying to make sense of their world; the researcher is trying to make sense of the participants trying to make sense of their world". In other words, IPA is double hermeneutic because participants interpret their lived experience, and researchers then interpret the participants' interpretations. Gill (2015) considers IPA as an approach by which the researcher interprets the participants' lived experiences in their specific contexts and examined the participants' own interpretations of their experiences. Alternatively, Larkin et al (2006) states that researchers gather data from the participants by first understanding their lived experiences of the events as interpreted by the participants and then describing the researcher's own interpretation and understanding of the sensemaking of the participants regarding the relevant events. Smith and Osborn (2009) are of the view that IPA researchers aim to comprehend the lived experiences of participants by recording their perspectives and interpreting the participants' interpretations. IPA seeks to gain a profound understanding of an individual's experiences by analyzing how participants interpret and make sense of those experiences within their unique contexts.

Ideography

A focus of IPA is to listen to and understand the lived experiences of the individual participants (Smith & Osborn, 2015). Pietkiewicz and Smith (2014) state that ideography refers to the in-depth analysis of the lived experience of each participant, examining individual perspectives and their uniqueness, aiming to capture nuanced insights from every participant. This approach aims to obtain nuanced data regarding the participants' experiences. In IPA, the researcher focuses on specifics, rather than universal views or results (Smith et al, 1995, pp. 56-69). The researcher examines each participant's lived experience and then moves on to another participant's lived experience. When an IPA researcher studies a group of participants, they move between the important themes generated in the analysis, illustrated them with individual narratives, comparing their stories, and showed similarities and differences (Hartman & Squires, 2024).

IPA allows participants sufficient time to describe their lived experiences and shared their thoughts in detail (Smith et al, 2013). At the same time, it helps keeping the discussion focused because qualitative data are collected using semi-structured questions that centered on participants' lived experiences. When used effectively, semi-structured questions could yield rich, in-depth findings that went beyond factual information, eliciting emotional responses and personal feelings (Ponterotto et al. 2007 p. 416).

In short, IPA is phenomenological because it examines the phenomenon of the participants' lived experiences. It is hermeneutical because interpretation of the participants' data by both the participants and the researcher is required. It is ideographic as in-depth analysis of individual participant's experiences is required, followed by a comparison of convergence and divergence among all participants

(Hartman & Squires, 2024). Initially used in health psychology research due to Smith's background as a psychologist, IPA has since gained popularity in fields other than psychology (Peitkiewicz & Smith, 2012).

Interpretive Phenomenological Analysis adopted in this study

Smith J. A. (2011b) shows that IPA were extensively used in the study of pain and illness, with 293 empirical IPA studies published between 1996 and 2008. In this study, the anxiety experienced by taxpayers during an average 18-month tax investigation period (Chapter 4) is analogous to the prolonged pain and illness endured by patients with chronic diseases. The IPA adopted in this research is for exploration of taxpayer anxiety, which is an emotional illness experienced by taxpayers under tax investigation, and the relief of that anxiety by the Participants with achievement of customer satisfaction. Using a qualitative approach, this study captured nuanced insights into the taxpayer anxiety experienced by the taxpayer, relief of that anxiety, achievement of customer satisfaction by the Participants in the relief of the taxpayer anxiety, and additionally, understanding how specific issues raised by IRD officers and encountered by taxpayers were resolved, as well as the different ways taxpayers expressed their appreciation for the people-based services provided by the Participants. Merleau-Ponty (1962) emphasizes the interpretative quality of knowledge. IPA is concerned with the intimate nature of the lived experience. It is concerned about the "particular" rather than "general" qualitative approach, described as the "ideographic approach," which is different from the "nomothetic approach" (Smith et al, 2009). "Particularity" and "ideography" refers to the lived experience or perception of a particular individual about the events which he or she had encountered. It emphasizes the interpretation and sensemaking of the lived experience of said participant. Ideographic sensibility, as in IPA, is the commitment of

the researcher to understand the lived experience of a particular individual at a particular time and place (Simth et al, 2009). A qualitative approach in this study was adopted, involving 10 Participants, each with at least 20 years' experience in tax investigation. Data was coded, themed, and analyzed, cases-by-case (on individual participant's data) and cross-case (on all the participants' data), to achieve the research aims.

Boutillier et al (2022) stated that IPA requires researchers to review repeatedly the data of each participant, exercising forward and backward thinking about the data collected from each participant on an individual participant basis; and then reviewing all the participants' replies, on all participant basis, to find out a general feature of the phenomenon to complete the study. This general feature, after cross-case analysis, can help predict potential outcomes of similar phenomena in the future. According to Smith and Osborn (2003), a researcher attempts to make sense of the phenomenon and of the participants' statements through the participation of the researcher in the sensemaking process.

The emergence of two new themes

The appearance of new themes after data collection and analysis is common in IPA as Pietkiewicz and Smith (2014) indicated that in a typical IPA project, the narrative account is followed by a discussion section relating the identified themes to existing literature. In this study, the two new themes that emerged will be discussed in Chapter 5.

The choice of IPA methodology is grounded on philosophical underpinnings of research philosophy and philosophical assumptions, which are elaborated below.

Section C – Philosophical underpinnings

Philosophical underpinnings concern research philosophy and philosophical assumptions and awareness of these can secure the quality of the research produced (Jackson, 2013). Research philosophy provides an overarching guidance for the choice of the research methodology (Jackson, 2013), which is, in this study, the Interpretive Phenomenological Analysis (IPA) and philosophical assumptions are the foundation on which the study was to be conducted (Jackson, 2013; McKerchar, 2008). These paradigms must align with the research questions, which are:

Research Question 1: What are the symptoms and causes of taxpayer anxiety in a tax investigation?

Research Question 2: How is taxpayer anxiety relieved by the Participants with customer satisfaction?

Research Question 3: How is the achievement of customer satisfaction by the Participants demonstrated?

This study examined taxpayer anxiety, how taxpayer anxiety under tax investigation was relieved by the tax accountant Participants with customer satisfaction achievement. These inquiries are “what and how” questions, making interpretivism as the research philosophy in this research. Interpretivism motivates researchers to seek interpretation of the participants’ experience (Chen, 1996; Ma & Ma, 2002). This research is to examine the phenomenon of the lived experiences of the Participants to explore the three Research Questions. The research approach adopted in this study is guided by qualitative phenomenological approach because it is a study on the phenomena of the taxpayer anxiety, the relief thereof by the tax accountant Participants who achieved customer satisfaction in the relief, as well as the research

philosophy and the philosophical assumptions.

Research philosophy

Research philosophy refers to the beliefs regarding how data about a phenomenon should be collected and analyzed, and how the conclusions should be drawn. There are two research philosophies: positivism (known as the scientific approach) and interpretivism (also known as anti-positivism) (Uduma & Sylva, 2015). This research is based on interpretivism, which aims to understand the subjective meanings and experiences of individuals within their social contexts. Choosing the right philosophy is crucial as it guides the subsequent research strategy. Choosing an interpretivism research philosophy typically involves the use of qualitative research methods, including the sampling strategy, sample size, data collection, and data analysis techniques. The three Research Questions addressed in this study are about: (a) the symptoms and causes of taxpayer anxiety in tax investigation, (b) relief of taxpayer anxiety by the Participants through customer satisfaction, and (c) how the achievement of customer satisfaction was demonstrated or evidenced. As these are “what and how” questions, which are qualitative and interpretative in nature, interpretivism was the correct philosophy to choose to explore them. Data collection was conducted through face-to-face interviews with 10 purposely selected tax accountants using semi-structured questions prepared beforehand, follow-up questions, and data analysis involving coding, reassembling, theming, and drawing conclusions to complete the study. Rich, in-depth, and nuanced data was obtained from face-to-face interviews with the Participants to understand the symptoms and causes of taxpayer anxiety, and how the Participants relieved the taxpayers’ anxiety through customer satisfaction. All Participants had lived experiences of the anxiety

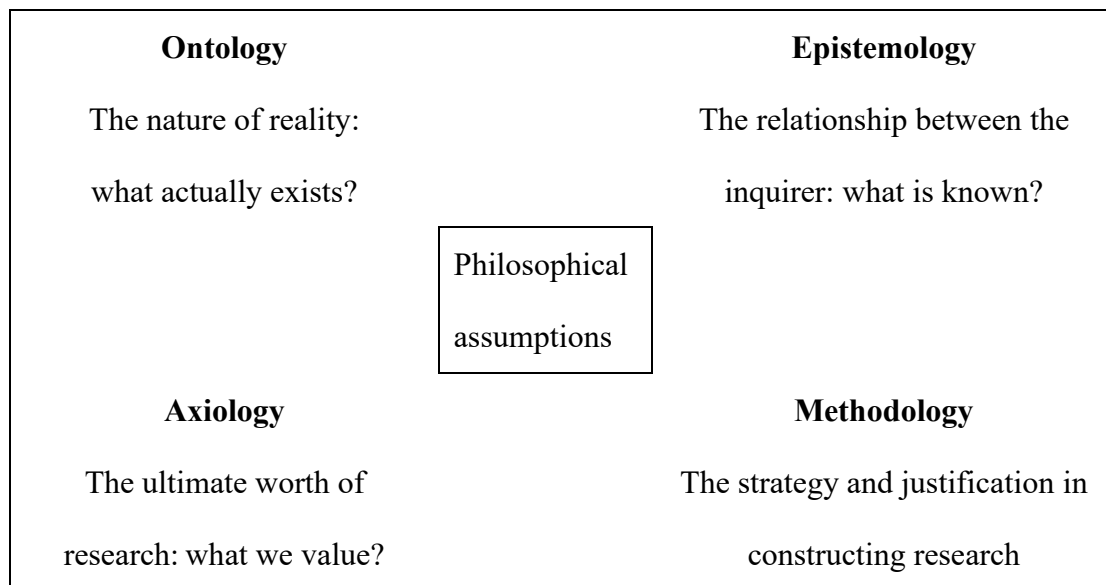
felt by the taxpayers, making qualitative research into the Participants' data suitable for interpreting (a) taxpayer anxiety under tax investigation, (b) relief of taxpayer anxiety by the Participants, and (c) achievement of customer satisfaction by the Participants.

The selection of a qualitative research approach for this study was supported by Pietkiewicz and Smith (2014) who posited that qualitative researchers concentrate on how individuals perceive the world, experience events, and interpret phenomena. They placed an emphasis on the quality of participants' experiences. Ponterotto (2005) indicated that the qualitative research method reflects participants' lived experiences, which are context specific. Consequently, the data of the Participants, namely the Participants' replies, when describing their experiences constituted the findings of the qualitative research report. IPA was chosen for this study, following a qualitative research approach. A total of 10 Participants, purposely selected to ensure nuanced data collection, facilitated a detailed, in-depth interpretation of taxpayer anxiety relief and customer satisfaction by the Participants.

Philosophical assumptions

In relation to the philosophical assumptions underpinning this research, which addresses questions concerning taxpayer anxiety, relief of taxpayer anxiety, and the achievement of customer satisfaction by the Participants, it is imperative that the researcher to articulate the assumptions regarding the reality of the phenomenon, the knowledge of the phenomenon, the objectivity required in data collection, and the methodology used to ascertain the reality of the phenomenon. As stated by Creswell and Poth (2014, p.17), these assumptions encompass the four dimensions of ontology,

epistemology, axiology, and methodology.



Ontological assumptions

Ontological assumptions relate to the nature of reality, with ontology being described as an effort to portray that reality (Ohrstrom et al., 2008). For this research, the perceived reality was derived from the Participants' responses. Through face-to-face interviews with the Participants, the researcher gained an insider's perspective on the phenomenon, which included taxpayer anxiety, its symptoms and causes, relief measures, and customer satisfaction with tax accountants' services. The Participants' replies were collected through semi-structured questions prepared by the researcher. These interviews incorporated follow-up questions to deepen understanding. The semi-structured questions were designed to elicit detailed, relevant, and nuanced data. Therefore, the study was based on the reality of taxpayer anxiety as experienced by the Participants, who assisted taxpayers during tax investigations, and their perceived customer satisfaction. The data obtained provided a valid depiction of taxpayer anxiety, the way the Participants to relieve this anxiety, and the evidence of customer

satisfaction achieved.

Epistemological assumptions

Epistemological assumptions concern the nature of knowledge. In this study, the researcher gained insights from the Participants through semi-structured interview questions and follow-up inquiries. By engaging with the Participants, the researcher became an "insider" to their lived experiences, thus obtaining a comprehensive understanding of these experiences. The researcher learned about the nature and causes of taxpayer anxiety during tax investigations, as well as how participants achieved customer satisfaction by alleviating this anxiety. It is assumed that the data obtained provided the researcher with knowledge of practical issues related to the taxpayer anxiety under tax investigations and the methods employed by participants to relieve this anxiety while achieving customer satisfaction.

Axiological assumptions

Axiological assumptions pertain to the values held by both the researcher and the Participants. The researcher recognizes that research is inherently influenced by values and that Participants' biases may be present. Open questions were raised in the face-to-face interviews between the researcher and the Participants to record the Participants' interpretations of the experience of defending tax investigation. To minimize bias, the researcher maintained objectivity during interviews by avoiding disagreements with participants, even when their views differed. Participants were encouraged to share their experiences openly, ensuring the collection of detailed and nuanced data. These efforts aim to prevent subjectivity in the study's findings. The researcher assumes that these measures helped maintain objectivity in the collection

of research data from the Participants.

Methodological assumptions

Methodological assumptions concern the research process, which include flexibility (McArdle, 2022) and reflexivity in data collection (Jamie & Rathbone, 2022), iterative process in reading and re-reading the data (Kekeya, 2016; Lacey & Luff, 2007), inductive in the research process (Li, 2016), as well as minimization of the risk in the loss or mistranslation of data.

Flexibility and reflexivity in data collection

Data collection aims to obtain relevant, in-depth, and nuanced data for exploring the three Research Questions. With the open-ended semi-structured questions were prepared beforehand and follow-up questions asked during interviews with the Participants, relevant, comprehensive, independent, unbiased, and nuanced data was obtained. The follow-up questions allowed flexibility in the collection of data as items for discussion during the interviews were not confined to the semi-structured questions prepared beforehand. The researcher collected and analyzed each Participant's data, even if their views differed from those of the researcher, ensuring reflexivity in the data.

Iterative process in reading and re-reading the data

To understand and interpret the data, an iterative process of reading and re-reading the data was employed (Kekeya, 2016; Lacey & Luff, 2007).

Inductive in the research process (Li, L., 2016)

An inductive approach was used to interpret the data, resulting in the emergence of

two new themes, which are discussed in Chapter 5.

Minimization of potential risks of data loss or misinterpretation

Measures were implemented during the research to minimize potential risks of data loss or misinterpretation, even though the interviews were conducted in local Chinese in Hong Kong, while the dissertation was written in English. Data collection involved face-to-face interviews with each of the 10 participants, examining the topic within its specific context using a qualitative design. Open-ended questions were consistently posed during the interviews, and responses were followed up to obtain comprehensive and relevant data. The likelihood of data loss or misinterpretation was minimal, and translation issues were addressed by preparing the semi-structured interview questions beforehand in English and documenting participants' responses in English, which were immediately confirmed by the Participants before completing each interview. In addition, the Participants and the researcher are professionals, whose working language is English. Records of the questions and answers were typed in full on the same day as the interview to ensure accurate retention of data. These measures minimize the risk of data loss or mistranslation.

Section D – Research design

A research design specifies the framework for conducting the study, including the research methodology, sampling, and data collection instruments. It must align with the research objectives, which in this case were to examine taxpayer anxiety and how tax accountants alleviate it to achieve customer satisfaction, addressing "what" and "how" questions that necessitate a qualitative research design. The study aimed to explore three Research Questions by examining the lived experiences of tax accountant Participants who assisted the taxpayers in defending tax investigations.

Consequently, a qualitative phenomenological approach was adopted, utilizing Interpretative Phenomenological Analysis (IPA) to conduct and complete the research. The research design was formulated to address the following three Research Questions:

Research Question 1: What are the symptoms and causes of taxpayer anxiety in tax investigation?

Research Question 2: How is taxpayer anxiety relieved by the Participants with customer satisfaction?

Research Question 3: How is the achievement of customer satisfaction by the Participants demonstrated?

Interpretative Phenomenological Analysis (IPA), encompassing phenomenology, hermeneutics, and ideography, was employed as a research methodology to examine taxpayer anxiety during tax investigations. Through phenomenology, this IPA methodology focused on the lived experiences of the Participants assisting taxpayers during such investigations, aiming to interpret the symptoms and causes of taxpayer anxiety and how it was alleviated by achieving customer satisfaction. Using hermeneutics involving double interpretation, the researcher interpreted the Participants' sensemaking of their lived experiences, or the interpretation of the Participants' interpretation of their lived experience.

For data collection, purposive sampling was used to select 10 tax accountant Participants, each with a minimum of 20 years of experience in tax investigations, through the researcher's professional network. Data was obtained from the Participants' responses to semi-structured questions prepared beforehand and posed during face-to-face interviews, including follow-up questions. Following data collection, the researcher utilized ideography by reading and re-reading the data from

each Participant, identifying and analyzing themes, known as case-by-case analysis. Additionally, a cross-case analysis was conducted on the research data of all the Participants. Throughout the research, the researcher adhered to ethical standards by maintaining the confidentiality of the Participants and the taxpayers the Participants served and respecting the Participants' willingness to join or withdraw from the study at any time prior to its completion.

Section E - Data collection

The data for this research was collected from responses to questions posed to the 10 purposively selected tax accountant Participants. Prior to the interviews, semi-structured open-ended questions, as outlined in Appendix A, were prepared. The Participants were required to have a minimum of 20 years' experience in tax investigation. This criterion was established to ensure that Participants had the sufficient depth of experience to describe cases of a varying nature. In detail, the Participants received an Invitation Letter (Appendix B), and their consent was obtained through a signed Consent Letter (Appendix C). Two or three days before the interview, a Participant was invited by phone call. The voluntariness of their participation was explained, and they were told that they could withdraw from the research at any time before completion of the research. Each Participant took part in one interview. These interviews took place in locations convenient and comfortable to both the Participants and the researcher, such as clubs, restaurants, or the Participants' offices. The duration of the interviews ranged from 42 to 86 minutes. Extant literature was reviewed after the first interview on June 13, 2023. The second interview was then held on December 18, 2023. The final interview with the tenth Participant was completed on January 19, 2024. On the day of an interview, the researcher and a

Participant first engaged in a “warm-up discussion.” Then, the Participant was given a copy of the semi-structured questions prepared beforehand to familiarize himself or herself with the topics to be discussed. Given the nature of the open-ended questions, follow-up questions were also posed and responses recorded. The conversation between the Participant and the researcher was conducted in local Chinese. All responses were recorded in English, and the Participants were given a handwritten copy of their answers before the conclusion of the interview. With their consent, Participants signed the interview notes. On the same day of each interview, the researcher transcribed the interview record. Audio recording was not conducted due to cultural considerations in Hong Kong as audio recording could potentially create mistrust between the Participants and the researcher.

The primary aim of IPA researchers is to obtain rich, detailed, and in-depth accounts of the phenomena experienced by the Participants. Semi-structured interview questions asked during face-to-face interviews are the most common method of data collection in IPA (Alase, 2017). Preparing questions in advance allows the researcher to target specific areas while giving the Participant the freedom to share his or her lived experiences without losing focus on the material. This approach enables the researcher to ask open-ended questions and spend sufficient time exploring the details of the phenomenon. A “warm-up discussion” is often helpful to put the participant at ease, and experienced interviewers must be attentive to all verbal, non-verbal, and behavioral communication (Peitkiewicz & Smith, 2012).

In a typical IPA project, the narrative account is followed by a discussion section where new themes may arise during the research (Pietkiewicz and Smith, 2014). In this research, two new themes emerged: formulation of for tax accountants to serve taxpayers in defending tax investigation with customer satisfaction achieved and

promotion of tax morale to prevent tax evasion.

Section F- Data collection sample

In this study, the Participants, who were tax accountants who assisted taxpayers during their tax investigations, were able to provide diverse and insightful perspectives on the anxiety experienced by taxpayers during tax investigations because they had first-hand experience with the taxpayers. The Participants were selected from professional networks because not all accountants have expertise in tax investigations. Many tax accountants primarily deal with tax compliance, consultancy, or tax planning, rather than tax investigation work. This IPA study prioritized the depth of the data over its breadth. A small sample size of the Participants facilitated the collection of comprehensive, detailed, and nuanced data from each participant for data analysis, aligning with the ideographic foundation pillar of IPA. In this study, the 10 tax accountant Participants with at least 20 years' experience in tax investigations were selected to create a homogeneous sample and ensure that the Participants possessed sufficient knowledge, expertise, and experience of handling diverse cases to provide valuable contributions to the research. The taxpayers were not chosen as participants because locating those taxpayers who had undergone unpleasant experiences during tax investigations was not feasible.

Theoretical framework for the sample size

The sample size for data collection is dependent on saturation point and homogeneity of the participants and that in qualitative research, saturation point refers to the point at which additional data collection no longer yields new insights, or themes (Ahmed,

2025). The saturation point, which is the stage where additional sampling results in diminishing returns, indicates the minimum number of participants needed in the phenomenological method and it plays an important role in determining the sample size for a study (Smith & Osborn, 2003 as cited in Brocki & Wearden, 2006).

In addition, various studies have been conducted by many prominent figures in qualitative research to determine sample size. Creswell (2013) recommended the minimum number of participants for the following five qualitative approaches -

- (a) Case Study: 4 to 5 samples
- (b) Grounded Theory: 20 to 30 samples
- (c) Ethnography: One homogeneous group where the culture is shared
- (d) Phenomenology: Between 3 to 10 samples
- (e) Narrative Inquiry: About 1 to 2 samples

The literature review provided the following conclusions for phenomenological research:

- (i) 6 interviews are sufficient, as noted by Morse (1994) and Guest, Bunce & Johnson (2006).
- (ii) A sample size of 3 to 10 participants is adequate, according to Dukes (1984) and Sim et al (2018).
- (iii) The typical sample size for phenomenological research ranges from 8 to 12, based on observations by Sim et al (2018).
- (iv) The appropriateness of the sample size depends on the level of study (undergraduate or postgraduate). Clarke (2010) suggested having 3 participants for

undergraduate or master-level IPA studies and 4 to 10 participants for professional doctoral theses.

(v) For interpretative phenomenological analysis (IPA), a sample size between 3 and 10 is recommended (Sim et al, 2018).

In qualitative research with sample homogeneity, a participant number between 5 and 8 is deemed sufficient (Sim et al, 2018). For a narrow research scope and a similar target audience, the sample size could range from 6 to 12 participants (Guest et al, 2006).

Sample size for descriptive and hermeneutical phenomenology

Guest et al (2006) suggested a minimum of 6 participants for the phenomenological method. However, this suggestion was arrived at when only descriptive and hermeneutical phenomenology were available, and before IPA had been developed. Turpin et al (1997) suggested that for clinical psychology doctoral programs in the United Kingdom, an appropriate sample size was 6 to 8 participants. This allows for comparative analysis of participants' accounts of events or lived experiences while ensuring that the data volume remains manageable for thorough analysis.

Sample size for Interpretive Phenomenological Analysis (IPA)

Smith (2011c) recommended using a small number of participants for an in-depth IPA, rather than a large number which could lead to the development of too many themes. According to Brocki and Wearden (2006), having a large sample size can negatively impact the nuances of the sensemaking process for the participants.

Pietkiewicz and Smith (2014) mentioned that the sample size depends on several criteria: (a) the depth of the analysis of a single case study, (b) the richness and detailed information provided by each participant, (c) how the researcher intends to compare or contrast each participant, and (d) pragmatic restrictions, such as a limited number of participants with the relevant experience or difficulty in accessing the participants. In this study, the 10 participants were able to provide rich and nuisance data from each participant and the researcher were able to compare and contrast the data of each participant, and the researcher was able to contact the 10 participants, each of whom must have a minimum of 20 years of tax investigation experience, through professional connections.

Depth over breadth

IPA focuses on depth over breadth (Nizza et al, 2021). IPA participants are typically homogeneous, sharing similar experiences of the same or related events. The homogeneous nature of the participants depends on two factors: (a) a degree of similarity or variation that can be contained for analysis of the phenomenon to be studied and (b) pragmatic considerations, such as the ease or difficulty in finding participants and the relative rarity of the phenomenon (Nizza et al, 2021). The subject of the study defines the boundary of the sample; for example, the topic is about a rare event or a small group of people involved, such as a study of middle-aged people suffering acquired brain injuries (after traffic accidents) who were then put into care homes for rehabilitation purposes. Commonly, care homes are for the elderly and not middle-aged people. Therefore, when these middle-aged individuals are taken care of in such care homes, they find it difficult or even impossible to continue living; and there were only six middle-aged people aged between 38 and 53 residing in care

homes in the study in question; and the 6 participants were sufficient in that research (Dwyer et al, 2019).

To meet the ideographic requirement of IPA, which necessitates an in-depth study of each participant, a small and homogeneous sample size is preferred, usually with purposively identified participants. The objective is to produce detailed and comprehensive data for each participant. Clarke (2010) suggests using 3 participants for undergraduate or master-level IPA studies, and 4 to 10 participants for professional doctoral theses. In this study, the 10 tax accountants, each with at least 20 years' tax investigation experience sharing the homogeneity of the Participants, were purposively selected through professional connections.

Sampling size and demographics of the 10 Participants in this IPA study

This study purposively included 10 tax accountants, each with at least 20 years' experience in tax investigations, to ensure a homogenous sample well-suited for in-depth analysis. Defending clients during tax investigations is a specialized area of accounting, which justifies the selection of a small expert group. The participants, both male and female, gained their extensive experience either through work with the IRD or exclusively in private practice. Most of their expertise was developed while serving taxpayers as clients in private practice, making their insights particularly valuable for this research. The demographics of the 10 participants are as follows:

(a) Tax accountants with a minimum of 20 years' experience in tax investigation, collectively 370 years of experience.

(b) Both male and female; however, to preserve confidentiality, specific gender information is not provided in the study.

(c) Distribution of tax experience is appropriate because:

- (i) 80% of the 370 years of experience was gained in private practice, where the participants served individuals under investigation as clients.
- (ii) Five participants gained tax investigation experience as Certified Public Accountants (Practicing), providing both audit and tax services.
- (iii) Three participants initially gained tax investigation experience from the IRD and subsequently from private practice focusing on tax services only.
- (iv) Two participants gained tax investigation experience from the IRD first and then from private practice, providing both audit and tax services.

In this research, the Participants were specialists with over 20 years' experience each in tax investigations, forming a homogeneous group of tax investigation experts.

Defending tax investigations is a narrow focus within the broader work of tax accountants, which also includes tax compliance, tax planning, forensic auditing, financial report analysis, and general consultancy. Thus, a sample size of 10 participants with homogeneous experience was appropriate for this study. In addition, according to academic consensus, including 10 participants in this study was appropriate as phenomenological research typically recommends a sample size between 6 and 10 participants. For IPA, a sample size of 3 and 10 participants is considered sufficient to achieve in-depth analysis (Sim et al, 2019). These guidelines are supported by experts such as Dukes (1984), Sim et al (2019) and Clarke (2010), who note that hermeneutic phenomenology commonly use small, purposively selected samples to ensure rich, detailed and nuanced data

Purposive sampling is a non-probability sampling technique in which individuals are deliberately chosen based on specific characteristics necessary for research and also

referred to as judgmental sampling, it relies on the researcher's expertise to identify and select suitable participants (Vehovar et al, 2016 p. 328). The Participants, who were found through professional connections, qualified for the study because they had a minimum of 20 years' experience in tax investigation. Purposive sampling is extensively utilized in qualitative research, especially when cases rich in information are required. In IPA research, the number of participants can be limited; for instance, Fung (2018) explored the music learning experiences of only two participants, namely a mother and her daughter.

Confidentiality and voluntariness of the Participants

The names of the Participants were not disclosed in this study. The 10 Participants were given a letter from A to K, excluding J to prevent confusion with I. Throughout the interviews, the Participants did not reveal the identities of the taxpayers, ensuring that no personal information was presented in the study or included in this dissertation. Prior to each interview, the Participant received an Invitation Letter (Appendix B), explaining the research's purpose and objectives. Additionally, a Consent Letter (Appendix C) was given to the Participants for their participation in the study, which was voluntary, and individual Participant could withdraw from the research at any time before the completion of the study. The Participants had the option to respond to the questions and were not required to answer every question. The Participants were informed that their data might be published in the future, but any personal information about themselves or their clients would be excluded. No client data was collected during the interviews.

Section G – Data collection instrument

The data collection instrument for this research was a set of semi-structured questions (Appendix A) prepared beforehand or in advance of an interview. These open-ended questions addressed the three Research Questions: taxpayer anxiety as perceived by the tax accountants, the work performed by the Participants to relieve the taxpayer anxiety, and the evidence of customer satisfaction achieved by the Participants. The perspective work done by the Participants was referenced to the dimensions of the SERVPERF (service performance) customer satisfaction measurement tool.

Furthermore, given that tax investigations often arise from tax evasion, Participants' perceptions of tax inequity, fairness, and the functions of taxation in Hong Kong were also explored with the Participants during the interviews.

The semi-structured questions were formulated to provide appropriate and sufficient responses to the three Research Questions on (a) symptoms and causes of taxpayer anxiety in tax investigations, (b) relief of taxpayer anxiety by the Participants and (c) demonstration of customer satisfaction achievement by the Participants, as well as tax evasion and fairness of Hong Kong tax system. The objective of the semi-structured questions, along with the follow-up questions, was to obtain rich and nuanced data from the Participants' experiences in defending tax investigations with their clients. The researcher designed these semi-structured questions because similar tax investigation questions or research were not found in extant literature.

Section H - Data analysis

Data analysis in this qualitative research is based on the interactive processing of the research data and the adopted research methodology of Interpretative

Phenomenological Analysis (IPA). The iterative process involves reading and re-reading the information, codifying it, and subsequently identifying themes (Kekeya, 2016; Lacey & Luff, 2007). In this research, semi-structured questions were framed under the respective items relating to the three Research Questions. Themes were framed alongside follow-up questions and responses, resulting in final themes for analysis after thorough examination and organization of the research data.

Analysis of data was conducted from the three perspectives of phenomenology, double interpretation, and ideography within the IPA's foundational pillars.

Phenomenology involved obtaining data relating to the lived experiences of the participants defending tax investigations for taxpayer clients. This included the symptoms and causes of taxpayer anxiety, the work done to alleviate taxpayer anxiety, and the achievement of customer satisfaction. Symptoms of taxpayer anxiety included sleeping difficulty and avoidance of meetings with IRD officers, while causes of anxiety include lengthy investigation periods and uncertainty of tax and penalty payment until completion of the tax investigation. Gifts in addition to the agreed fee payments evidenced customer satisfaction achieved by the participants.

Double interpretation, detailed in Chapter 4, involved case-by-case analysis of each Participant's data along with the researcher's interpretations and observations, demonstrating the researcher's interpretation of the Participant's interpretation on taxpayer anxiety. The ideography foundation pillar of IPA guided case-by-case analysis of each Participant's data. Moreover, cross-case analysis, based on all participants' data, is also included in Chapter 4, providing comprehensive details of the data analysis.

Section I - Credibility of data

Triangulation is a principle that enhances the credibility of obtained data by using three distinct reference points to calculate the precise location of an object (Yardley 2008). This principle is recognized in qualitative research and other fields such as evaluation research and sociology (Jick, 1979). The goal of triangulation is to use at least three methods to verify or corroborate a procedure, piece of data, or finding.

In this study, data were collected through independent face-to-face interviews with the Participants to ensure the independence of data sources. Data from each Participant was compared with others. For example, similarities regarding the causes of taxpayer anxiety related to uncertainty about the duration of tax investigations, additional taxes, and penalties were identified from the Participants' data. Furthermore, different views on whether it is beneficial to have a replacement of IRD officer were presented by the Participants. On the issue of whether tax evasion is widespread in Hong Kong, the 10 Participants' views were evenly divided. Other examples to maintain objectivity include using medically recognized symptoms of anxiety to identify the anxiety experienced by taxpayers and applying objective customer satisfaction measurement tool SERVPERF (service performance) to assess the work done by Participants in achieving customer satisfaction. No reward of any form was provided to the Participants. Thus, the credibility of data was maintained.

Section J – Limitations and critiques

Limitations

This study does not include direct participation from taxpayers due to the difficulty of locating these individuals because being caught and fined by the IRD may have been

a negative experience for them. However, this limitation is mitigated by interviewing the Participants who assisted these taxpayers during the typically lengthy 18-month investigation period. These Participants had first-hand experience with the taxpayers' situations and could provide valuable insights on taxpayer anxiety. In addition, the Participants understood how to relieve the taxpayer anxiety and were directly interviewed to explain their methods of relief and the rationale behind them. Direct interviews, if any, with taxpayers may not be able to do so.

Critiques

Small sample size of participants

The research sample size is 10, which may be considered small. However, academics in IPA regard 10 participants as sufficient (Clarke, 2010; Sim et al, 2018). A smaller number of participants allowed the researcher to obtain detailed data from each individual participant for comprehensive analyses. For instance, Participant C highlighted that some taxpayers were not represented because they were either unconcerned about tax investigations or unwilling to incur professional fees for representation to the IRD in tax investigations, placing these taxpayers outside the scope of this research. Participant I provided a nuanced observation related to their audit clients, noting that only a small percentage (1%) of their clients was subject to tax investigation by the IRD. This finding aligns with the annual data on the number of completed investigations provided by the IRD. The detailed data was gathered through in-depth interviews with the Participants. Consequently, IPA was proven to be effective for thoroughly understanding a phenomenon by interviewing a limited number of participants.

Subjectivity of qualitative research

While critiques on the subjective nature of phenomenology may hold merit (Moran, 2013), this study strives for objectivity. Objectivity was maintained by allowing the Participants to share their experiences freely. The Participants were given the freedom to respond or decline any questions, and their responses were recorded in full, even if the researcher disagreed with their views. In addition, the assessment of the key elements of this study: taxpayer anxiety and customer satisfaction were subject to objective standards. The definitions and symptoms of anxiety are based on medical profession's standards. Customer satisfaction was measured using the SERVPERF (service performance) tool, a well-established objective measurement instrument. In addition, in acceptance of the extent of tax evasion in Hong Kong, the Participants' data were compared with the official government information of the number of investigation files closed annually. The adoption of these objective standards and measurements aimed to mitigate critique of subjectivity in this qualitative research.

Effectiveness in communication between the participants and the researcher

It has been suggested that IPA research relies on eloquent individuals because the data depends heavily on conversations and the recording of those conversations between the participants and the researcher (Willig, 2008). Consequently, if either the participants or the researcher is not proficient in communication, the integrity of the IPA project or its outcomes could be compromised. In this study, the Participants were all professionals whose primary working language is English, as does the researcher. Therefore, it has been anticipated that language communication within their

professional field would not present any issues for this study.

Section K – Summary

Selection of a research methodology is guided by research philosophy (Abu-Alhaija, A. S., 2019). There are two research philosophies: positivism and interpretivism. Positivism focuses on measurable and quantifiable data, which is suitable for the natural sciences but not always applicable to human phenomena. Interpretivism, on the other hand, seeks to understand and interpret lived experiences by posing "what," "why," and "how" questions. This research adopted an interpretivism approach to explore the Research Questions concerning the phenomena of taxpayer anxiety and how tax accountants relieve this anxiety through customer satisfaction. These research questions involve “what” and “how” inquiries, and as such, a qualitative phenomenological approach was adopted for this research.

To conduct an in-depth inquiry into the three Research Questions, the Interpretative Phenomenological Analysis (IPA) methodology was employed. A sample of 10 tax accountants with at least 20 years of tax investigation experience was purposefully selected from professional connections. This small sample size is supported by academics (Clarke, 2010; Sim et al., 2018). Research data, consisting of responses to the semi-structured interview questions (Appendix A), was obtained to address the three Research Questions regarding the taxpayer anxiety, how the taxpayer anxiety was relieved by the Participants with customer satisfaction achieved by the latter. Follow-up questions were also posed during the interviews, which lasted between 42 to 86 minutes and were conducted in locations convenient to both the Participants and the researcher.

The risk of loss or misinterpretation of data during interviews due to translation was

minimized since the semi-structured questions were prepared in English, and responses were initially obtained in local Chinese but immediately translated into English on-site with the Participants' agreement. Participants were invited to attend the interviews via an Invitation Letter (Appendix B) that outlined the scope of the research, providing the Participants with the freedom to join or withdraw from the study at any time prior to its completion. Each Participant signed a Consent Letter (Appendix C) to participate in the research. Confidentiality of Participants and taxpayers was maintained by referring to the Participants with letters A to J (excluding I to avoid confusion with J) without disclosing any taxpayer information in the Participants' responses.

IPA was selected for its robustness in data analysis based on its three foundational pillars: phenomenology, hermeneutics (including double interpretation), and ideography. Under phenomenology, the Participants provided firsthand experiences of taxpayer anxiety and their efforts to relieve such anxiety while achieving customer satisfaction. Double interpretation involved the researcher interpreting the Participants' interpretations of taxpayers' lived experiences. The ideography entailed analyzing individual Participant's data on case-by-case basis in depth and conducting cross-case analysis with data from all the Participants. Research findings are presented in Chapter 4.

CHAPTER FOUR – FINDINGS

Section A – Introduction

Section B – Tax investigation in practice

Section C – Findings from individual participant data analysis

Section D – Insights into individual participant data

Section E – Findings from all participants' data analysis

Section F – Customer satisfaction achieved by Participants, as assessed by

SERVPERF (service performance), a customer satisfaction measurement tool

Section G – Summary

Section A – Introduction

Before discussing the research findings of derived from the Participants' data both individually and collectively, this section provides an overview of the research aim, objectives, and questions. In addition, it outlined the IPA methodology, criteria and participant selection process, and addressed the theoretical framework encompassing **taxpayer anxiety** and **customer satisfaction**, which are the two key elements of this study. Furthermore, this section highlights the translation process and the research

roadmap.

A1 Research aim, research objectives and research questions

The research aims were to identify the sources and causes of taxpayer anxiety under tax investigations and find out how tax accountants could achieve customer satisfaction when serving these clients. To assess the customer satisfaction achieved by the Participants, the research employed SERVPERF, a customer satisfaction measurement tool developed by Parasuraman et al (1985).

The objectives of this research were to understand the symptoms of the anxiety experienced by taxpayers (the clients of the Participants) undergoing tax investigations, the causes of said anxiety, and how this anxiety was relieved by the Participants through achieving customer satisfaction. These objectives gave rise to the following three research questions:

Research Question 1: What are the symptoms and causes of taxpayer anxiety during tax investigation?

Research Question 2: How is taxpayer anxiety relieved by the Participants with customer satisfaction?

Research Question 3: How is the achievement of customer satisfaction by the Participants demonstrated?

A2 Interpretive Phenomenological Analysis (IPA) methodology

To explore the three research questions, this research adopted Interpretive Phenomenological Analysis (IPA), which has three core elements or foundation

pillars: (a) phenomenological (b) interpretive, and (c) ideographic. This research was phenomenological because it explored the phenomenon of the anxiety of the taxpayers under tax investigation and the relief of taxpayer anxiety through customer satisfaction achieved by the tax accountants. The study was interpretive as it sought to obtain a comprehensive understanding and profound interpretation of the experiences of the Participants defending against tax investigations through extensive interviews. Finally, it was ideographic because it was designed to obtain in-depth insights into the lived experiences of each participant. Examination, review, theming, and analysis were made possible due to the small sample size (10 participants).

In addition to the exploration of the three research questions, two new themes emerged from the study: (a) best practices for formulating for tax accountants to effectively defend taxpayers during tax investigations with a focus on customer satisfaction, and (b) promoting tax morale to curb tax evasion as an alternative or complement to penalties and imprisonment as punishment in Hong Kong. These two new themes are discussed in Chapter 5.

A3 Sampling of the 10 tax accountant Participants

IPA is a qualitative research methodology comprising face-to-face interviews with participants designed to gather rich, in-depth, and nuanced data from each participant. Sim et al (2019) suggested that in IPA research, a sample size between 3 and 10 would be sufficient. Clark (2010) recommended 4 to 10 participants for professional doctoral thesis studies. As such, the number of participants chosen for this study (10 individuals) was justified. The Participants were purposively selected based on the researcher's professional connections, with each one having at least 20 years' tax

investigation experience. Participants had one of two backgrounds: five had experience only in private audit practice with tax investigation, while the other five had experience in both the IRD and private practice. This equal ratio was designed to maintain a balanced perspective between tax investigation and audit practice. To rely solely on participants with tax investigation experience may result in biased viewpoints regarding defending tax investigation. Gender was not a criterion for selection, and the 10 Participants were assigned a letter from A to K (excluding J to avoid confusion with I) to maintain their confidentiality.

A4 Theoretical framework of (a) uncertainty as the cause of anxiety and (b) customer satisfaction and the 3 dimensions of (i) reliability, (ii) responsiveness and (iii) empathy of the SERVPERF (service performance) model

There are three key areas in this study: taxpayer anxiety, relief of taxpayer anxiety and customer satisfaction achievement. First, taxpayers under tax investigation experienced anxiety, as evidenced by various symptoms. The primary source of their anxiety is uncertainty, as supported by the Theory of Anxieties (Strongman, 1995) and there is a significant association of intolerance of uncertainty with general anxiety disorder (GAD) (Gentes & Ruscio, 2021). This uncertainty includes concerns about the amount of additional tax and penalties to be paid, the potential risk of imprisonment, and the extended duration of the tax investigation, the attitudes of different IRD officers, and replacements in IRD officers handling the case. Secondly, taxpayers' satisfaction with the services provided by the Participants was indicated not only by their willingness to pay service fees promptly, but also offering gifts as tokens of appreciation for the results achieved. The areas where customers were satisfied with the professional services of the Participants were examined under the lens of

customer satisfaction measurement model SERVPERF devised by Parasuraman et al (1985), which focuses, in this research, on the 3 dimensions of reliability, responsiveness and empathy.

A5 Translation of raw participant data from Chinese to English

The statements of the 10 Participants were obtained during in-depth interviews using semi-structured questions, which were pre-typed in English and prepared before the interviews. Follow-up questions were also asked during the interviews. Each Participant was provided with the complete set of semi-structured questions beforehand to give him or her an overview of the interview process. The Participants responded in Cantonese, a local Chinese, and their answers were immediately translated into English by the researcher on site, followed up by questions for clarification and for further detailed responses on the spot. Upon completion of each interview, the entire set of responses, in English was reviewed and agreed upon by the Participant. It is customary among Hong Kong professionals, whose native language is not English, to conduct conversations in Cantonese and document them in English. Therefore, the translation of the interview data posed no issue.

A6 Roadmap of the study

The following steps were taken to undertake this research.

- (i) The researcher identified a research topic. The aims of this research are to identify the causes of taxpayer anxiety under tax investigations and find out how tax accountants can achieve customer satisfaction when serving these clients

(ii) Formulate the following three research questions: -

Research Question 1: What are the symptoms and causes of taxpayer anxiety during tax investigation?

Research Question SQ2: How is taxpayer anxiety relieved by the Participants with customer satisfaction?

Research Question SQ3: How is the achievement of customer satisfaction by the Participants demonstrated?

- (iii) Adopted the qualitative research method since the research topic raised “what, how and why” questions,
- (iv) Selected Interpretive Phenomenological Analysis (IPA) methodology among qualitative research methods, as the study involved conducting face-to-face in-depth interviews with the Participants. This approach allowed the researcher to obtain detailed data from each Participant regarding the research questions.
- (v) Conducted desk-based research to complete literature review.
- (vi) Prepared semi-structured question prior to the interviews with the tax accountant Participants.
- (vii) Selected ten tax accountants purposefully as Participants for the interviews from professional connections.
- (viii) Collected data from the Participants through face-to-face interviews.
- (ix) Performed coding, reassembling, and theming of the collected data.
- (x) Data analysis was conducted by IPA method on the data of each participant and across all participants' data.
- (xi) Identified two new themes emerging from the research data and literature

review.

- (xii) Wrote the dissertation.

Section B – Tax investigation in practice

Before understanding the findings, it is necessary to comprehend the process undertaken by a tax accountant when defending a tax investigation. This process spans from the initial engagement with a client to the final settlement of the investigation. According to the policy of the IRD, cases termed as field audit by the Field Audit and Investigation Unit of IRD, are completed within three months. Other cases, known as investigation cases, may extend beyond three months without a specified time limit for completion. Both types of cases are, in this study, collectively referred to and analyzed as tax investigation cases. The following were the description of tax investigation by the Participants.

Participant K described a field audit case which was finished within 3 months.

“An existing client received a letter from Field Audit and Investigation Unit to arrange a call with an Investigation Assessor for a meeting to be held in the Investigation Section of the IRD. Then, following an initial interview, checking bank accounts and negotiation and submission of proposal, the case was finished in 3 months. Client ran a cash business but kept no book, just records of receipt and expenditure”.

Participant I described the investigation process in relatively simple terms.

“As usual, client received a letter for calling IRD for a meeting. Then, I went through client’s business records and arranged an initial interview, forwarded information to IRD, wrote letters to

IRD to provide information and held meetings with IRD officers. Then, settlement proposals were submitted to IRD and after several rounds of negotiation, a settlement was reached. Additional tax and penalty were finalized. Case closed.”

Participant C provided another version of the tax investigation process.

“Client received an invitation letter to contact IRD Assessor to attend an interview either usually in the IRD office, or in rare case, in the office of the client. Or sometimes, clients had already attended the interview with the IRD Assessor who had informed the client the consequence of understatement of income in the tax return, that is, tax evasion, which included monetary penalty and imprisonment.

Clients were afraid of taking a wrongful approach to handle the investigation from IRD. For those clients who did not attend the initial interview (the first interview) with the IRD Assessor, I would hold a rehearsal interview with the clients before attending the initial interview with the IRD Assessor.

Sometimes, the client on first contact of the participant would disclose and admit tax understatement but, in most cases, the clients did not disclose the income understatement.

Only those taxpayers who were fear of investigation would find tax accountants for consultation, especially when they were called for an interview, which symbolised the beginning of tax investigation.

After the initial interview, contact with the IRD Assessor would be done by letters and meetings between me and the IRD Assessor. The clients dared not to meet the IRD Assessor. After several rounds of negotiations between the participants and the IRD Assessor, a proposal would be submitted to the IRD for approval. In most cases, the proposal will be approved by the Commissioner of Inland Revenue or its deputy, Deputy Commissioner of Inland Revenue.

Then, the additional tax payable in accordance with the agreed proposal and penalty, which was based on the amount of additional tax paid, would be paid. Thus, the investigation case was complete. Whether the proposal was acceptable by the Commissioner or Deputy Commissioner or not depended on the amount of tax understated, that was, amount of tax evaded. For cases of higher amount of tax undercharged and penalty to be paid, the settlement proposals were approved by the

Commissioner. For cases of less amount of additional tax and penalty to be paid, the proposals would be approved by the Deputy Commissioner.”

Participant G described the investigation process in the following manner.

“There are 2 types of tax clients. Either from existing audit clients of the firm or referrals from other audit firms. The tax client usually started with an additional assessment demanding additional tax or started with a letter from IRD calling the clients to contact IRD. Then, I held a meeting with clients, and if the client was referred to by other CPAs, details of the business, accounting keeping system would be collected. Prior to the initial interview with IRD, a rehearsal interview would be held with the client to show when and how the interview would take place. Sometimes, clients did not know how to express themselves as well as how the accounting books were kept. I remember a case where the client was eager to show off his wealth, his watch, dressing and appearance. Advised client to dress simply when meeting the IRD officers. After the information was obtained from the client, I went to IRD for the initial interview. Then the proposal was prepared to IRD for settlement purposes. Case was closed when the final proposal was accepted by IRD.”

Section C – Findings from case-by-case analysis

The purpose of interviewing participants by the researcher was to gather comprehensive and detailed information about their lived experiences and record this information verbatim for research purposes. A key aspect of Interpretative Phenomenological Analysis (IPA) was gaining a deep understanding of each Participant's experience, as interpreted by the participant, thereby obtaining nuanced data on their lived experiences. Then, IPA required the researcher to interpret participants' interpretations of the phenomena, a process known as double interpretation. The findings from IPA include analysis of all the Participants' data,

which facilitated the transferability of knowledge regarding taxpayers' anxiety about tax investigations and strategies to alleviate such concerns in the future. This overall analysis of all the participants' data is detailed in Section E of this Chapter.

Analysis findings of case-by-case with researcher's interpretations

Interview with Participant A

Research Question 1: What are the symptoms and causes of taxpayer anxiety during a tax investigation?

Research Question 2: How is taxpayer anxiety relieved by the Participants with customer satisfaction?

Research Question 3: How is the achievement of customer satisfaction by the Participants demonstrated?

Research Question 1: What are symptoms and causes of taxpayer anxiety during a tax investigation?

Participant A stated: -

Synonyms of taxpayer anxiety

"Client calling me at night but did not consult medical doctor."

Participant A observed that the taxpayer suffered clinical symptoms of anxiety and felt that the taxpayer was anxious about the tax investigation, although the client did not consult a medical doctor.

Causes of anxiety

"Client said they are innocent and claimed not to understate the concept of income in tax return.

Yet, tax undercharged was discovered after investigation. Clients are concerned about how long the

investigation will take, how much additional tax will be paid and how many penalties will be imposed. Clients were concerned about a long investigation period. Not to know the amount of additional tax and penalty to be paid or the attitudes of officers. For example, in a case when IRD did not accept the salary charge amount by construction sub-contractors because payments of the wages were mainly in cash to the workers at construction sites, the lowest rate of wages of workers per government publication were negotiated during the settlement. Why did IRD not take the median salary range? Then, the case was settled. The dispute was resolved by the salary received by the workers which was published by a workers' organization."

Client of Participant A was concerned about the length of the investigation period, the amount of additional tax and penalty to be paid.

Participant A opined that the IRD was not fair to the taxpayer when the IRD adopted the lowest wage level, instead of the medium wage, to compute the allowable wage expenses to the sub-contractor taxpayer.

Research Question 2: How is taxpayer anxiety relieved by the Participants with customer satisfaction?

(i) Responsiveness

"Prompt meeting and calling with clients. Prompt delivery of information to IRD

Making phone calls to IRD to follow up progress of the case."

(ii) Reliability

"Rehearsal of initial interviews with the clients. Provided analysis of the strength and weakness of the client's case. Explained the investigation procedures to clients.

Completed cases of similar nature were shown to clients. In one case, even the client employed a lawyer for a short period of time during the investigation but it did not help."

Participant A believed that thorough understanding of the facts of the taxpayer can help clients.

Assurance [trust in tax accountant's assistant, assistants work independently and accurately]

"At the peak time during my practice, one to six assistants were engaged. On average, 3 assistants were engaged. The junior assistants helped to make photocopies of documents, carried out bank account analysis by reference to the bank statements, and year-end cut-off analysis. The senior monitored the work of the juniors, and solved problems. For example, find out the reasons for making audit adjustment of large amount \$10,000,000 for year-end adjustment.

"For all the cases, the assistants' work was reliable. There was only one error committed by an assistant but rectified by me before submission of information to IRD."

(iii) Empathy with clients

"Constant meetings with clients. Mental support of clients. Accepted phone calls even at night. Relief of anxiety of clients should demand professional accounting and taxation skills.

Participant A indicated that one need to be ready to help address client's needs and concern with clients and professional accounting and taxations skill can help clients.

Research Question 3: How is the achievement of customer satisfaction by the Participants demonstrated?

Evidence of satisfactory service

"Referral of new clients by former clients. No advertisement. Payment of fees on demand, except for one case, a lawyer client disputed fees but the original agreed fee was finally paid. No termination of engagement. In one case, I was invited for dinner at the beginning and the end of every lunar new year. Not one case of termination of engagement."

Participant A's clients were satisfied with the latter's service in defending tax investigation.

Interview with Participant B

Participant B had the following views.

Research Question 1: What are the symptoms and causes of taxpayer anxiety during a tax investigation?

Symptoms of taxpayer anxiety

“Client often said the investigation period was too long and asked the progress of the investigation and urged to complete the investigation early. Sometimes, clients said that the investigation caused high blood pressure and hypertension was reduced after settlement proposal was agreed.”

Participant B reported the clients’ blood pressure level to show that investigation may cause an increase in blood pressure.

The researcher agreed with Participant B because this is substantiated by medical research that anxiety can exacerbate hypertension, as found by DeMartini et al (2019). For individuals with pre-existing hypertension, the condition may be aggravated by anxiety.

Causes of anxiety

“Clients are concerned about the length of investigation period, how much tax, penalty are to be paid, and chance of imprisonment. Clients said that they had no money to pay for penalties. Clients did not know why they were chosen for investigation.

Clients did not know how to argue with IRD. Clients often said the investigation period was too long and asked the progress of the investigation and hoped to complete the investigation early.”

Lengthy investigation period

“The investigation period is too long. Clients felt that the investigation would be dragged on. Over 18 months is too long. The investigation period should be reduced by 50%. Clients could pay as much as IRD demanded but at the same time, clients were not willing to pay additional tax and penalty demanded. At the same time, anxiety was caused by both sides. By being co-operative and not being evasive in production of documents and accounting records to IRD, the investigation period can be shortened.

Replacement of officers

“IRD replacement of officers is not too often. If officers are changed, normally it will be worse. Individual officers could be straight or loose. There is no way to oppose replacement of officers.”

Attitude of IRD officers

“Attitude of IRD officers is becoming worse and worse as time goes by.

IRD officers delayed the investigation by not being serious enough and sometimes being ignorant of tax law. Sometimes, officers handled the case too high handed. Sometimes, IRD officers did not follow instructions in Departmental Interpretation and Practice Note which was issued by the Commissioner of Inland Revenue.”

Participant B observed that clients were anxious about the amount of additional tax and penalties to be paid, the period of investigation and the chance of imprisonment. The client did not know how to argue with IRD.

Participant B reported that the anxiety of clients was caused by the lengthy investigation period, different attitudes of IRD officers and replacement of officers, which could not be controlled or influenced by tax accountants.

Participant B’s comment is fair because he stated that delays in investigation might be caused by the delay in the production of documents to IRD. Clients should not be evasive in production of documents to IRD.

On replacement of officers, the researcher’s view from the data of other Participants is that replacement of officers may be good or bad for the taxpayers, as in one case, the new officer wanted to close the outstanding case early and

complete the case early.

Research Question 2: How is taxpayer anxiety relieved by the Participants with customer satisfaction?

Taxpayer's expectation

"Customer's expectation was to have early settlement and minimization of payment of additional tax and penalty. Whether the expectations can be met is at a 50:50 chance because some clients just kept incomplete records of the business, or that not a complete book of records were kept."

Participant B provided client's expectations and opined that the expectation depended on the provision of accounting records by the client.

Relief of taxpayer anxiety

(i) Responsiveness

"Whether information can be provided to IRD depends on whether clients were able to provide the information to IRD. Tax clients should provide the required accounting records and other documents to IRD officers. Yet, some tax clients are not able to provide because of incomplete accounting records kept by tax clients."

I contacted the IRD officers on need basis. If IRD did not react soon, I would follow up the case by phone call. I can help finalize the investigation early."

(ii) Reliability

"At the beginning of private practice, clients looked for me because I had worked in the IRD. Provided expected schedule to clients as to what would happen during investigation. Provided initial interview rehearsal. Provided possible work or procedure flow of investigation to clients. Clients seldom argued with the advice given by me. I provided examples of similar cases which I handled before. I always tell my clients that I was helping them to discharge burden of proof to show that there was no intentional understatement of income in tax return."

(iii) Assurance

"I engaged only one assistant for computation work. All the work done by the assistant was reviewed by me."

(iv) Empathy

"Provided analysis of the case to client, pointing out the strengths and weaknesses to clients and informed clients the possible amount of additional tax and penalty to be paid. I held useful meetings with clients on need basis in the investigation progress. I understood the problems of the clients and provided solutions. I felt that clients knew the I was helping them. Yet, I had doubts about some clients and sometimes, the integrity of what the clients said of their story or explanation."

Research Question 3: How is the achievement of customer satisfaction by the Participants demonstrated?

Evidence of satisfactory service

"Referral of new clients by former clients. Fees lower than those charged by

big-4 accounting firms. Otherwise, clients would go to the big-4 accounting firms."

No advertisement. No gift was received from clients. Fees were paid on demand. No delay in payment of fees. Clients did not dispute the amount of fees charged."

There was no termination of engagement."

Participant B facilitated the completion of the investigation by calling the IRD officers when necessary, providing the proper advice to clients. It is evidenced that clients were satisfied with the service of Participant B, such as client referrals by old clients.

Interview with Participant C

Participant C stated the following: -

Research Question 1: What are the symptoms and causes of taxpayer anxiety during a tax investigation?

Symptoms of taxpayer anxiety

“Clients often asked for progress of the investigation case. Clients always urged me to complete the investigation case early. Yet, early settlement depends on early submission of proposal, which is based on whether full information has been submitted by clients. Clients claimed that the investigation period was too long. Client told me that they could not sleep at night. Client did not say specifically that they visited doctors but said they were under pressure during the investigation period. Seldom did they say they went to see doctors. The client’s pressure was reduced after a proposal was agreed for settlement. Clients were not willing to attend face-to-face meetings with the IRD officers.”

Participant C stated the clients were under pressure during the period of tax investigation, even though they might not see the doctors and that the pressure was released once a settlement proposal was agreed by the IRD officers.

Researcher’s comment that the unwillingness to see the IRD officers is a clinical symptom of anxiety.

Taxpayer’s anxiety

“Clients were told by the IRD officers at initial interviews of the possibility of imprisonment. Clients were afraid of tax investigation and hence sought advice and assistance of participant, a tax accountant. Only those clients who were fear of IRD tax investigation would find a tax accountant for advice and assistance. Those clients who were not fear of IRD would not find a tax accountant for advice or assistance.

Clients were afraid of taking a wrongful approach to deal with IRD investigation officers. Clients claimed that they had no money to pay additional tax and penalty.

After the settlement proposal was agreed, clients would have time and be able to start a new business project or pay full attention to their businesses. Clients were afraid of making appearances on newspapers.”

Researcher’s interpretation: Taxpayers often worried about tax investigations due to the uncertainty of their duration, the possible tax and penalties, and the risk of imprisonment. Participant C made a valuable and unique point that those who engaged tax accountants were fearful of tax investigations. Those who did not fear investigations typically handled them without professional help. The perceived threat of imprisonment was emphasized by IRD officers, but it only occurs when a taxpayer is prosecuted, which happens rarely, approximately once a year. Participants inform clients of this during initial consultations. The researcher noted that taxpayers who were unafraid of investigations or IRD officers did not seek professional help, making it difficult to conduct research on these taxpayers.

Taxpayer’s anxiety

“Client wanted to know how much additional tax and penalty needed to be paid.

Researcher’s view: Clients learned from newspapers and from the initial interview with IRD officers (when clients took the initial interview themselves without engagement of a tax accountant) of the possibility of imprisonment.

Causes of anxiety

(i) Investigation period

“Clients claimed that investigation period was too long. Typical length is between 1 and 2 years. If

the investigation period is over 36 months, it is too long. 1 to 2 years is ok but over 36 months is too long. Furthermore, if it lasts longer than 3 years, the tax accountants' cost will suffer because the tax accountant's fee is usually capped. If the investigation is too long, more labour costs will be incurred at a higher level not only because of inflation but additional fee cannot be collected from client."

Replacement of officers not too frequent.

"Whether the replacement of officers is good or bad? It depends. Better off or worse may occur. Both sides could be possible. In one instance, the Assessor was on long sick leave, then the Senior Assessor took over the case, resulting in shortening of the investigation because of the recommendations and immediate approval of the settlement proposal was successfully reached by streamlining the process from going through 2 Assessors and one Senior Assessor to one single Senior Assessor."

(ii) Attitude of IRD officers

"In investigation cases, not much tax law is involved. Progress of the investigation case depends on the individual approach of the Assessor."

Participant C gave an exceptional example to show that the replacement of IRD officers could make the case better off. Impliedly, Participant C gave his view that progress of each case depends on the individual approach of each officer.

The researcher's view is that implicitly, IRD should improve the actions taken in tax investigations and align its officers to handle the investigation cases by the same standard. Otherwise, inequality treatment of taxpayers could occur.

Research Question 2: How is taxpayer anxiety relieved by the Participants with customer satisfaction?

Relief of anxiety

(i) Customer's expectation

“Too high amount of tax payable cannot be affordable. Additional tax demanded should be reduced. At least 80% of the client’s expectations were met.”

Participant C impliedly reported that clients were prepared to pay some additional tax and penalties for completion of each investigation case and that the final settlement was reached because 80% of the client’s expectations were met. It means that the additional tax and penalties charged were within the expectations or abilities of the taxpayers to pay.

(ii) Responsiveness

“Speedy provision of information to IRD as required from IRD. Follow up case with IRD by phone calls. Available to clients on need basis. To speed up the progress of the case, advise clients to pay deposits on expected/admitted understatement of income and hence tax underpaid.”

(iii) Reliability

“Provided an expected schedule to Client, like initial interview, provide initial interview rehearsal to clients, provide the possible flow of work by IRD officers to clients. Analyze the crux of the problem of client’s case to client, e.g. business expenditure is wholly cash, with no or only rarely with supporting documents. Tell clients the standard procedure and penalty loading or scale. Tell clients that newspaper and news release of IRD are on penalty and rarely on imprisonment. Sometimes, clarifies the taxpayers’ misunderstanding of the tax law. Sometimes, I explained the work attitude and workload of the assessor who has several dozens of files to handle and who also wants to close the case early. Tell clients that I have already handled clients from all kinds of businesses. During the investigation, let the client know what is going on and what will happen next. Final settlement on a reasonable basis and the amount of additional tax payment and penalty are lower than client’s expectations.”

(iv) Assurance

“I employed 2 staff to do bank analysis, that is, locate items in bank statements, for bank deposits, find out which are non-trade deposit. Expenses not to be overcharged or overstated.”

(v) Empathy with clients

Understood client’s problem and speedy response to client’s anxiety, Analyzed the weakness of

client's case, e.g. Expenditure is private expense and hence not tax deductible. Analyzing the strength of the client's case, remind clients to provide evidence, co-operate with IRD. Give my mobile phone number to the client so that client can contact me. I contacted clients on needs basis."

Participant C played a good role in pacifying clients that the IRD officers were working on tons of files. Participant C pointed out to clients that the IRD officers also work under pressure. Such pressure may stem from the urgency to finalise the tax investigation early. A lengthy investigation period could be caused by the heavy workload of the IRD officers.

The researcher's comment is that qualitative research approach has its value in that the nuanced reasons for the phenomenon can be solicited during in-depth interviews with participants. These nuanced reasons for a phenomenon cannot be found out by quantitative method. Thus, the qualitative approach taken in this study is justified.

Research Question 3: How is the achievement of customer satisfaction by the Participants demonstrated?

Satisfactory service

"Clients seldom argued with my advice, which are practical to resolve problems. Clients gave gifts to me during festive times. Tax clients subsequently appointed me to be auditors of the company under investigation. My bills were paid upon demand. Termination of engagement by client occurred only once when client stated that after seeking advice from the fortune teller, I did not match with the client."

Clients were satisfied with the service provided by Participant C.

Interview with Participant D

Participant D stated: -

Research Question 1: What are the symptoms and causes of taxpayer anxiety during a tax investigation?

Anxiety content

“Clients told me that they could not pay the tax additionally spotted and charged by IRD, as well as the penalties. Clients were anxious about the possibility of imprisonment. There were conflicting views between clients and IRD”.

Symptoms of taxpayer anxiety

“Clients always urged to complete the tax investigation early”.

Participant D stated that the lengthy period of investigation was the main cause of anxiety, which was caused by uncertainty in the progress and outcome of the tax investigation.

Causes of taxpayer anxiety

(i) Replacement of officers

“Replacement of IRD officers is not too frequent. Worse after the replacement of officers. We cannot oppose to the replacement of IRD officers.”

(ii) Attitude of IRD officers

“Different officers had different work attitude.”

Participant D viewed that clients’ anxiety was caused by the lengthy period of the tax investigation, replacement of officers and different attitude of different officers in case of replacements.

Research Question 2: How is taxpayer anxiety relieved by the Participants with customer satisfaction?

Relief of anxiety

(i) Responsiveness

“Meeting and phone call with clients, speedy provision of information to IRD, as the information is required by IRD. Willing to help and prompt service, prompt meetings and phone calls with clients. Furthermore, speedy provision of information to IRD, as the information is required from IRD. Clients can contact me promptly by phone call or meeting. Clients are satisfied with the timely provision of information provided to IRD, as required by IRD. Speeding up the investigation process is beyond my control.”

(ii) Reliability

“Analyzed the crux of the problem of client’s case to client. Told client the possible penalty imposed/the penalty policy adopted by IRD. Clarified the taxpayers’ misunderstanding of the tax law. Provided the experience of some cases of similar business nature, which were closed in the past, to clients.”

(iii) Assurance

“I have been working alone”.

(iv) Empathy with clients

“Understood and analyzed the crux of the problem of client’s case to client. I am often accessible to clients by phone calls and meetings. Psychologically assisting clients to undergo the investigation period.”

Research Question 3: How is the achievement of customer satisfaction by the Participants demonstrated?

Satisfactory service is evidenced by the following:

“Referral by former clients because of former clients’ satisfaction with my service.

Clients did not dispute fee payment on payment due date. There was one case of premature termination of engagement for reason unknown.”

Participant D implied that timely provision of information to IRD could be within the control of the Participant but not the work of the IRD officers or time spent by the IRD officers.

Interview with Participant E

Research Question 1: What are the symptoms and causes of taxpayer anxiety during a tax investigation?

Anxiety content

“Clients are anxious as why they were chosen by IRD as the target of investigation. Clients claimed they were not able to pay additional tax and penalty. They seldom worried about imprisonment because I told them unless false accounts were prepared, the chance of being imprisoned is slim.

Clients were anxious about the length of the investigation because professional fees were charged on an hourly basis. The longer the investigation, the more fees needed to be paid.”

Symptoms of taxpayer anxiety

“Clients urged me to complete the case early because professional fees were charged on an hourly basis. Clients were relieved once when proposals for settlement were accepted. Clients did not tell me that they could not sleep well at night. Yet, they told me that they could sleep well at night after IRD had agreed to fix the back duty tax and penalty amount. Client felt relieved after settlement is agreed and when additional tax and penalty finally paid is less than expected.”

The researcher's note: sleeping difficulty is a symptom of anxiety.

Causes of anxiety

(i) Lengthy investigation period

"Cases dragged on for too long. At least 2 to 3 years to complete an investigation case. The investigation period should be reduced by 50%. Tax investigation is harder than and more time consuming than audit work because when an error is discovered for one year, IRD will take the error for all the 7 years to finalize the case. For example, when entertainment expenses were found to include private portions and disallowed 50% for one year, then for all another 7 years backwards, all the entertainment expenses were disallowed by 50%. Thus, more additional taxes and penalty would be paid."

Researcher's note: the tax law allows or restricts the investigation period to cover up to 7 years backward.

Several rounds of queries by IRD officers at different meetings

"In one investigation case, I had to attend IRD for 5 or 6 times. IRD should not just review one area at one time and ask me for several interviews. IRD officers can review all the areas and finish the whole case in one go."

(ii) Anxiety about additional tax amount and penalty

"Clients worried about the amount of additional tax to be paid. For example, I explained to clients that the tax and penalty could be more than 7 digits (more than 1 million Hong Kong dollars)."

(iii) Not anxious about imprisonment

"Clients were not worried about imprisonment because I had explained to clients that the ones"

under investigation seldom to end up with imprisonment unless false accounting records were prepared.”

(iv) Attitude of IRD officers

“Definitely, different officers have different attitude. It is preferable to act reasonably with IRD so that IRD will close the case early.”

(v) Replacement of officers

“Replacement of officers not often. Not the concern of clients. The new officer knew less about the case and closed the case earlier. Cannot oppose replacement of officers.”

(vi) Were the Investigation files opened wrongly?

“It is very rare. Just out of so many cases, only one case ends up with no additional tax charged and no penalty after 1 year of investigation.”

Participant E provided some nuanced data about the tax investigation that he or she came across.

- (a) Clients were anxious about the lengthy period of tax investigation because professional fees were charged on an hourly basis. Yet not all clients accepted this basis of fee structure. The researcher’s understating is that fees are commonly charged on a fixed scale. Or alternatively, charge of fees is capped at a certain level.
- (b) It is common for taxpayers to be concerned about the amount of additional tax and penalties to be paid, rather than imprisonment because unless false accounting is done, imprisonment is seldom handed down.
- (c) Replacement of officers can be advantageous because the new officer wants to close the case early.
- (d) Some taxpayers mistakenly claimed private expenses as allowable business

expenses in the computation of taxable profit, so that the submitted taxable profit was reduced.

- (e) Tax accountants could alter tactics with a replacement of officers.
- (f) IRD officers should finish the case with overall views at one go and not to clear queries one by one, which lengthens the duration of tax investigations.
- (g) Taxpayers could commit tax evasion or understatement of income with the hope that they could not be the target of investigation, or they could escape the attention of the IRD.
- (h) When IRD opened an investigation file for a taxpayer, something must be wrong with that taxpayer. That is why Participant E comment is that from his lived experience, it was rare to see that an investigation file is wrongly opened, and that when an investigation file is opened, some additional tax and penalty must be collected by IRD.

The above implications are the interpretations of the researcher since in IPA, the researcher is supposed to make interpretation of the participants' versions of the lived phenomena, which is called double interpretation.

Research Questions 2: How is taxpayer anxiety relieved by the Participants with customer satisfaction?

Customer's expectation

"Results were better than expected, as the final additional tax and penalty was less than what IRD claimed at the beginning."

Relief of anxiety

- (i) Responsiveness

"Prompt contact with clients by phone or meeting. Speeding provision of information to IRD. Usually within the time limit allowed by IRD and if not possible, ask for an extension of 2 weeks,

which is usually allowed by IRD. I contacted clients on a weekly or biweekly basis until the case was settled. Communicated with IRD officers on a need basis frequently and on a weekly basis. Only 1/5 of meetings involved clients. For the rest, meetings took place only between me and IRD officers.”

(ii) Reliability

“Provided rehearsal initial interview to clients. Provided the possible flow of investigation work by IRD officers to clients. I went through the ledgers to see whether private expenses were claimed as business expense deduction. Provided answers to clients’ queries. Clients sometimes had questions to ask. For example, whether \$5,000 new year lucky money was deductible? Then, how about \$50,000, or even \$500,000. Explained to clients that usually messing [food expenses for staff] was allowed. Re-constructed management accounts and advised clients to disallow private expenses. Clients did not argue with my advice and approach to handling or settle the cases. Provided the experience of other cases of similar business nature to clients. No need to take actions when IRD officers were inactive. Advised clients that the information provided to IRD must be true. Clients were satisfied with my services.”

(iii) Assurance

“I worked alone. For some minor jobs of making breakdown of sundries assigned to staff but not often. The job done by assistants was reviewed by the participant.”

(iv) Empathy with clients

“Understood and analyzed the crux of problems and weaknesses of client’s case for the clients. Building trust between clients and me is important.”

(v) Sympathy with clients

“99% did not sympathize with clients because they hid away the private expenses in the name of business expenses. No need to sympathize with clients because income understated causing tax to be undercharged must be paid and penalty must be paid.”

Participant E was fair to the clients by providing proper advice and reminders to clients. Yet, he or she did not sympathize with the clients’ understatement of income.

Participant E played a good and fair middleman between the clients and IRD.

Research Question 3: How is the achievement of customer satisfaction by the Participants demonstrated?

Satisfactory service is evidenced by the following:

“Most of the tax clients are existing audit clients. Only take up new cases where the new clients are relatives of the existing clients. More than 90% of the time clients followed my advice because the clients were the existing clients of participant. I charged higher fees. No quick settlement. No IRD experience. Sometimes, I received fruit baskets. Payment of fees promptly upon issue of fee note. No termination by client.”

Researcher’s interpretation: Clients were satisfied with the service provided by Participant E with no early termination of engagement but receipt of fruit baskets.

Interview with Participant F

Participant F provided the following data: -

Research Question 1: What are the symptoms and causes of taxpayer anxiety during a tax investigation?

Symptoms of taxpayer anxiety

“In one case, client called me very late at night at 11:00 p.m. because the client was worried about the case, the amount of tax and penalty payable. Clients were very happy after the settlement proposal was accepted by IRD.”

The researcher interpreted that the taxpayers are anxious about the tax investigation in progress.

Causes of Anxiety

(i) Meetings with IRD officers

“In most cases, clients were concerned about the additional tax and penalty even clients had adequate money to pay for it. Clients did not worry about imprisonment I already told them that the chance of imprisonment is slim. Clients were afraid of meeting the IRD officers.”

(ii) Lengthy investigation period

“I told clients that the case would be closed in 1 to 2 years. Thus, the length of the investigation period was not a cause of anxiety. Completion of a case within a year is acceptable. In one case, the whole industry was involved or under the attention of IRD. Only in one case, client was very concerned about the completion timeline.”

(iii) Attitude of IRD officers

“In one case, the client had cash in and cash out of the bank account as shown the bank statement.

IRD accepted all the cash in as sales income but denied the cash payment as the purchase cost of goods. Yet, the case was finally settled. I recalled another similar case where the client had only one bank account and there was one set of bank statements with cash in and cash out. The client did not prepare ledgers for the business, which was an illegal business, just with some papers to record receipts and payments. IRD accepted all the cash in as sales income but denied the purchase cost of goods. I argued with the IRD officers that if the cash payment was not purchasing cost, then in conducting business, the client was doing as purchase and sale of goods business, or commission agent. In case IRD did not allow purchase of goods, then there must be a commission rate to earn income by the client. Finally, the IRD officer agreed to apply a commission ratio to compute the amount of profit of the client, which is based on a percentage of the cash in as sale revenue, to finish the case.”

(iv) Replacement of officers

“No replacement of officer was experienced. No of officers is preferred.”

The following are the researcher’s interpretation of the data provided by Participant F.

- (a) Though not specifically provided by the taxpayers, a reason for tax evasion is the fact that the taxpayer carried on illegal business.
- (b) The IRD officers do not understand the business reality and disallow all expenses, which indicates the unreasonableness of no business expense incurred in running a business. Some IRD officers are too aggressive. As such, arguments between the taxpayers and IRD officers are inevitable.
- (c) To give some basic business trading knowledge to the IRD officers can shorten the tax investigation period.
- (d) Replacement of officers may delay the tax investigation.
- (e) Tax accountants pacify clients that the chance of imprisonment is slim.
- (f) Cash business is a target of the IRD for tax investigation.

All the above implications or interpretations cannot be obtained by structured questionnaires or quantitative research methods. Therefore, qualitative research methods are justified in this study.

Research Question 2: How is taxpayer anxiety relieved by the Participants with customer satisfaction?

Customer's expectation

“Client expected the case to be settled early with no excessive tax to be charged. The expectation was achieved. At the beginning, the worse scenario was disclosed to the client on what the possible maximum tax and penalty would be charged.”

Relief of anxiety

(i) Responsiveness

“Client could contact me promptly. In one case, a client called me very late at night at 11:00 p.m. The information required was provided to IRD within a short period of time. No delay in provision of information to IRD. Clients were satisfied with the timely contact with me, by phone or face-to-face meetings. Clients were satisfied with the timely provision of information provided to IRD, as required by IRD. I Communicated with client during the period of investigation on need basis.”

(ii) Reliability

“Provided an expected schedule to client, like before initial interview, provided rehearsal initial interview to clients, provided the possible flow of work by the IRD officers to clients. Asked client to disclose all the assets and liabilities, bank accounts to the tax accountant. Analyzed the crux of the problem, strengths and weaknesses of client's case to clients. Advised clients the possible penalty imposed/the penalty policy adopted by IRD. Advised clients possible questions that IRD may ask and the possible maximum tax and penalty that IRD may charge.

Clients got the results as expected for 100% of the time.”

(iii) Assurance

“I worked alone without assistant.”

(iv) Empathy with clients

“I understood problems of client and provided solutions. Clients should disclose all the facts of the client’s case, business, assets and liabilities to me to help the clients. I provided the experience of other cases of similar business nature, which were closed in the past, to clients.

Research Question 3: How is the achievement of customer satisfaction by the Participants demonstrated?

Satisfactory service is evidenced by the following:

“Clients did not argue with my approach to handle or settle the cases because I had explained all the procedure flow to the client at the beginning of the investigation. Clients followed my advice. Clients did not have any doubts or disagreement with the advice provided by me. Referral by former clients because of former clients’ satisfaction with my service. Not charging a lower fee. Quick settlement of the case. No advertisement. A client arranged the first prize to be won by the tax accountant at the client’s staff gathering. Payment of fees on demand. No delay in payment. No dispute over payment fee. No premature termination of engagement.”

The following are the researcher’s interpretation of Participant F’s data -

(a) Nuanced data were obtained that when a client is satisfied with the service of

the tax accountant, the client might arrange for the tax accountant to win a gift in a social gathering.

- (b) A good tax accountant is to provide advice on what will happen next in the investigation period, like a tour guide.
- (c) A good tax accountant should understand the positions of the clients, including all the assets, liability of the clients and build up trust between the client and the participant.
- (d) A quick settlement of a tax investigation could help achieve customer satisfaction.

Interview with Participant G

Participant G provided the following data: -

Research Question 1: What are the symptoms and causes of taxpayer anxiety during a tax investigation?

Symptoms of taxpayer anxiety

“Clients frequently asked about the progress of the case. Clients urged me to complete the tax investigation early. Clients told me that they could sleep well at night after IRD had agreed to fix the back tax and penalty amount. While I was working in IRD when a taxpayer expressed that he had to see a doctor because of the investigation.”

Anxiety content

“Very often clients asked why they were chosen for investigation. They worried about the time spent with IRD during the investigation period because during that period they could not attend well to their business. Clients were not anxious about the possibility of imprisonment since I told clients that the chance of imprisonment was slim unless false accounts were prepared. I remember that in the early dates of my practice, the IRD officers addressed me as their teacher, when I was teaching

accounting subjects on a part-time basis for the evening accounting course. Clients were seldom anxious on newspaper news about imprisonment since I had already advised client that if false accounting records were prepared, there could be a chance for imprisonment if detected. Clients were not anxious on how much IRD demanded as they had money to pay for the additional tax and penalty.”

Causes of taxpayer anxiety

(i) Investigation period

“The shortest time of completion is less than 1 year. The normal range is between 1 and 3 years. It took 5 years for one case. Ways to shorten the investigation period? Sometimes, the blame is on clients for not producing the documents required by IRD. To get the investigation case closed early, I advised clients to find out the required information early. If investigation lasted for less than 1 year, it was not considered to be long. Client’s preference was to close the investigation case early so that they can focus on other business.”

(ii) Replacement of officers

“Seldom came across with replacement of officers.”

Participant G disclosed that clients had sleeping difficulties during the period of tax investigation, and that clients were concerned about the lengthy period of investigation.

The researcher interpreted the data of Participant G: -

- (a) The clients felt that it was bad luck to be chosen for tax investigation.
- (b) The clients were concerned about not only the amount of additional tax and penalties to be paid, but also the time lost which could be spent usefully on business matters and generation of profits.

(c) Participant G has gained some respect from the IRD officers. The cases which Participant G handled were closed not too long as he or she did not come across a replacement of IRD officers.

Research Question 2: How is taxpayer anxiety relieved by the Participants with customer satisfaction?

Relief of anxiety

(i) Responsiveness

“Partner handled the investigation case. Partners were mainly stationed in the office. I was ready to meet clients and take calls of clients. Clients therefore could find and contact me. Information could not be provided to IRD early because client was not able to find out the information required by IRD. At the end of the day, client provided information to IRD.”

(ii) Reliability

“I remembered one case where the client was a professional detective who has the habit to show off his wealth, his watch and cloths. I advise the client to have simple dress when meeting the IRD officers. Clients had confidence in me because I remember that at the early dates of practice, the IRD officers referred me as their teacher, when I was teaching accounting subjects on a part-time basis in evening accounting courses. Advised client that if no false accounts or information is provided to IRD, usually only monetary penalty need to be paid to IRD to settle the investigation case. Clients sometimes stated that they had no money to pay for the additional tax. Clients found it alright to attend meetings with IRD officers because briefings given to clients prior to the meetings with IRD officers.

Provided an expected schedule to clients, like rehearsals of initial interviews with clients, provided the possible workflow by IRD officers to clients. Also advised clients that if there was no evasion, a mere mistake made in filing tax return would only result in additional tax and penalty being charged but not imprisonment. Tax is paid on income understated.

Tax rate and penalty rate is low in Hong Kong. In Hong Kong, additional tax is only partially

payable on income really earned and tax undercharged. I urged clients to find information which is required by IRD. Yet, some clients were frustrated to find out information which occurred many years ago. Client understood that tax was additionally charged, and penalty took only about 50% of the income understated. When the client was satisfied with finalization of the case, some clients asked for installment to pay the tax and penalty.”

(iii) Assurance

“I worked alone with mechanical computation work delegated to staff with results reviewed by tax accountant.”

Research Question 3: How is the achievement of customer satisfaction by the Participants demonstrated?

Satisfactory service is evidenced by the following:

“Clients followed my advice. For some cases, clients asked me to follow up the case closely till the end of the investigation since they were satisfied with my service. New clients were referred to by former clients because of former clients’ satisfaction with my service. Not lower fee. Quick settlement? Depending on the individual case. In early practice, clients engaged with me because of my experience in the Inland Revenue Department in my early practice. No advertisement. Some clients were referred to by other certified public accountants.”

The researcher’s interpretation is that Participant G provided the following insights
-

- (a) The nuanced data of advising clients to dress properly when attending meetings with IRD officers.
- (b) Participant G defended the client’s tax investigation personally, while the assistance provided by the assistant is of a lesser value.
- (c) Participant G’s clients had confidence to attend the meeting with the IRD officers because of useful rehearsal interviews provided by Participant G

beforehand.

- (d) Clients had trust in Participant G as they clearly required the service of the latter.
- (e) Participant G made a fair comment that the reason for the delay in the tax investigation could be the clients' delay in the provision of information to IRD.
- (f) Participant G is a fair professional intermediary between the clients and IRD. In this way, the investigation period would not drag on for too long.
- (g) Penalty is low in Hong Kong for tax evasion.

Interview with Participant H

Participant H shared the following statements.

Research Question 1: What are the symptoms and causes of taxpayer anxiety during a tax investigation?

Symptoms of taxpayer anxiety

"Clients said that they could sleep well at night after IRD had agreed to fix the back tax and penalty amount."

Participant H implied that sleeping difficulty is the symptom of anxiety of the taxpayer.

Causes of anxiety

- (i) Lengthy investigation period

"Clients were anxious about when the investigation would be finished. If less than one year, not considered long. Average 2 to 3 years. For construction business, like the subcontractor cases, could be more than 3 years. Delay is on clients of producing information to IRD. As explained to clients that if no false account is prepared, they are unlikely to prosecute the client. Final sanction is

penalty. Some clients co-operated with IRD, but some did not and were not able to provide information early to IRD or to provide any information at all. Clients frequently asked me about the progress of the case. Clients always urged me to complete the tax investigation early after information was submitted to IRD. If the investigation is not completed in over a year, the duration is too long.”

(ii) Replacement of officers

“Very seldom to encounter replacement officers.”

(iii) Attitude of IRD officers

“Delay in progress because of IRD officers’ attitude. IRD took no action after lodgment of documents to IRD. Gave phone calls to IRD officers. They might say that they had too many files to handle or that our case is a small one and the tax to be collected is petty.”

The researcher interpreted the data of Participant H as follow:

- (a) Taxpayers gathered that an investigation period of 1 year is not too long.
Investigation period beyond 1 year is regarded as too long.
- (b) Participant H usually completed the investigation cases early such that replacement of officers was rare when serving the clients.
- (c) Delay of investigation could be owing to the delay in the provision of information by the taxpayers to IRD.
- (d) Participant H also pointed out a phenomenon that the IRD officers paid attention to big cases with more additional tax and penalties collected.
Implication is that IRD officers’ performance might be measured by the amount of additional taxes and penalties collected. Another implication is that the IRD officers have too many files to handle or that they pay little attention to small cases.

Research Question 2: How is taxpayer anxiety relieved by the Participants with customer satisfaction?

Customer's expectation

"Customer's expectation is mostly achieved because the penalty is computed in accordance with the penalty policy of IRD, which I had explained to clients at the beginning of the engagement."

Relief of anxiety

(i) Responsiveness

"I am the partner. Partner, who is stationed in the office and directly responsible for tax clients, is ready to meet clients and receive calls from clients. Whether the required information provided to IRD in a short period of time depends on the individual client and on whether the client was able to provide information promptly. Clients can reach out to me on need basis by meeting or phone call."

(ii) Reliability

"Told clients that if information required by IRD is not submitted, additional tax and penalty would be charged. This is to urge clients to provide the required information to IRD. Provided experience of other cases of similar business nature, which were closed in the past, to comfort clients. Helped clients explain to IRD that some of the bank deposits were not income. For bank withdrawals, explained, identified individuals withdrawals as business expenses or private expenses. As explained to clients that if no false account is prepared, IRD are unlikely to prosecute clients. Final sanctions are penalties only. Provided rehearsals of initial interviews with clients who would then be confident in attending face-to-face meetings with IRD because clients were fully informed of the procedures and what would happen in the meetings with IRD officers by prior briefings."

(iii) Assurance

“I work alone.”

(iv) Empathy with clients

“Understood client’s case and analyzed the crux of the problem, strengths and weaknesses of client’s case to client. No need to provide psychological assistance because clients are experienced businessmen. They knew their risks. They can afford paying additional tax and penalty. Clients could estimate the risks and the payment of the additional tax and penalty.”

Research Question 3: How is the achievement of customer satisfaction by the Participants?
demonstrated

Satisfactory service is evidenced by the following:

“Referral by former clients because of former clients’ satisfaction with our service. Clients engaged me not because of lower fees. Quick settlement of the case is part of satisfactory service. It depends on the individual case. No advertisement. Payment for fees received on the due date. No dispute over the fee payment on payment due date. No bad debts. No early termination by client.”

The researcher interpreted the following as the implications of Participant H.

- (a) Participant H comforted clients well that the latter did not feel anxious about the risk of imprisonment.
- (b) Provided enough information to clients prior to meetings with the IRD officers so that clients were not anxious to meet the IRD officers.
- (c) He or she played as a good middleman between the clients and the IRD officers, urging them to provide information to IRD promptly to shorten the tax

investigation period. Participant H was not biased towards the clients.

- (d) Participant H considered the clients to be experienced business executives, knowing that delay in providing information to IRD would delay the investigation process, costing more penalties to be paid.

Interview with Participant I

Participant I provided the following data.

Research Question 1: What are the symptoms and causes of taxpayer anxiety during a tax investigation?

Symptoms of taxpayer anxiety

“Clients urged for early settlement of the case. Asked me to report on the progress of the case after submission of information to IRD. Clients always said that the investigation period was too long. Not willing to attend face-to-face meetings because IRD officers were high-handed. Yet, after an explanation of the position of the case and the procedures that IRD would take, clients were willing to sit through the meetings with the IRD officers. Clients felt relieved after the settlement proposal was agreed by IRD because that would save time for their other fruitful business projects, and that no further professional fees would be paid to me.”

Anxiety content

“Clients are concerned to pay large penalty. Clients were concerned about the additional tax and penalty to be paid. IRD officers threatened that several million taxes and penalties should be paid, as was stated by the IRD officers at the beginning of the investigation. Most clients were concerned about imprisonment, which was emphasized by IRD officers. Clients felt frustrated about the production of the bank statements from many years ago and then were asked to recall details of the

bank transactions of deposits and withdrawals of so many years ago. Clients were threatened by the IRD officer at the initial interviews that the case would be dragged on for a long time.”

Causes of anxiety

(i) Long Investigation period

“Normally it took 1 to 2 years to complete an investigation case. The time to complete a tax investigation could be reduced by 30% if IRD could give response and feedback earlier or in a shorter period. Some cases were simple like those rental income and employment cases. Shorter time of completion should be possible. Clients were busy with their ordinary business and felt frustrated and loss of business time in attending to investigation by IRD.”

(ii) Imprisonment

“Anxious about the possibility of imprisonment, after threatened by the IRD officers’ initial interview. Client did read the newspaper and knew the possibility of imprisonment.”

(iii) Replacement of IRD officers

“Replacement IRD officers if the case lasted over 1 year. Replacement IRD officers was too frequent.”

(iv) Attitude of IRD officers

“Different officers had different views on the same taxation regulation.”

The researcher’s interpretation of Participant I’s statements provides the following

insights.

- (a) IRD officers had the practice of stating imprisonment, high level of penalties to be charged and long period of investigation if the taxpayers were not co-operative with the IRD.
- (b) The taxpayers were not happy with the retrieval of accounting and banking information and other information from many years ago because it would cause them a lot of time and effort to do so. Occasionally, the retrieval of information, such as banking information was outside the control of the taxpayers.
- (c) 2 years is the generally acceptable duration for completing a tax investigation. More than 2 years is regarded as too lengthy by the taxpayers. It is because the taxpayers have other business matters to attend to.
- (d) The time to complete a tax investigation might be lengthened by the delay in decision making of the IRD officers. When IRD officers made decisions promptly, the time to complete a tax investigation might be reduced by 30%.
- (e) If a tax investigation lasts for more than 1 year, there will be a chance of changing officers.

The researcher's interpretation of the data of Participant I is listed below.

- (a) Taxpayers were relieved from anxiety after the settlement of the tax investigation was reached.
- (b) Taxpayers were concerned about the length of time to complete the tax investigation because fees were charged on a time basis.
- (c) After the Participant provided his or her advice, clients were willing to meet the IRD officers.

Research Question 2: How is taxpayer anxiety relieved by the Participants with customer satisfaction?

Relief of anxiety

- (i) Customer's expectation met

“Clients expected a reduction in additional tax and penalty as proposed by IRD. Finally, for settlement purposes, Some or more than 50% of the additional tax and penalty as demanded by IRD was reduced.”

(ii) Responsiveness

“I urged clients to provide information to IRD early and co-operate with IRD. The client wanted to pay less penalty due to the lack of intent of tax evasion. Whether the information required by IRD could be provided to IRD in a timely manner depends on whether the information obtained from clients, such as the bank statements, could be secured quickly from the banks. I urged IRD to give quick responses to information which had been provided to IRD and urged IRD not to delay making decisions. Clients were satisfied because there was no delay with me. I urged IRD to finalize the case early. I communicated with clients by phone call and meeting on needs basis.”

(iii) Reliability

“I explained to my clients the approach taken by IRD and the approach which I would adopt. I urged client to obtain information to be provided to IRD, as required by IRD. Advised clients the possible penalty imposed/the penalty policy adopted by IRD. I explained to clients that the maximum penalty would not be as 3 times as laid down in law. Estimated the additional tax and penalty to be charged by IRD for clients. Explained the law and procedures and practice of investigation to clients. Explained to clients that imprisonment is unlikely unless false accounting records were prepared. The threat by IRD officers was deescalated because the final penalty imposed by IRD was less than the amount stated by IRD initially. Advised clients that the penalty would not be as high as 3 times as stated by IRD officers in the initial interview. Advised clients that the chance of imprisonment was not high unless false accounting records were prepared.

Remember a case where the Hong Kong company charged fees in account and the remittance were not received by the Mainland branch and hence the sum wasnot assessed. In that case, the final settlement to close the case was a penalty of HKD100,000, which was affordable by the Hong Kong company client. The discrepancy was owing to a time lap between the recoding of expense in Hong

Kong company and recoding as income towards the Mainland Chinese company.”

(iv) Assurance

“Relied on 1 to 2 senior staff in processing investigation cases. These senior staff prepared a summary of bank entries, followed up bank statements provided by clients and checked computations of IRD for settlement purposes. The output of the work done by the assistants was reliable. Assistants to check figures of computations provided by IRD. Very often, the expenses allowed by IRD in the computation were wrongly computed. Thus, checking IRD’s computation must be done. IRD’s approach is that full income is assessable but very strict with approving business expenses.”

(v) Empathy with clients

“Understood and analyzed the crux of the problem of client’s case, weaknesses and strengths of client’s case. Should pay special attention to clients. By phone call or meeting, the client was able to contact my staff.

The most important part in serving clients in investigation is to reduce penalty. Sympathy and agreement with client’s feeling that investigation is troublesome and time wasting.”

Research Question 3: How is the achievement of customer satisfaction by the Participants?
demonstrated

Satisfactory service is evidenced by the following:

“Client followed my advice. No gift but occasionally, clients did pay additional bonuses of small amounts. Clients did not dispute fee payment when professional bills were issued. Termination of engagement once only. More than 10 years ago, client said the case would be handled by himself

without reason for the termination of the engagement.”

The following is the researcher’s interpretation of Participant I’s data -

- (a) Participant I closely monitored the progress of the tax investigation so that the investigation period was shortened, and lesser penalties were charged on his or her clients.
- (b) The computation work by the IRD officers is not reliable sometimes.
- (c) IRD officers’ attitude is to assess all the income but not to allow business expenses in computing taxable profits.
- (d) Clients were concerned about penalties. According to the experience of Participant I, penalties were computed to clients so that clients had an expectation of the penalties to be paid. The final amount of penalty was about 50% of the estimation.
- (e) Early termination of service was very rare.

Interview with Participant K

Participant K referred to a short case to illustrate his/her lived experience.

Research Question 1: What are the symptoms and causes of taxpayer anxiety during a tax investigation?

Symptoms of taxpayer anxiety

“The client wanted to close the case early. The client told me that he was not able to sleep well at night. The client could sleep well at night after IRD had agreed with the additional tax and penalty amount. The client was relieved after settlement.”

Sleeping difficulty is a common anxiety symptom of taxpayers under tax investigation. The uncertainty of the chance of imprisonment, the amount of additional tax and penalties to be paid are the causes of anxiety.

Anxiety content

“The client’s business industry was targeted for tax investigation during that time. All the business receipts were in cash. The client was concerned about the chances of imprisonment because the client learnt that from the newspapers. The client learnt that additional tax and penalty were needed but client was not willing to pay. The client was afraid of imprisonment, payment of additional tax and penalty.”

Causes of taxpayer anxiety

(i) Long investigation period

“The case was completed in 3 months. It was a short case.”

(ii) Replacement of officers

“A short case. No replacement of officer.”

Implications of the nuanced information:

- (a) IRD may target some selected type of business for investigation, which is one of the reasons for selecting a taxpayer for tax investigation.
- (b) Some taxpayers were anxious about imprisonment.
- (c) Completion of a tax investigation might take as short as 3 months.

Research Question 2: How is taxpayer anxiety relieved by the Participants with customer satisfaction?

Relief of anxiety

“The client’s expectation was that imprisonment was the consequence. Yet, there was no imprisonment when the case was completed. The client was anxious about imprisonment as the client learnt that from the newspapers. The penalty was finally charged and paid, and the penalty finally paid was less than the amount demanded by IRD at the beginning of the tax investigation.”

(i) Responsiveness

“I was ready to contact the client via meetings and phone calls. I met the client 2 or 3 times and then closed the case. We provided information promptly to IRD.”

(ii) Reliability

“I told my client that there would be no imprisonment unless false accounting record was prepared. I reminded the client to tell me and disclose all the facts to me. The client indirectly admitted understatement in tax return. The client did not argue with my approach to handling or settling the cases. The client followed my advice or approach in dealing with IRD because the client did not know how to handle IRD officers.”

(iii) Assurance

“I engaged one assistant to do the computation work, match cash bank-in with bank statement, and check how much cash was not reported in the tax return. Assistant’s work was reliable.”

(iv) Empathy with client

“I analyzed the strengths and weaknesses of client’s case to client. I advised him to co-operate with

me and the IRD. I told my client to disclose the facts fully and truly to me. I negotiated with IRD for a lesser amount of penalty. Otherwise, there would be bigger problems. I told the client that Hong Kong tax rate was low”

Research Question 3: How is the achievement of customer satisfaction by the Participants demonstrated?

Satisfactory service is evidenced by the following:

“The client remained as a client after the investigation. Lower fee was offered because he was an existing client. The client did not dispute fee payment on payment due date.”

The following is the researcher’s interpretation of Participant K’s data: -

- (a) Chance of imprisonment is the grave concern of some taxpayers under tax investigation. Without imprisonment, the client felt relieved.
- (b) IRD’s promotion of the imprisonment sanction was successful because some taxpayers were anxious about the chance of imprisonment.
- (c) Participant K tried to convince clients that it was not worthwhile to commit tax evasion since the tax rate in Hong Kong is low, that is, tax payment should not be burdensome.
- (d) To be a successful tax accountant, he or she must have the client’s full trust of the clients.

Section D – Insight into case-by-case analysis

The following individual participant data, which provided inspiring insights into tax investigations, demonstrated the value of the double interpretation and ideograph

principles of IPA and the valuable outcomes by making use of the nuanced data in the IPA study.

- (i) Participant A's data demonstrated how a tax accountant can address a situation where an IRD officer employed an aggressive method to calculate salary costs of a business by referring to the lowest wage rates according to government statistics. The tax accountant resolved this problem by using a median wage range provided by the workers' association. The researcher believes that disputes can be effectively managed by an experienced tax accountant in a reasonable manner.
- (ii) Participant B believed that taxpayers expected early settlement of tax investigations with minimal payments. The researcher agrees with this view.
- (iii) Participant C's view was that those taxpayers who were not in fear of tax investigation would not engage professionals and thus this group of taxpayers were, in any way, outside the reach of all researchers even the latter tried to make a study of those taxpayers, and it was practically difficult to get in touch with those taxpayers. The researcher suggests that some taxpayers of minor tax evasion did not engage professionals to represent themselves in defending tax investigation.
- (iv) Participant C informed clients that the IRD officers, overwhelmed with numerous files, also wanted to close the cases early. Thus, Participant C played a good role between the taxpayers and the IRD officers. Staff resource allocation may be a topic of the IRD's management, which may be a topic of research by the IRD.
- (v) Participant D implied that timely provision of information to the IRD could be within the control of the Participant but not the time spent by the IRD officers in consideration of those information provided. The researcher agreed with this comment.

- (vi) Participant E brought out a message that it is highly unlikely for a taxpayer to avoid additional taxes and penalties once they were subject to a tax investigation, because it is very rare that no additional tax and no penalty was charged once a tax investigation file was opened. The researcher agreed with this experience.
- (vii) Participant F interpreted a reason for tax evasion as the taxpayer ran an illegal business the IRD officers in that case failed to grasp business realities by disallowing all expenses, implying no business costs were spent in operations. Some of the IRD officers were overly aggressive. As such, arguments between the taxpayers and IRD officers were inevitable. The researcher suggested the IRD provides fundamental business trading knowledge to the IRD officers, which could potentially reduce the duration of tax investigations.
- (viii) Prompt delivery of information to the IRD was a key contribution to customer satisfaction. Participant B was of the view that tax investigation would be completed earlier if taxpayers were not evasive in provision of information to the IRD. Additionally, Participant G mentioned that the ability to deliver information promptly to the IRD depended on whether the client could provide the information to the tax accountant early. This aligned with theoretical findings discussed in Chapter 2 – Literature Review, that in certain services, customer inputs played a significant role in achieving customer satisfaction (Bitner et al, 1997).
- (ix) Participant H observed that IRD officers' computation work was occasionally unreliable. Importantly, Participant H indicated that IRD's threat of imprisonment to taxpayers was effective because some taxpayers were anxious about it. The researcher believed that a successful tax accountant must be familiar with IRD officers' practices.

- (x) Participant H suggested that one of the reasons for the extended duration of tax investigations was that IRD officers might not prioritize smaller cases. The researcher saw that it was unfair to those small taxpayers.
- (xi) Participant I noted that the extended duration of the tax investigation was partly attributed to the time spent by the IRD officers for decision-making. The researcher concurred with this observation and recommended that the IRD should conduct a study into this area of weakness with a view to improvement. This situation signaled a significant issue among the IRD officers of certain ranks, highlighting insufficient knowledge of relevant laws and regulations, leading to deficiencies within the IRD.
- (xii) The initiation of a tax investigation file was evidently a matter of concern for taxpayers under investigation. Participant K's data suggested that IRD might focus on a specific industry for investigation at a particular time.

Section E – Findings from across-case analysis

A comprehensive analysis of all participant data (or cross-case data analysis) enhanced the understanding of taxpayer anxiety concerning tax investigations regarding payment of additional taxes, penalties, possibilities of imprisonment in addition to the attitude of the IRD officers, and other factors pertaining to tax investigations, addressing the following three research questions.

Research Question 1: What are the symptoms and causes of taxpayer anxiety during a tax investigation?

Research Question 2: How is taxpayer anxiety relieved by the Participants with

customer satisfaction?

Research Question 3: How is the achievement of customer satisfaction by the Participants demonstrated?

Research Question 1: What are the symptoms and causes of taxpayer anxiety during a tax investigation?

Symptoms of taxpayer anxiety

Insomnia was a prevalent issue among taxpayers, who often felt relieved once the amount of additional taxes and penalties had been agreed upon by tax authorities. In addition, taxpayers' hypertension tended to decrease following a settlement agreement. For certain individuals, hypertension subsided upon the completion of tax investigations, which is reconcilable with medical advice that anxiety exacerbated hypertension and that would fade away with the disappearance of the event triggering anxiety.

Avoiding meeting with the IRD officers was another common symptom of anxiety among taxpayers. These observations indicate that taxpayers under tax investigation often experienced anxiety disorder. The average duration of a tax investigation is approximately 18 months, which is considerably longer compared to typical medical operations. If the anxiety persists for more than six months, it might result in Generalized Anxiety Disorder (GAD), necessitating medical attention and treatment. All this empirical data was reconcilable with the medical findings that intolerance of uncertainty is highly related to GAD, as there is a significant association of intolerance of uncertainty with general anxiety disorder (GAD) (Gentes & Ruscio,

2021).

Causes of taxpayer anxiety

Taxpayers expressed concerns about the uncertainty regarding the amount of additional tax and penalties to be paid, and the duration of the tax investigation. They were worried about the possibility of imprisonment before engaging tax accountants; however, this concern was relieved after tax accountants informed them that imprisonment was unlikely unless false accounts were prepared. In one instance, even if the taxpayer carried on illegal business, the taxpayer was not put into jail; and the case was closed with payment of additional tax and penalty. The taxpayers' anxiety could be explained by the theoretical framework which suggests that anxiety arises from uncertainty about the future (Strongman, 1995). In addition to the anxiety experienced by the taxpayers, the following nuanced data pertaining to causes for the prolonged period of tax investigation and duties of tax accountants was obtained.

(A) Delay caused by the IRD

(i) IRD's computation work might be incorrect.

Participant H opined that the computation work by the IRD officers was not reliable occasionally.

(ii) The IRD officers assessed all income but disallows no expense.

Interpretation of Participant H's data illustrated that the IRD officers prefer assessing all the income to allowing business expenses for computing taxable profit. This was unreasonable and caused an unreasonable delay in finalization of the investigation.

(iii) The IRD officers' understanding of taxpayers' businesses could shorten investigations.

Participant H implied that that some of the IRD officers might not fully understand

the practical aspects of business operations when they disallowed all expenses, which implied an unrealistic assumption that no business expense was incurred. In addition, certain IRD officers might have discharged their duties too aggressively, resulting in inevitable disputes between taxpayers and themselves. Equipping the IRD officers with a foundational understanding of business operations and fostering a willingness among the IRD officers to comprehend the taxpayers' business could potentially shorten the duration of tax investigations.

(B) Delay caused by taxpayers

- (iv) Taxpayers could delay provision of information to the IRD.

Participant G made a fair comment that the reason for the delay in the tax investigation might be attributed to the clients' delay in the provision of information to the IRD.

- (v) Provision of sufficient information to the IRD beforehand could overcome the anxiety of meeting with the IRD officers.

Participant H noted that provision of sufficient information would enable clients to meet the IRD officers with less anxiety.

- (vi) The IRD's presentation of the imprisonment sanction affected taxpayers.

Participant H observed that the IRD's approach unnecessarily caused confusion to the taxpayers because some taxpayers were concerned about the possibility of imprisonment. However, that could cause further anxiety among taxpayers, which was unnecessary because imprisonment cases as published in newspapers are seldom.

(C) Duties of tax accountants

- (vii) Gaining the trust of a client is essential

Participant H indicated that a successful tax accountant ought to earn the client's full

trust.

(viii) Offering valuable insights to their clients

Participant F recommended that a qualified tax accountant should offer guidance on what to expect during the investigation period, like a tour guide, and focus on establishing trust with the clients. This will provide reassurance for the taxpayers.

(ix) Guidance on the proper attire when meeting with the IRD officers

Participant G provided detailed guidance to clients on appropriate attire for meetings with the IRD officers. This piece of advice helps taxpayers present themselves favorably during meetings with tax officials, avoiding any appearance that might suggest a higher income than reported.

Research Question 1 led to Research Question 2, addressing how taxpayer anxiety is relieved by tax accountants with customer satisfaction.

Research Question 2: How is taxpayer anxiety relieved by the Participants with customer satisfaction?

The taxpayers were relieved after the completion of the tax investigation by the agreed amount of additional tax and penalty, referred to as a settlement. Clients of Participants C, H and I stated that the additional tax and penalty finally assessed were less than expected. How customer satisfaction was achieved by the Participants in the areas of reliability, responsiveness and empathy are provided in Section F below.

Research Question 3: How is the achievement of customer satisfaction by the Participants demonstrated?

Client referrals are a common recognition of the Participants' service. Some taxpayers showed appreciation for the services by sending fruit baskets and other gifts.

Additionally, some taxpayers invited the Participants to upcoming festivals, treating them as acquaintances. Another indication of satisfaction was the prompt payment of professional fees without delays. Premature termination of engagement with the Participants was rare, indicating satisfactory performances. Details of customer satisfaction are discussed in Section F below.

Section F – Customer satisfaction achieved by Participants, as assessed by SERVPERF (service performance), a customer satisfaction measurement tool

Customer satisfaction is a key element of this research, and there exists an established and reliable model known as SERVPERF (service performance) for measuring it. This subsection is dedicated to discussing how customer satisfaction was achieved by the Participants. The attainment of customer satisfaction by the tax accountant participants was assessed and confirmed through the application of the well-regarded and thoroughly tested SERVPERF (service performance) customer satisfaction model to the collected data, which is discussed below.

F1 Theoretical framework of the SERVPERF (service performance) tool

The theoretical framework of the SERVPERF (service performance), as modified in this study, includes three dimensions with a total of 20 items: 10 items for reliability,

6 items for responsiveness, and 4 items for empathy. They are listed below for reference.

Reliability dimension [5 items in reliability dimension of SERVPERF (service performance) and 10 items in this study]

(i) Participants met the deadlines of the IRD's requirements for information. [follows P5 of Perception Section of SERVQUAL (service quality).]

(ii) Participants showed a sincere interest in solving the problems of clients. [P6]

(iii) Participants provided their services at the time they promised to do so. [P7]

(iv) Participants provided the right solution to questions raised by IRD. [Modified P8]

(v) Participants informed clients about the experience of serving clients of a similar nature in the past to show the trustworthiness of their services. [Modified P9]

Emergence of 5 specific items

(vi) Customers followed the advice of the Participants. [Specific item emerged]

(vii) Participants clarified to clients the IRD penalty policy on charge of penalty amount. [Specific item emerged]

(viii) Participants clarified to clients of low chance of imprisonment. [Specific item emerged]

(ix) Participants advised clients that different officers could have different views on handling cases. [Specific item emerged]

- (x) Participants clarified to clients the misunderstanding of law and Departmental Interpretation and Practice Notes (DIPN) made by the IRD officers or by clients. [Specific item emerged]

Responsiveness dimension [4 items in responsiveness dimension of SERVPERF and 6 items in this study]

- (xi) Participants informed clients when services would be performed. [P10]

- (xii) Participants gave prompt response to reply to the IRD's enquiries. [P11]

- (xiii) Participants were always willing to help. [P12]

- (xiv) Participants were never too busy to respond to clients' requests. [P13]

Emergence of 2 specific items

- (xv) Participants urged clients to provide information early to the IRD. [Specific item emerged]

- (xvi) Participants sped up the investigation process. [Specific item emerged]

Empathy dimension [4 items in SERVPERF and the same 4 items in this study]

- (xvii) Participants gave individual attention to client's worries and questions upon engagement. [P18]

- (xviii) Participants provided private mobile phone calls to clients for direct and immediate contact with Participants, if necessary, and even at night-time. [Modify P19]

(xix) Participants worked for client's best interest at heart. [P21]

(xx) Participants understood clients' cases and analyzed their strengths and weaknesses. [Modified P22]

F2 Application of the theoretical framework to data collected

The theoretical framework of the 3 dimensions of Reliability, Responsiveness, and Empathy in SERVPERF (service performance) was applied to the data obtained and shown below.

Customer satisfaction in Reliability dimension

The Participants demonstrated reliability in the following ways.

- (a) The Participants provided information promptly to the IRD when received from clients and after clarification. There was no issue with meeting the IRD's deadlines. [P5]
- (b) The Participants demonstrated sincerity by explaining the expected workflow, the tax investigation process, and potential questions for the initial interview, so taxpayers understood the steps beforehand. [P6]
- (c) The Participants provided a schedule of the investigation process, keeping clients informed about service timelines. [P7]
- (d) The Participants suggested appropriate solutions to queries from IRD officers, such as advising clients to pay deposits on expected understatement of income and related taxes since it would eventually need to be paid. Clients followed this

advice. [P8]

- (e) To build trust, the Participants shared past cases like the clients' situations or business trades. Clients generally accepted and seldom contested the advice given. [Modified P9]
- (f) The Participants clarified the IRD's penalty policy and charges, noting that the maximum penalty of three times the undercharged tax was rarely imposed at full severity. [Specific item emerged]
- (g) The Participants also informed clients that imprisonment was unlikely unless false accounts were submitted. [Specific item emerged]
- (h) The Participants advised clients that different IRD officers might have varying interpretations of the same law and practice directions issued by the Commissioner of Inland Revenue, which could complicate tax investigations. This demonstrated the importance of the Participants' knowledge, experience, and advice. [Specific item emerged]

Customer satisfaction in Responsiveness dimension

The Participants showed Responsiveness in the following ways -

- (a) Participants provided schedules to clients and explained the procedural flow at the beginning of the tax investigation. [P10]
- (b) Clients were satisfied with the prompt delivery of information to the IRD. Any delay in the provision of information provided to IRD was owing to the delay of provision of bank statements from banks. [P11]

- (c) Participants provided mobile phone numbers to the clients for early contact.
Participants understood problems of the clients and provided solutions. [P12]
- (d) They met with clients to resolve issues and responded promptly to clients' concerns. [P14]
- (e) To expedite the tax investigation process, participants encouraged clients to provide the necessary information to the IRD though some clients were frustrated to find out the old records of many years ago because that required spending much of their valuable time. Clients were informed that failure to submit the required information could result in additional tax and penalties. [P15]

Customer satisfaction in Empathy dimension

The Participants extended empathy in the following ways:

- (a) Participants addressed clients' individual needs and expedited investigations. For example, if IRD did not respond after receiving information, participants would call or write to the IRD officers to check the case's progress. [P16]
- (b) When clients expressed concerns about imprisonment after reading newspaper reports on tax evasion cases, participants reassured them that imprisonment was uncommon and typically only applied to cases involving false accounting. They explained any delays from the IRD could be due to an excessive number of files handled by the same IRD officers. Participants also informed clients that the penalties imposed would rarely go over three times the undercharged tax in practice. Furthermore, participants analyzed the key aspects of the taxpayers'

cases and provided clients with an assessment of the strengths and weaknesses of their situations. [P17]

- (c) Participants shared their mobile phone numbers with clients for direct and immediate communication. On some occasions, clients reached out to participants during late-night hours. [P18]
- (d) Participants acted in the best interests of their clients. For example, they advised clients to fully disclose to them all relevant information regarding their cases, businesses, assets, and liabilities. Participants ensured that clients were aware of the support being provided. They maintained regular contacts and offered mental support to clients. In addition, holding more frequent meetings with clients proved to be beneficial. [P20]

From the Participants' data and with the 3 dimensions of reliability, responsiveness and empathy, the Participants did help the clients survive the tax investigation period of 18 months on average. In particular, the Participants provided solutions to the problems to relieve the anxiety of the clients which were caused by uncertainty of the amount of additional tax and penalty to be paid, of the chance of imprisonment and paid attention to the individual needs of the clients and took care of the clients' concerns on the progress of the tax investigation progress, while also taking actions to speed up the progress of the investigation.

The success of the Participants was reflected by client referrals, prompt payment of fees, gifts given to the Participants, as well as invitations of the Participants to be guests during festival gatherings, even after the close of the engagement. This indicates that the clients had treated and accepted the Participants as friends. The data indicates that the participants achieved customer satisfaction across all three dimensions of reliability, responsiveness, and empathy.

Section G – Summary

The findings in this chapter are supported by the theoretical framework of symptoms and causes of anxiety, dimensions of customer satisfaction, as demonstrated by the collected data. The taxpayer anxiety was evidenced by clinical symptoms, such as aggravated hypertension, insomnia, and avoidance of IRD officers. This is particularly so given that an investigation period on average takes around 18 months, and anxiety persisting for at least 6 months may lead to Generalized Anxiety Disorder (GAD). The anxiety was further exacerbated by varying attitude and replacements of IRD officers. The taxpayer anxiety was attributed to the uncertainty of additional tax and penalty payments, and the extended duration of tax investigations.

Upon completion of the tax investigations, the taxpayers expressed satisfaction with the services provided by the Participants, assessed through the three dimensions of **reliability, responsiveness, and empathy** under the customer satisfaction measurement model SUVRPERF (service performance). Specifically, the Participants informed the taxpayers about the expected process during the investigations, shared their experience in handling similar cases, advised that imprisonment was uncommon unless false accounts were involved, and paid close attention to the individual needs of the taxpayers. Customer satisfaction was further evidenced by client referrals, prompt payment of professional fees, the provision of gifts to the Participants upon conclusion of the tax investigation and invitation of the Participants to join the taxpayers' social gatherings. Overall, the Participants provided satisfactory service. These findings are consistent with the theoretical framework, as the Participants, in relieving the taxpayer anxiety, were successful in achieving customer satisfaction

across the dimensions of reliability, responsiveness, and empathy, as outlined in the SERVPERF (service performance) customer satisfaction measurement tool.

CHAPTER FIVE – DISCUSSION AND CONCLUSIONS

Section A – Introduction

Section B – Emerged Theme A

Guidelines to tax accountants serving clients in defending tax
investigation

Section C – Emerged Theme B

Promotion of tax morale to curb tax evasion

Section D – Conclusions

Section E – Contributions to knowledge

Section F – Justification for this dissertation

Section A – Introduction

Chapter 4 presented data from interviews with the 10 Participants using semi-structured and open questions. This chapter examined two themes that had emerged from the study: (a) guidelines for tax accountants in defending tax investigations with a goal to achieve customer satisfaction, and (b) promotion of tax morale to curb tax

evasion.

The theme of guidelines for tax accountants emerged directly from the participant data, highlighting the best practices for tax accountants in defending tax investigations with a goal of achieving customer satisfaction. These best practices are supported by the theoretical framework of service quality imperatives. In contrast, the promotion of tax morale was initially identified through literature review and subsequently reinforced by participant data. This chapter also discusses the importance of customer satisfaction and suggests areas for future research on customer satisfaction in people-based professional services, as well as contribution to knowledge in the study.

Section B

Emerged Theme A -

Guidelines to tax accountants serving clients in defending tax investigation with customer satisfaction

Identification of theoretical dimensions to formulate the guidelines

Although the guidelines are based on participant data, theoretical dimensions were identified to organize and present the guideline items systematically. Serving clients in defending tax investigations is a people-based professional service that requires minimal equipment and staff assistance. Therefore, the SERVPERF (service performance) model's five dimensions were reduced to three: reliability, responsiveness, and empathy, excluding the two dimensions of assurance of staff performance and tangibles of equipment. Moreover, the five service quality

imperatives Parasuraman et al (1991) included defining the service role, attracting talented staff, emphasizing service teams, prioritizing reliability and problem resolution. These imperatives address the provision of quality service. Berry et al (1990) emphasized the importance of these five service quality imperatives, which were modified from the SERVQUAL (service quality) model's five dimensions. Their research of Summer 1990, which was on service companies involving three phases before they recommended the five imperatives for improving service quality, focused solely on service businesses rather than the sale of goods. The first phase examined four service sectors: appliance repair, credit cards, retail banking, and securities brokerage. The second phase focused on the credit card, long-distance telephone, product repair, and retail banking sectors. The third phase involved five national service companies, including two banks, two insurance firms, and a telephone company.

In our study, defending against tax evasion is a people-based professional service, and in most cases, does not require a team of staff by the Participants. Therefore, the dimensions of service teamwork and talent competition in service quality imperatives were dispensed with. The remaining principles for the guidelines for serving taxpayers under tax investigation then included the following five dimensions:

From service quality imperatives of Berry et al (1990)

- (a) defining service role,
- (b) reliability,
- (c) problem resolution,

From the SERVPERF (service performance) model of Parasuraman et al (1985)

(d) responsiveness, and

(e) empathy.

From the participant data, the extended duration of tax investigation is a significant concern for taxpayers in every instance of a tax inquiry. Lee et al (1990) concluded that people-based service requires attention to “responsiveness”. To combine the participant data and academic research result of Lee et al (1990), “responsiveness” to complete a tax investigation is a more important dimension. The next dimension is reliability, which necessitates the experience and technical proficiency of a qualified tax accountant. In respect of problem resolution, it is crucial in specific circumstances, it is not invariably required in every situation. Thus, these five items are prioritized as follows:

(a) defining service role,

(b) responsiveness,

(c) reliability,

(d) problem resolution, and

(e) empathy.

Regarding the service role, tax accountants must understand the specific requirements of each taxpayer client. Data collected from participants evidenced that uncertainty is a frequent and primary concern for taxpayers, leading to anxiety. Thus, the service role of tax accountants aims to minimize taxpayers’ uncertainty to reduce or relieve

their anxiety during tax investigations.

Theme A on (1) defining service role dimension

Based on the participant data, taxpayers were concerned about the extended duration of the investigation period, the uncertainty of the potential amount of additional tax and penalty, the possibility of imprisonment, the attitudes and replacement, if any, of the assigned IRD officers. Therefore, the service role of the tax accountants in serving clients in defending tax evasion were defined to relieve the anxiety of the taxpayer clients.

The taxpayers' uncertainties of investigation period before and after the start of tax investigation, amount of additional tax and penalty, possibility of imprisonment, attitudes of IRD officers and replacement of assigned IRD officers, were evidenced by the following participant data:

Uncertainty of the duration of the investigation period at the initial stage/before the initial interview

“Client not knowing how long it will take.”: Participant B

“Are clients anxious on how long it will take? Answer: Yes, Clients were threatened by IRD officer at the initial interviews that the case would be dragged on a long time.”: Participant I

“I told my client that the case would be finished in 1 to 2 years. Client believed my advice that the case to be closed in 1 to 2 years, so that client did not urge me to close the case early.”. Participant F

Uncertainty of duration of tax investigation after commencement of investigation

“Clients always urged me to complete the tax investigation early after they provided information to IRD. If investigation lasted for less 1 year, it is not considered to be long. Shortest time of completion is less than 1 year. normal range is between 1 and 3 years. In one case, it was 5 years. Question: What are the ways to shorten the investigation period. Answer: Blame is on client of not producing the documents required by IRD.”: Participant G

“If less than one year, not considered long. Average 2 to 3 years. For construction business, like the subcontractor cases, could be more than 3 years.”: Participant H

“Clients asked my views on the progress and outcome of the case, but it was difficult to predict with precision. Investigation period was lengthened because IRD repeated the same question many times.”: Participant E

“Investigation period can be shortened by good preparation of the case by examining client’s books, ledgers and records to see any error first. The investigation period can be shortened by explaining to client that the longer time the investigation went on, the more penalty, more interest on additional tax chargeable would be paid, and health of the client would be adversely affected and also affect the business of the client.”: Participant A

“Investigation period can be shortened by co-operation by tax clients and not being evasive in production of documents and accounting records to IRD. At the same time, IRD officers delayed the investigation by not serious enough and sometimes because of ignorance of tax law. Sometimes, officers handled the case too high handed. 1 to 2 years is ok but over 36 months is too long. Further, if longer than 3 years, the tax accountants’ cost will suffer because the tax accountant’s fee is usually set at a ceiling. Clients always urged me to complete the tax investigation early. Yes. It depends on whether the proposal for settlement has been submitted. Prior to submission of the proposal for settlement, the clients will urge early submission of the proposal. After submission of the proposal, whether to accept the proposal depends on the decision of the Commissioner or Deputy Commissioner.”: Participant C

“Question: How could speeding up the investigation process be done? Answer: Delays are mostly caused by the late provision of bank statements and bank information from banks. Clients felt frustrated about the production of the bank statements of many years ago and then were asked to

recall details of the bank transactions of deposits and withdrawals of so many years ago. Delay could be reduced by 30% of the time if IRD could give response and feedback earlier or in a shorter period.”: Participant I

Uncertainty of the amount of additional tax and penalty

“Clients were concerned about the additional tax and penalty to be paid. IRD officers threatened that several millions of taxes and penalty should be paid, as it was stated by the IRD officers at the beginning of the investigation.”: Participant I

“Clients are anxious on how much will be the tax additionally found out by IRD to be paid and the penalty to be demanded by IRD.”: Participant D

“Clients were able to pay additional tax charged and penalty imposed. Clients had money to pay additional tax and penalty. Clients were only concerned with too much penalty.”: Participant I

“They told me that they could not pay the penalties”: Participant B

Uncertainty of the possibility of imprisonment

“Client was concerned about the chance of imprisonment because client learnt that from newspaper.”: Participant K

“Clients told me that they are concerned of the possibility of imprisonment because the IRD Assessor told them in the initial interview that in accordance with Inland Revenue Ordinance, tax evaders could be imprisoned.”: Participant C

“Clients are concerned about the possibility of imprisonment.”: Participant D

Clients are anxious about imprisonment because Client did read the newspaper and knew the cases of imprisonment. Explained to clients that imprisonment is unlikely unless false accounting records are prepared.”: Participant I

Uncertainty of the attitudes of IRD officers.

“Question: How often that different IRD officers will have different understanding of the same tax

law? Answer: In investigation case, not much tax law is involved. Progress of the investigation case depends on individual approach of the Assessor.”: Participant B

“IRD officers always maintained that all bank deposits are sale income and no deduction of expenses. IRD officers threatened clients to prosecute them for imprisonment. IRD officers always maintained that section 51C, which penalizes those taxpayers for not keeping business records properly, imposed penalty \$100,000 for each year of assessment while we understand that \$100,000 should be for all the years of assessment under investigation.

When deposits into personal bank accounts cannot be explained, IRD officers treated all the bank deposits as business sale income. Yet, IRD officers do not know client’s business operation. For example, some restaurant expenses are cash payments and should be allowed. Yet, IRD officers did not allow those expenses as deductions. IRD disputed the gross profits ratio. IRD officers maintained an upgoing profit trend of the taxpayers to estimate taxpayer’s taxable profit.”:

Participant A

“The attitudes of the officers have become worse and worse from the past up to the present. Individual officer either too loose or too tight. Sometimes, IRD officers do not follow/misinterpret IRD Departmental Interpretation and Practice Note”: Participant B

“In investigation case, not much tax law is involved. Progress of the investigation case depends on individual approach of the Assessor.”: Participant C

“Definitely, different officers have different attitudes. It is preferable to act reasonably with IRD so that IRD will close the case early.”: Participant E

Uncertainty of replacement of assigned IRD officers.

“Change of officers not too often. At most 1/4 of the cases.”: Participant A

“Replacement of officers too often. Sometimes.”: Participant B

“Individual officer either too loose or too tight.: Participant B

“Whether replacement of officers is good or bad? It all depends. Some IRD officers hated some

kinds of business, for example, medical doctors.”: Participant A

“Clients are not anxious because sometimes, replacement of officers could be better for tax clients because the new officer had less knowledge of the case and might want to close the case early.

This is better for the tax clients.”: Participant E

“Replacement of officers is worse for the client. Clients cannot oppose to replacement of officers.

Different officers have different working attitudes.”: Participant D

“Definitely, different officers have different attitudes. It is preferable to act reasonably with IRD so that IRD will close the case early.”: Participant E

“Replacement of officers not too often. No replacement is better.”: Participant F

“Different IRD officers have different understanding of the same tax law and different working attitudes.”: Participant I

“Question: How the replacement of IRD officer affect the progress of an investigation case? Better or worse to client? Answer: It depends. Better off or worse may occur. Both sides could be possible. In one instance, the Assessor was on a long sick leave, then the Senior Assessor took over the case, resulting in shortening of the investigation period because the recommendation and immediate approval of the proposal was reduced from 2 officers of one Assessor and one Senior Assessor and to one officer of the Senior Assessor.” Participant C

The participant data indicated that tax accountants should aim to reduce taxpayer anxiety, which stems from the lengthy duration of tax investigations, uncertainty regarding additional taxes and penalties, the risk of imprisonment, and replacements in IRD officers' attitudes upon replacement of officers.

The second dimension for discussion is responsiveness. Responsiveness is one of the

five dimensions of SERVPERF (service performance) the customer satisfaction measurement tool, which contained 22 items for the five dimensions of customer satisfaction measurement, according to Parasuraman et al (1991). These 22 items denoted by P numbers in Parasuraman et al (1991) were reproduced below:

Tangibles

- P1 XYZ has modern-looking equipment.
- P2 XYZ's physical facilities are visually appealing
- P3 XYZ's employees are neat-appearing.
- P4 Materials are associated with the service (such as pamphlets or statements) are visually appealing at XYZ.

Reliability

- P5 When XYZ promises to do something by a certain time, it does so.
- P6 When you have a problem, XYZ shows a sincere interest in solving it.
- P7 XYZ performs the service right the first time.
- P8 XYZ provides its services at the time it promises to do so.
- P9 XYZ insists on error-free records.

Responsiveness

P10 Employees of XYZ tell you exactly when services will be performed.

P11 Employees of XYZ give you prompt service.

P12 Employees of XYZ are always willing to help you.

P13 Employees of XYZ are never too busy to respond to your requests.

Assurance

P14 The behaviour of employees XYZ instills confidence in customers.

P15 You feel safe in your transactions with XYZ.

P16 Employees of XYZ are consistently courteous with you.

P17 Employees of XYZ have the knowledge to answer your questions.

Empathy

P18 XYZ gives you individual attention.

P19 XYZ has operating hours convenient to all its customers.

P20 XYZ has employees who give you personal attention.

P21 XYZ has your best interests at heart.

P22 Employees of XYZ understand your specific needs.

Four items of P10 to P13 in SERVPERF (service performance) of Parasuraman et al,

1991) were under the **responsiveness** dimension. With two additional items from participant data, there were in total six items under this dimension for the guidelines formulated in this study.

Participants informed clients when services will be performed. [P10]

Participants gave prompt response to reply to IRD's enquiries. [P11]

Participants were always willing to help. [P12]

Participants were never too busy to respond to clients' requirements. [P13]

Emerging of 2 specific items form the participant data

Participants urged clients to provide information early to IRD. [Specific item emerged]

Participants speeded up the investigation process. [Specific item emerged]
[2 specific items emerged.]

The following participant data aligned with the above six **responsiveness** items.

Participants informing clients when services would be performed per [P10]

"Prior to the initial interview with IRD, a rehearsal interview will be held with the client to show when and how the interview will take place.": Participant G

"Provide an expected schedule to client, like before initial interview, provide rehearsal initial interview to clients, provide the possible flow of work by IRD officers to clients.": Participant E

"I had explained all the procedure flow to the client at the beginning of the investigation.": Participant F

Participants giving prompt response to reply IRD's enquiries per [P11]

"Clients are satisfied with the timely provision of information provided to IRD, as required by IRD.": Participant D

"I urged the IRD to speed up the process of the investigation.": Participant B

“I would urge clients to speed up provision of information which is required from IRD.” Participant A

“Clients are satisfied with the timely provision of information provided to IRD, as required by IRD.”: Participant D

“If information production is in a reasonable time limit, no problem. Usually within IRD’s time limit, so no problem with the time limit to submit information to IRD.”: Participant E

“Question: Any delay in provision of information to IRD? Why the delay? Answer: Delays are mostly caused by the provision of bank statement and bank information from bank.”: Participant I

Participants were always willing to help per [P12]

“Partner handles the investigation case. Partners mainly in office. Clients therefore can find and contact partner.”: Participant G

“Question: How often did you communicate with client during the period of investigation? Answer: On a weekly or biweekly basis until the case is settled.”: Participant E

“Give mobile phone number to client so that client can contact participant.”: Participant C

“Clients are satisfied with the timely contact with me. By phone or face-to-face meetings.”: Participant F

“Question: Understood problems of client and provided solutions? Answer: Yes, timely response and responsive to client’s anxiety.”: Participant C

Participants were never too busy to respond to clients’ requirements per [P13]

“Very often, Prompt meeting and phone call with clients. Speeding provision of information which as required from IRD. More meetings with client to resolve problems is a better action.” – Participant A

“Yes, I always provided timely response and am responsive to client’s anxiety.”: Participant B

“I stand by on need basis. First by phone call and then by face-to-face meeting.”: Participant E

Emergence of 2 specific items from participant data

Participants urging clients to provide information early to IRD [Specific item emerged]

“Urged clients to find out information which is required by IRD. To get the investigation case closed early, tell clients to find out the required information early. Yet, some clients were frustrated to find out information which occurred many years ago.”: Participant G

“Tell clients that to get the investigation case closed early, clients must find out the required information early.”: Participant G

“I encouraged speedy provision of information as required from IRD.”: Participant C

“Told clients that if information required by IRD is not submitted, additional tax and penalty will be charged. This is to urge clients to provide the required information to IRD.”: Participant H

Participants speed up the investigation process [Specific item emerged]

“Follow up IRD by phone calls”: Participant C

“Question: How did you react to IRD when IRD was inaction or indecisive (to the documents submitted to IRD/IRD took no action after lodgement of documents to IRD.)? Answer: Made phone calls to IRD officers on the progress of the case, reminding them that they have to make progress report to their seniors.” Participant A

“I followed up IRD by phone calls and advised clients to pay deposit on expected/admitted understatement of income and hence tax underpaid.”: Participant C

“I urged IRD to give quick response to information which had been provided to IRD. I urged IRD not to delay making decisions. I urged IRD to finalize the case early.”: Participant I

“Question: How did you react to IRD when IRD was inaction or indecisive (to the documents

submitted to IRD or that IRD took no action after lodgment of documents to IRD.)? Answer: By phone and letter to urge IRD officers to take actions.”: Participant I

Then the third dimension of reliability is discussed below.

Theme A on (3) reliability dimension

To show the importance of reliability, Berry et al (1990) quoted the following statement of one service provider to illustrate how a service provider demands and reminds its staff of the importance of reliability by asking each employee to sign the following Commitment of Excellence statement: “Once I made a commitment to a customer or another associate, I promise to fulfill it on time. I promise to do my job right the first time and to continually seek performance improvement.” The essence of reliability is to do the right thing the first time. Parasuraman et al (1991) provided 5 items, labelled as P5 to P9, under reliability dimension in SERVPERF (service performance) which are relevant to the service of defending tax investigation, and there are 5 new items had emerged from this study. Therefore, there are 10 items under the **reliability** dimension in the guidelines.

Participants met the deadline of the IRD’s requirements of information. [P5]

Participants showed a sincere interest in solving the problems of clients. [P6]

Participants provided their services at the time they promised to do so. [P7]

Participants provided the right solution to questions raised by IRD. [modified P8]

Participants informed clients the experience of serving clients of similar nature in the past to show the trustworthiness of their services. [modified P9]

Emergence of 5 specific items from participant data

Customers followed the advice of the Participants. [Specific item emerged]

Participants clarified to clients the IRD penalty policy on charge of penalty amount. [Specific item emerged]

Participants clarified to clients of low chance of imprisonment. [Specific item emerged]

Participants advised clients that different officers could have different views in handling cases. [Specific item emerged]

Participants clarified to clients the misunderstanding of law and Departmental Interpretation and Practice Notes (DIPN) committed by IRD officers or by clients. [Specific item added]

The participant data obtained corresponded with these 10 items of reliability.

Participants met the deadline of the IRD's requirements of information per [P5]

"Clients are satisfied with the timely provision of information provided to IRD, as required by IRD.": Participant F

"If information production is in a reasonable time limit, no problem. Usually within IRD's time limit, so no problem with the time limit to submit information to IRD.": Participant E

"Usually within the time limit allowed by IRD and if not possible, asked for extension of 2 weeks, which usually allowed by IRD.": Participant F

"In one case, client was sick and parents were in hospital. Produced payment receipts to show hospitalisation. The case was speeded up for completion." Participant A

Participants showing a sincere interest to solve the problems of clients per [P6]

"Provide an expected schedule to Client, like initial interview, provide rehearsal initial interview to

clients, provide the possible flow of work by IRD officers to clients. Analyze the crux of the problem of client's case to client, e.g. business expenditure is wholly cash, with no or only rarely with supporting documents e.g. expenditure is private expense. Analyze the strength of the client's case, remind clients to provide evidence, co-operate with IRD, tell client the possible penalty imposed, the standard procedure and penalty loading or scale. Explain the working attitude and workload of the assessor who has several tens of files to handle and who also want to close the case early."

Participant C

"Help clients to explain to IRD that some of the bank deposits are not income. For bank withdrawals, explain and identify and divided withdrawals as business expenses and private expenses." Participant H

"Question: What are the ways to relieve client's anxiety at the very beginning? Answer: Ask client to disclose all the assets and liabilities, bank accounts to the tax accountant." Participant F

Participants providing their services at the time they promised to do so per [P7]

"Provide an expected schedule to Client, like before initial interview, provide rehearsal initial interview to clients, provide the possible flow of work by IRD officers to clients." Participant G

"During investigation, client know what is going on and what will happen next. Final settlement on a reasonable basis and amount of additional tax payment and penalty are below client's expectations." Participant C

Participants providing right solution to questions raised by IRD per [modified P8]

"Tell client to pay deposit on expected/admitted understatement of income and hence tax underpaid." Participant C

"More meetings with client to resolve problems is a better action." Participant A

"Question: How often do your client have doubts or disagreement on the advice provided by you? Answer: Seldom. I understood problems of client and provided solutions." Participant B

Participants informing clients the experience of serving clients of similar nature in the past to

show the trustworthiness of their services. per [modified P9]

“Our CPA firm published a booklet to clients to show the nature of cases of different business completed in the past and the number of cases completed in a year in the past.”: Participant A

“Question: Did you provide the experience of other cases of similar business nature, which were closed in the past, to client? Answer: Yes. To comfort clients.”: Participant H

“I provided the experience of other cases of similar business nature, which were closed in the past, to client, if there are such cases.”: Participant E

Emergence of 5 specific items from participant data

Customers following the advice of the Participants per [Specific item emerged]

“Question: Did, or how often, your clients argue with you about your approach to handle or settle the cases? Answer: No. Client followed my advice.”: Participant I

“Question: Did, or how often, your clients follow your advice or approach in dealing with IRD? Answer: Yes. Client did not know how to handle. Therefore, client followed my advice.”: Participant K

“In most cases, clients followed my advice or approach in dealing with IRD.”: Participant C

“Question: How often did your clients argue with you about your approach to handle or settle the cases? Answer: seldom, tax clients entirely put trust on me to handle the case.: Participant B

Participants clarifying to clients the IRD penalty policy on charge of penalty amount per [Specific item emerged]

“Tell clients that newspaper and news release of IRD are on penalty and rarely on imprisonment.”: Participant C

“Told client the possible penalty imposed/the penalty policy adopted by IRD. For example, explained to clients that the maximum penalty would not be as 3 times, as laid down in law. Estimated to clients the additional tax and penalty to be charged by IRD. Psychologically assisting clients to undergo the investigation period. Told clients that penalty will not be as high as 3 times as

stated by IRD officers in the initial interview. ”: Participant I

Participants clarifying to clients of low chance of imprisonment per [Specific item emerged]

“Tell clients that newspaper and news release of IRD are on penalty and rarely on imprisonment.”:

Participant C

“Clients are not anxious about imprisonment because had explained clients that seldom to end up with imprisonment unless false accounting records were prepared.”: Participant E.

“Advised clients that if no evasion, only mistake made in filing tax return, only additional tax and penalty will be charged but not imprisonment.”: Participant G

“Explained to clients that imprisonment is unlikely unless there was false accounting records are prepared.”: Participant I

Participants advising clients that different officers could have different views in handling cases per [Specific item emerged]

“Question: How often that different IRD officers will have different understanding of the same tax law? Answer: Very often. Advised clients that IRD officers will have different understanding of the same tax law.”: Participant A

Participants clarifying to clients the misunderstanding of law and Departmental Interpretation and Practice Notes (DIPN) committed by IRD officers or by clients per [Specific item emerged]

“Clarified the taxpayers’ misunderstanding of the tax law.”: Participant D

“Sometimes, IRD officers do not follow/misinterpret IRD Departmental Interpretation and Practice Note. I explained to the taxpayers of the misunderstanding of the tax law by IRD”: Participant B

[5 specific items emerged.]

Theme A on (4) problem resolution dimension

In respect of problem resolution dimension, Berry et al (1990) noted that service companies often fail to address problems effectively, stating “All too often, service companies make things worse. They do not encourage resolving their problems”. In line with this observation, it is important for tax accountants to provide solutions promptly when a taxpayer encounters a problem.

The following participant data show that the Participants took preventive or remedial actions to achieve problem resolution in addressing tax-related issues.

Understanding problems of clients and provision of solutions

“I understand the strength and weakness of clients”: Participant E

“Should understand problems of client and provided solutions.”: Participant B

“Clients at first are afraid of meeting IRD officers, Yet the situation changed. Clients are not afraid of going to hold face-to-face meetings with IRD because clients were fully informed of the procedures and what would happen in the meetings. Briefings were held for clients prior to the meetings with IRD officers.” Participant H

“I recalled one case where the client had only one bank account and there was one set of bank statements with cash in and cash out. The client did not prepare ledgers for the business which was an illegal business, just with some papers to record receipts and payments. IRD accepted all the cash as sale income but denied purchase cost of goods. I argued with IRD officers that if the cash payment was not purchasing cost, then in doing business, the client was doing either as purchase and sale of goods business, or commission agent. In case IRD did not allow purchase of goods, then there must be a commission rate to earn income by the client. Finally, the IRD officer agreed to apply a commission ratio to compute the amount of profit of the client, which is based on a percentage of the cash in as sale revenue, to finish the case. Otherwise, all the cash receipts will be taxable without any deduction of expenses”: Participant F

“In one client of construction business, IRD maintained to adopt the lowest level of part-time worker salary as the salary expenses to reduce the cost of building works and increased the taxable

profit of the taxpayer. The dispute was resolved by the salary level received by the workers which was published by a workers' organization.”: Participant A

Theme A on (5) empathy dimension

Finally, it is the empathy dimension. The tax accountants ought to adhere to the items in the empathy dimension of the SERVPERF (service performance) model. The following are the items for the empathy dimension [4 items in SERVPERF (service performance) and the same 4 items identified from the participant data in this study].

Participants gave individual attention to clients' concerns and questions upon engagement. [P18]

Participants provided private mobile phone calls to clients for direct and immediate contact with Participants, if necessary, and after hours during the evening. [Modify P19]

Participants worked for client's best interests at heart. [P21]

Participants understood the clients' case and analyzed their strong and weak points. [Modified P22]

Regarding item P20, personal attention provided to taxpayer client is not relevant for establishing best practices in servicing taxpayer clients. Participant data indicated that tax accountants personally attended to clients during tax investigations. This created a built-in relationship between the tax accountant and the taxpayer client. Therefore, personal attention given by the tax accountant must be present once a client engaged them. Consequently, this element should not be considered as a criterion for best practice.

The following participant data showed empathy of the participants towards the taxpayers.

Participants giving individual attention to clients' concerns and questions upon engagement per P18

"Analyzed the crux of the problem of client's case to client, weakness of client's case he strength of the client's case. Told clients the possible penalty imposed/the penalty policy adopted by IRD."

Participant F

"I told client possible questions that IRD may ask and the possible maximum tax and penalty that IRD may charge." Participant F

"Question: How did you psychologically assist clients to undergo the investigation period? Answer: I told clients that penalty will not be as high as 3 times as stated by IRD officers in the initial interview." Participant I

"I tell clients the standard procedure and penalty loading or scale. When clients are concerned about imprisonment, tell clients that newspaper and news release of IRD are on penalty and rarely on imprisonment." Participant C

"Explained the working attitude and workload of the assessor who has several tens of files to handle and who also want to close the case early." Participant C

"For some cases, clients asked me to follow the case up to the end to complete the investigation. They showed trust in me." Participant G

"During investigation, client know what is going on and what will happen next. Final settlement on a reasonable basis and amount of additional tax payment and penalty are below client's expectations." Participant C

"Question: What do you think are the most important matters in the serving tax clients in tax investigation? Answer: Building up Trust between client and tax accountant is important."

Information provided to IRD must be true.”: Participant E

“Question: What do you think are the most important matters in the serving tax clients in tax investigation? Answer: Client should disclose all the facts of the client’s case, business, assets and liabilities to the tax accountant to help the client.”: Participant F

Participants providing private mobile phone calls to clients for direct and immediate contact with Participants, if necessary, and even at night-time per [Modified P19]

“Give mobile phone number to client so that client can contact me.”: Participant C.

“Yes, timely response and responsive to client’s anxiety.”: Participant C

“By phone call and meetings to contact clients.”: Participant H

Participants working for clients’ best interest at heart per [Modified P21]

“I had held necessary and useful meetings with clients in the investigation progress. Very often, clients knew that we were helping them.”: Participant B

“I reminded clients that most importantly is not to admit guilty. If guilty is admitted, there is no way to change the plea of guilty unless with document evidence.”: Participant G

“I advised Client to disclose all the facts of the client’s case, business, assets and liabilities to me so as to help the client.”: Participant F

Participants understood clients’ case and analyzed their strong and weak points per [Modified P22]

“Psychological understanding of client’s problem and provision of mental support is of good assistance of client in tax investigation. It is necessary and useful to have meetings with client in the investigation progress. More meetings and phone calls to clients is helpful to clients.”: Participant A

“I analyzed the most problematic issues of client’s case, the weakness of client’s case, to client, as well as the strength of the client’s case, to client.”: Participant K

"I analyzed the weakness of client's case, e.g. expenditure is private expense.

Analyzed the strength of the client's case, remind clients to provide evidence, co-operate with IRD."

Participant C

Based on the examination and analysis of the participant data, the following five dimensions should be adopted as best practices or guidelines for tax accountants when assisting clients in defending tax investigations with customer satisfaction:

- (a) tax accountants' serving roles,
- (b) responsiveness,
- (c) reliability,
- (d) problem resolution, and
- (e) empathy

In total 28 items across 5 dimensions have been identified as good practices for the guidelines.

5 dimensions of 28 items of the "Guidelines to serve clients in defending tax investigation with customer satisfaction"

Dimension of tax accountants' serving roles [3 items]

1. Identification of client's needs, anxiety and the causes of anxiety. This is more important than bearing the expertise of tax laws and regulations since anxiety is the incentive or reason behind for the client's action to seek assistance from a tax accountant.
2. Tax accountants should be aware of the client's uncertainty about penalty options by the Inland Revenue Department.
3. Provide a schedule of tax investigation processes to the clients according to the IRD practice to

show the steps carried out in the tax investigation.

[This is apparently necessary to provide such information because the IRD, like other tax authorities overseas, deliberately limits the information on their auditing and enforcement procedures. (Luttmer E.F.P., and Singhal M., 2014)]

Dimension of responsiveness [7 items]

4. Inform clients when services will be performed. [P10]
5. Give prompt responses to reply to the IRD's enquiries. [P11]
6. Be always willing to help. [P12]
7. Never shy away from responding to the clients' requirements. [P13]
8. Urge clients to provide information early to the IRD. [Specific item emerged]
9. Assist clients and the IRD officers to speed up the investigation process. [Specific item emerged]
10. Encourage clients to produce information for the IRD to speed up the investigation process. [Specific item emerged]

Dimension of reliability [9 items]

11. Meet the deadline of the IRD's requirements of information. [P5]
- (Show a sincere interest in solving the problems of clients per [P6] will be shown in problem resolution dimension.)
12. Provide services within the promised timeline. [P7]
 13. Get familiarized with the law and prevailing practice of Inland Revenue Department to provide the right solutions to questions raised by the IRD. [Modified P8]
 14. Clarify with the IRD the penalty policy on penalty amount being charged. [Specific item emerged]
 15. Inform clients of the experience of serving clients of a similar nature in the past to show to the reliability of their services. [modify P9]

16. Clarify to client about the low chance of imprisonment, if applicable. [Specific item emerged]
17. Where appropriate, advise clients that different officers might have different views in handling cases. [Specific item emerged]
18. Clarify to clients that there is possible misunderstanding of law and Departmental Interpretation and Practice Notes (DIPN) committed by IRD officers, if there exists, or by the clients.
[Specific item added]
19. Encourage clients to provide details of assets and liabilities, bank account of clients so as to understand the positions of the client [From data of Participants]

[P20 of “assistants’ work” has been omitted because assistants of tax accountants play an insignificant role in tax investigation.]

Dimension of problem resolutions [4 items]

20. Show a sincere interest in resolving client’s problems. [P6]
21. Endeavor to understand the problems of the client. [Specific item emerged]
22. Endeavor to provide solutions to client for problems that might have been encountered .
[Specific item emerged]
23. Endeavor to resolve client’s problems early. [Specific item emerged]

Dimension of empathy [5 items]

24. Give individual attention to client’s worries and questions upon engagement. [P18]
25. Provide private mobile phone numbers to the client for direct and immediate contact, if necessary. [Modified P19]
26. Work for the client’s best interest at heart. [P21]
27. Understand the clients’ cases and analyze the strengths and weaknesses. [Modified P22]
28. Endeavour to build trust with the client. [Specific item emerged]

The guidelines consist of five dimensions: "serving role," "responsiveness," "reliability," "problem resolution," and "empathy," with a total of 28 items. These are categorized as follows: 3 items for serving role, 7 items for responsiveness, 9 items for reliability, 4 items for problem resolution, and 5 items for empathy. These guidelines are based on data from Participants, each of whom has over 20 years of experience in tax investigations and are supported by the customer satisfaction theoretical framework. Therefore, the validity of these guidelines is backed by empirical data from the Participants, the five dimensions of SERVPERF (service performance) customer satisfaction measurement model of Parasuram et al (1991), and the five service quality imperatives of Berry et al (1990).

Section C

Emerg ed Theme B - Tax morale to curb tax evasion in Hong Kong

Promotion of tax morale to curb tax evasion was a new theme that emerged during this study. This section examines the theoretical framework of tax morale, its function and impact, as well as the antecedents influencing tax morale, such as sustainability, fairness, and redistribution ability of the tax system. Additionally, it will explore the interrelationship amongst tax evasion, tax morale, and the shadow economy. Furthermore, practical strategies for fostering tax morale in Hong Kong will be discussed, along with an analysis of tax evasion offence and the underlying reasons for tax evasion.

Theoretical framework for tax morale

Meaning of tax morale

Tax morale is broadly defined as an umbrella term capturing nonpecuniary motivations for tax compliance (Luttmer & Singhal, 2014). Torgler (2004a; 2006) defines tax morale as the intrinsic motivation or the willingness of individuals to pay taxes. Tax morale encourages payment of tax and curbs tax evasion. OECD (2001) emphasizes that “the promotion of voluntary compliance should be the primary concern of revenue authorities in its principles for good tax administration.” Furthermore, OECD (2013) highlights the significance of tax morale, noting that individuals with high tax morale are generally willing to fulfill their tax obligations, whereas those with low tax morale are not. The association between tax morale and willingness to pay taxes aligns with the belief that higher penalties and audit rates alone are insufficient to curb tax evasion. Research indicated that penalties and audits are ineffective in preventing tax evasion (Dularif et al, 2019). Similarly, Frey and Holler (1998) found that punitive measures and increased audit rates do not effectively deter tax evasion. Torgler et al (2007) demonstrated a strong correlation between tax morale and tax compliance/tax evasion, with individuals possessing high tax morale more likely to comply with tax laws, while those with negative tax morale are more inclined to evade taxes.

Tax morale is dependent on a sustainable tax system and the ability to redistribute wealth and income. Promotion of tax morale encourages citizens to pay their taxes. Prior to fostering tax morale, the tax system should be sustainable, with fair

distribution of wealth and income. Torgler et al (2007) stated that tax morale requires a sustainable tax system that is equitable and capable of redistributing wealth and income. They referenced Bird et al (2006), who stated that "a sustainable tax system is based on a fair tax system and responsive government, achieved with a strong connection between tax payments and the supply of public goods." The adverse consequence of an unsustainable tax system is the erosion of citizens' tax morale. Therefore, to foster tax morale, the tax system must be both sustainable and effective in redistributing wealth and income.

To address the two questions of (a) whether Hong Kong's tax system can sustain itself while effectively redistributing wealth and income and (b) what measures are necessary to maintain a good tax system, the participant data was interpreted first individually and then collectively.

The following participant data showed the interpretation of the participants on sustainability of Hong Kong tax system and effectiveness in re-distributing wealth and income in Hong Kong.

Participant A

"Education of taxpayers that taxation is distribution of wealth and income. When taxpayers understand the social requirement and distribution functions of taxation, taxpayers are educated to understand the importance of paying the legally required amount of tax. Thus, education can achieve the purpose of prevention of tax evasion. To sustain for long, the government should charge capital gains and charged tax on the consumers of luxury goods, such as cars and handbags.

Researcher's interpretation: Participant A's implication is that education would help improve the public awareness that taxation can redistribute wealth and income, and

that the government might not sustain for long unless new taxes of capital gains tax and luxury goods tax are introduced.

Participant B

Fairness of taxation

“I agree that taxation is a means of redistribution of wealth and income.

A good tax system should meet the 5 basic conditions of fairness, adequacy, simplicity, transparency and administrative easiness. If these 5 factors are present, a tax system should sustain for a long period of time.”

Sustainability of Hong Kong taxation system

“The present Hong Kong tax system cannot sustain a long period of time because of the present poor economic conditions, in that the government revenue may not be able to finance the government expenditure. The new project of reclamation of new land for development should be stopped and the government should raise new tax type and increase the tax base in Hong Kong.”

Researcher’s interpretation: Participant B implied that there is a good tax system in Hong Kong with fairness but the possibility of sustaining this for over a long term is doubtful in light of the present poor economic conditions. Participant B stated explicitly that taxation can redistribute wealth and income.

Participant C

Fairness of taxation and Hong Kong tax system

“Redistribution of wealth is the function of taxation. Taxation is a means to collect revenue by government, for example, land tax. The 5 basic conditions for a good tax system are: fairness, adequacy, simplicity, transparency, and administrative easiness. Interest income and dividend income should also be taxed. For the present tax system, Hong Kong may not be able to survive because Hong Kong economy is not good and if land is not sold for good value. The Hong Kong tax system should be reviewed because the last Hong Kong tax review had already been taken place 50 years ago.”

Researcher’s interpretations: Hong Kong adopts a good tax system with fairness in the distribution of wealth and income. However, it should be reviewed after a 50-year period without review. It is doubtful for Hong Kong tax system to be sustained for a long term for the poor economic conditions.

Participant D

Hong Kong tax system

“Taxation system in Hong Kong is a simple system. Taxation is not a means of redistribution of wealth and income. There should not be wealth/income redistribution. A good tax system should meet five basic conditions: fairness, adequacy, simplicity, transparency, and administrative easiness. Hong Kong taxation system cannot exist on a long-term on-going basis. With the present and expected government expenditure and revenue collection, the present Hong Kong tax system cannot sustain for a long period of time without change of tax law or tax regulation.”

Researcher’s interpretations: The Participant opined that there should be no redistribution of wealth or income. The present tax system should not be sustained

for long in Hong Kong in the future because there could be a future deficit.

Participant E

Redistribution function of taxation in Hong Kong

"Definitely, taxation is a means of redistribution of wealth/income.

Collect tax to pay for the expenses of the government. Hong Kong government may sell the broad band [of internet] to create government revenue.

"Taxation is to collect money to pay for government expenses. Can charge GST, (Goods and Service Tax) to create new tax type. Agreed that a good tax system should meet five basic conditions: fairness, adequacy, simplicity, transparency, and administrative ease. Yes. Fairness is subjective. 2 points: (a) encourage pay more tax by those who are able to do so, and (b) take care of the underprivileged. The government should encourage people to advance economic development so to generate income. Not to encourage people to be lazy. Yet, some people are underprivileged, poor and unable to improve their living conditions. Rich people should pay more tax than the middle class and lower class."

Sustainability of Hong Kong taxation system

"Taxation system should change with the change of the social changes.

Hong Kong taxation system cannot exist on a long-term on-going basis.

Should change tax system as the economic situation changes.

If the present tax system cannot support the future government spending in the future, Hong Kong government tax revenue is not able to pay for 50% of the government expenditure. The government expenditure is now covered by other means or income source. Our taxation system should be

reviewed in every 10 years and even every 5 years.”

Researchers’ interpretations: The Participant considered that Hong Kong has a good tax system because the Hong Kong tax system complies with the five canons of taxation. Yet, the Hong Kong tax system cannot generate sufficient revenue to pay for the government expenses. The government deficit was covered by other revenue sources, implied by sale of land and issue of government bonds. The Participant proposed to sell internet broadband to increase government revenue. Rich people should pay more to help the underprivileged. Impliedly, the Participant opined that the Hong Kong tax system can redistribute wealth and income. The Hong Kong tax system should be reviewed every 5 years or 10 years.

Participant F

What is a fair taxation system?

“Agreed that taxation is a means of redistribution of wealth and income.

To charge tax in Hong Kong should be on a fair basis. Government should get the revenue from the rich and provide subsidies to the underprivileged. Agreed that a good tax system should meet five basic conditions: fairness, adequacy, simplicity, transparency, and administrative ease.”

Sustainability with the present Hong Kong tax system

“If tax evasion is not widespread in Hong Kong, can the Hong Kong present tax system sustain on a long-term on-going basis? Answer, “The government should explore more ways to generate revenue. Government should take a broad outlook to attract foreign investors to invest in Hong Kong. The present Hong Kong tax system should be reviewed and improved, as and when

required.”

Researcher’s interpretations: Participant F believed that Hong Kong has adopted a good tax system with fairness in tax collection and, impliedly the tax system can be sustained for a long term.

Participant G

What is a fair taxation system?

“A fair taxation system should be able to re-distribute wealth and income, just like the mainland, rich cities should help the poor cities. Rich should help the poor.

Agreed with wealth/income redistribution. Sales tax and low tax rate cannot re-distribute income/wealth. In capitalistic cities, more able people earn more, re-distribution of wealth/income is the norm. Agreed that a good tax system should meet five basic conditions: fairness, adequacy, simplicity, transparency, and administrative ease. A good tax system should be able to re-distribute wealth and income. Should revise Hong Kong tax system. We should introduce sale tax. To charge sale tax is better than sale of land. But it needs publicity to educate people to accept.”

Sustainability with the present Hong Kong tax system

“Question: If tax evasion is not widespread in Hong Kong, can the Hong Kong present tax system sustain on a long-term on-going basis?

Answer: The Hong Kong tax system should be revised. The current Hong Kong tax system should not be able to sustain on a long-term on-going basis. Hong Kong should have sales tax.”

Researcher’s interpretations: The Participant held the views that the Hong Kong tax

system cannot sustain itself for long unless sales tax is introduced. Hong Kong tax system should redistribute wealth and income.

Participant H

What is a fair taxation system?

“Taxation system in Hong Kong is simple with low tax rate.

To be fairer, may adopt a progressive rate of tax; higher income level should be charged with higher rate of tax. Agreed that a good tax system should meet five basic conditions of fairness, adequacy, simplicity, transparency, and administrative easiness.”

Sustainability with the present Hong Kong tax system

“If tax evasion is not widespread in Hong Kong, can the Hong Kong present tax system sustain on a long-term on-going basis?

For recent difficult years, under the present tax system, the revenue collected by government should not be able to support government expenditure.”

Researcher’s interpretations: Participant H impliedly accepted that Hong Kong tax system adopts the 5 canons of taxation, is fair; yet cannot sustain itself for long because of the recent economic challenges.

Participant I

Fairness of taxation

"In principle, taxation is a means to redistribute wealth and income.

Taxation in Hong Kong is to get the rich to pay tax and to help the poor and the underprivileged.

Agreed that a good tax system should meet five basic conditions: fairness, adequacy, simplicity, transparency, and administrative ease.

To make public be aware of taxation duties, businessmen should attend class on taxation. IRD should educate the public to comply with tax law."

Sustainability of the present taxation system in Hong Kong

"If Hong Kong is prosperous, the Hong Kong taxation system can exist on a long-term basis.

Otherwise, if Hong Kong is not prosperous, Hong Kong tax system cannot exist on a long-term basis. Whether the government can get enough revenue to support government expenditure depends on how government spends money on public service."

Researcher's interpretations: Participant I proposed a fresh idea that the tax department should hold seminars for taxpayers to understand the tax compliance regulations. Hong Kong tax system can redistribute wealth and income and comply with the 5 canons of taxation. In view of economic difficulties, Hong Kong may not be able to sustain itself for long.

Participant K

Sustainability of tax system in Hong Kong

"Agreed that the core elements of tax system in Hong Kong are fairness, adequacy, simplicity, transparency, and administrative easiness.

Can the present tax system in Hong Kong be maintained on a long-term on-going basis?

“Hope the present tax system can exist for a long time.

The revenue generated by present Hong Kong tax system cannot support government expenditure.

The government should charge GST goods and services tax with basic goods be exempted from GST.

Every year Hong Kong tax system has been reviewed by annual budget.”

“Agreed that taxation is a means of redistribution of wealth and income. Higher tax rates should be charged on wealthy people. A good tax system should be of low tax rate, simple and easy to understand. A good tax system should meet five basic conditions: fairness, adequacy, simplicity, transparency, and administrative ease.”

Researcher’s interpretations: Participant K agreed that Hong Kong has adopted the 5 canons of taxation, is able to redistribute wealth and income but cannot sustain itself for the long term. To address this issue, Hong Kong must charge GST (Goods and Services Tax) while exempting basic goods (for living) from GST.

Across-case interpretation on the sustainability of Hong Kong tax system and its ability to redistribute wealth and income

Regarding the sustainability of Hong Kong's tax system and its role in wealth and income redistribution, eight out of the ten participants (Participant A, B, C, D, G, H, I, and K) expressed concerns that the current tax system may not be sustainable in the long term due to recent economic downturns. They recommended introducing new taxes such as capital gains tax, sales tax, goods and services tax, and luxury goods

taxes. Additionally, these same Participants agreed that the Hong Kong tax system plays a role in redistributing wealth and income. Adhering to the well-regarded five canons of taxation does not necessarily ensure the tax system's longevity. This is because government revenue is influenced by external economic fluctuations, which is imminent as Hong Kong, being a small economic entity is highly subject to global economic changes. From the nuanced data obtained, some novel ideas emerged: (a) the government should consider selling internet broadband to generate revenue, and (b) the IRD can hold seminars to educate taxpayers to comply with tax regulations. The next consideration is on the seriousness of tax evasion in Hong Kong because tax evasion created leaking of revenue from the government. Serious tax evasion reduces tax collection and damages the government's ability to re-distribute wealth and income.

Whether tax evasion is widespread in Hong Kong?

The following is a table extracted from the IRD annual reports for the years of assessment from 2020/21 to 2023/24 to show the amount of tax undercharged and the number of investigations cases completed for the same four years. Since the number of cases completed each year is consistent, the data from four years is sufficient.

Table 1 – IRD Tax Investigation results

Year of	2020/21	2021/22	2022/23	2023/24
Assessment				
	HK\$M	HK\$M	HK\$M	HK\$M
Total	220,817.9	253,347.6	264,264.9	261,595.8
earnings				

and profits

tax (A)

Back tax	1,188.4	1,810.1	1,796.5	1,684.3
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and

penalties

assessed

(B)

(B)/(A)	0.54%	0.71%	0.68%	0.64%
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X 100%

Cases	1,581	1,533	1,613	1,580
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completed

(B) Excludes back tax and penalty owing to tax avoidance schemes. Approximately 220 cases of tax avoidance were detected annually, involving highly tax technical issues and thus outside the scope of this study.

The above data was adopted from the IRD 2023/24 Annual Report from years of assessment 2020/21 to 2023/24.

The number of cases completed for each of the four years remained consistently around 1,500 and 1,600. The data is sufficient for the purpose of this study.

The amount of tax undercharged and penalty imposed generally ranged from 0.54% to 0.71% of the tax payable before investigation. According to Participant G, the penalty could be 100% or more of the tax undercharged. It means the proportion of back tax and penalties recovered is around the ratio of 1 to 1. Therefore, in total the recovered

tax undercharged, after investigation, is about less than 0.71% of the tax undercharged before investigation, resulting in approximately 0.27% ($=0.54\% \times 1/2$) to 0.355% ($=0.71\% \times 1/2$) of the tax being evaded by the taxpayers. This observation is based on the overall investigation result of the IRD. The low tax evasion in Hong Kong is supported by other research findings because the determinants of tax evasion is not imminent in Hong Kong, which include the complexity of the tax rules (Khlif & Achek, 2015), the high tax rates (Clotfelter, 1983), and corruption in the government (Alm et al, 2014).

Empirically, based on the participant data collected and analyzed, there is no consensus among the participants on this issue. Opinions are evenly split, with Participants A, B, C, D, and G considering tax evasion to be widespread, while Participants E, F, H, I, and K believed it was not widespread. The following were the verbatim statements of the 10 Participants.

Participant A

“Yes, tax evasion is widespread. Reason for committing tax evasion is that other people are doing the same. IRD should do publicity, and education should prevent tax evasion” –

Researcher’s interpretation of the Participant’s views: Tax evasion was widespread. The theoretical reason for tax evasion was that tax evasion is influenced by peers (Frey & Torgler, 2007), which was supported by participant data. Tax evasion was influenced by peers, as viewed by Participant A.

Participant B

“Tax evasion is widespread because some taxpayers are greedy not to pay tax and spend the money

on themselves. Better tax education to the public is to reduce tax evasion.”

What should the government do to prevent tax evasion?

“Tax evasion is widespread in Hong Kong. Education and strict law enforcement can prevent tax evasion in Hong Kong.”

Researcher’s interpretation of the Participant’s views: Tax evasion was widespread. Education and penal actions were ways to curb tax evasion.

Participant C

“Tax evasion is not uncommon. People are greedy to save money (for their own use and not to pay tax”. Question: How often do clients disclose the reasons for the income understatement? Not common. One example, money received from scraps not reported to IRD as income and thus, income was understated.”
”

What should the government do to prevent tax evasion?

“Tax evasion is not uncommon in Hong Kong. The motive to commit tax evasion is to cut tax payment because of client’s greedy intention to pay less tax. Publication and education should prevent tax evasion. Clients seldom tell me the reason for tax evasion.

Researcher’s interpretations of the Participant’s views: Tax evasion was common. Not disclosing the reason for not reporting income meant people decide to commit tax evasion. Participant C opined that publication, and education could curb tax evasion.

Participant D

What should the government do to prevent tax evasion?

“Tax evasion is widespread. Clients seldom disclosed the reasons for income understatement in filing tax returns.

Prevention of tax evasion

“By what means that IRD should do to prevent tax evasion in Hong Kong? To cut tax or reduce tax burden of taxpayers.”

Researcher’s interpretation: Participant D’s view was that high tax burden in Hong Kong was the cause of tax evasion.

Participant E

“In my cases, no experience of international or cross border understatement of income cases. All my tax clients are existing audit clients. Most of them invoked adjustment of private expenses. Tax evasion not necessarily widespread.”

“Tax evasion cases are those where in serious situation, not to record the income in accounting record. Minor is to charge disallowable expenses in account.”

Prevention of tax evasion

“Not come across with international or cross-border understatement of income cases. All tax clients are audit clients. Tax evasion is not widespread.”

Researcher’s interpretations: Tax evasion is not necessarily widespread. Claiming private expenses or part of them as business expense so as to reduce taxable income was a kind of under-reporting of income. Thus, it was considered tax evasion, though of a minor degree.

Participant F

“Tax evasion is not widespread in Hong Kong. In one case, client’s business was illegal business. Therefore, the client did not report income to IRD. It is because the business was illegal.”

What should the government do to prevent tax evasion?

“Tax evasion is not widespread in Hong Kong. Clients did not disclose the reason for tax evasion. In one case, the client’s business was illegal business. Tax avoidance is a legal way to pay less tax. Tax evasion is an illegal way to pay less tax.”

Prevention of tax evasion

"Tax evasion is not widespread in Hong Kong."

Researcher's interpretations: Tax evasion was not widespread in Hong Kong. It was natural for illegal businesses not to report the business and the business income to the tax department. Still, it is considered tax evasion.

Participant G

What should the government do to prevent tax evasion?

"Tax evasion is widespread in Hong Kong. Not all incomes are reported and cash receipts were not reported. Reasons/motives/causes for tax evasion: Cash business. It is easy not to report income. The tax rate is low. The penalty rate is low. Additional tax and penalty only accounts for 50% of the income understated. That is the incentive to evade tax.

How IRD should do to prevent tax evasion in Hong Kong? Change policy to impose heavier penalty. Some clients thought it is all right to understate income. Difficult to educate the public not to evade tax."

Reason for tax evasion

"Penalty is on the low side."

Method of tax evasion

"I had heard from other sources that some taxpayer prepared 2 sets of accounts, one for own use and the other for the purpose of IRD. Indeed, this taxpayer engaged 2 auditors, each one for one of the 2 sets of accounts.

Client had money to pay additional tax and penalty."

Prevention of tax evasion

"Heavy penalties. As tax evasion is widespread, to increase penalty can curb tax evasion."

Researcher's interpretations:

(a) Tax evasion was widespread.

- (b) The highest tax rate for individuals and companies are 15% and 16.5% respectively and practically, the penalty imposed normally is 100% or more of the tax undercharged, for individuals, it is 15% plus 100% (on 15%), that is, 15% plus 15% or 30% on income earned/income under-reported. That was why Participant G stated that the penalty rate in Hong Kong is low.
- (c) Participant G opined that with the low penalty, the consequence of tax evasion was not serious.

Participant H

“Tax evasion not widespread. Higher penalty rate will deter tax evasion.”

Reason for tax evasion

“Penalty is not high enough.”

Prevention of tax evasion

“Tax evasion is not widespread in Hong Kong. Higher penalty rate will curb tax evasion.”

Researcher’s interpretation: Participant H considered tax evasion was not to be widespread in Hong Kong.

Participant I

“Question: Do you think that tax evasion is widespread in Hong Kong?”

Answer: “No. Only 0.5% of the clients of tax accountants were under investigation.”:

“Question: How to reduce tax evasion? Answer: No need because tax evasion in Hong Kong is not common.”

“Question: Do you know the reasons why taxpayers committed tax evasion? Answer: Client did not know how to present their case, their positions. Not to know the tax law. For example, not knowing where to report rental income when purchased properties for rental income. Not to know where to get the tax returns to report rental income.”

Prevention of tax evasion

“Tax evasion is not widespread because only 0.5% of my audit clients were under investigation.

Not necessary to take any measure to prevent tax evasion because tax evasion in Hong Kong is not common. Clients did not know how to present their case or their positions. Not to know the tax law.

For example, not to know where to report rental income when purchased properties for rental income, which is especially for the non-residents of Hong Kong, such as the mainlanders. Not to know where to get the tax returns to report rental income. That investigation file was opened for those clients because the IRD did not inform the taxpayers how to report the rental income. Tax avoidance is to make use of loopholes to pay less tax. Tax evasion is intentionally not to pay tax. For example, tax reduction by false accounting.”

Researcher’s Interpretation: Tax evasion in Hong Kong appeared to be uncommon.

Participant I, based on their experience, did not perceive widespread tax evasion in Hong Kong. Investigation results supported this perspective, as the IRD data indicated that less than 0.35% of collectible taxes were evaded. Participant I suggested that income understatement or non-reporting was often due to a lack of understanding of income reporting requirements to the tax department.

Participant K

Tax evasion in Hong Kong

“In the past over 10 years ago, tax evasion was widespread. In recent years, less common in Hong Kong. May be after education and news on tax evasion cases.”

“Question: What are the reasons/motives/causes for tax evasion? Answer: Wants to pay less tax. Tell clients that the tax rate was low in Hong Kong.”

“Question: What are the differences between tax avoidance and tax evasion? Answer: Tax avoidance is to make use of tax law loophole to pay less tax. It is lawful. Tax evasion is intentionally not to pay tax. It is illegal. For example, reduction of tax by false accounting.”

Reason for tax evasion

“The client indirectly admitted understatement in tax return. Clients omitted to report cash received as part of the total income.”

The reasons for tax evasion are to pay less tax

Researcher’s comment: This Participant compared tax evasion in the past and the present environment. He or she considered that tax evasion was not widespread at present.

What are the reasons for tax evasion?

Given there was divided view of whether tax evasion was widespread in Hong Kong, eight out of the ten Participants identified or interpreted various reasons for tax evasion in Hong Kong. The following were the participant data on the reasons for tax evasion in Hong Kong.

Participant A

“Other people are doing the same (of tax evasion).”

Participant B

“Taxpayers are greedy not to pay tax.”

Participant C

“Greedy to save money for self-use and not to pay tax.”

Participant D

“Greedy to save money for self-use and not to pay tax.”

Participant E <i>“My tax clients did not show tax evasion was widespread.”</i>
Participant F <i>“In the case illustrated, the client carried on illegal business. The client did not report the business profit to the tax department.”</i>
Participant G <i>“In cash business, it is easy not to report income. The tax rate is low. Penalty is a percentage of the tax undercharged or tax evaded. Since the tax rate (of 15%) is low, the penalty (of usually not more than 200% of tax undercharged) is low. Additional tax (at 15%) and penalty (15% times 200%, or 30%) only accounts for (15% + 30% = 45%) less than 50% of the income earned. The penalty is low, even if caught. That is the reason for some taxpayers to evade tax in Hong Kong. ”</i>
Participant I <i>“Only 0.5% of my clients were found not report income in tax returns. The evasion rate is very low. My clients did not know how to report the rental income after they purchased properties for rental income purposes. They were unaware of the income reporting requirements. ”</i>
Participant K <i>“Clients want to pay less tax.”</i>

No answer was given by Participant H

Upon analysis of the participant data on a collective basis, the following were the five

reasons for tax evasion as identified by the Participants:

- (a) not willing to pay tax for reasons related to greedy,
- (b) peers are doing the same act of tax evasion,
- (c) carrying on illegal business,
- (d) low penalty, and
- (e) tax reporting requirements are unknown to the taxpayers.

For reason (a) of not willingness to pay tax, the taxpayers lack tax morale to pay tax.

For the next 3 reasons, they are structural and can hardly be altered. For reason (b) commission of tax evasion by influence of peers is common throughout the globe (which can hardly be altered). For reason (c), when a taxpayer carries on illegal business, it is naturally or commonly understood for the taxpayers not to report the illegal income earned for fear of being caught for discovery of the illegal activities committed. For reason (d), adoption of low tax rate is part of the tax system in Hong Kong. It is the fundamental structure of the Hong Kong tax system and cannot hardly be altered. For reason (e) for directions to file tax returns, the IRD must review its publication work on the taxpayers' duty to report income for taxation purposes.

Shadow economy and tax evasion

Shadow economy must be discussed because globally, tax evasion is frequently associated with the shadow economy, where illegal activities occur, or taxes are not paid on legal activities (Kirchgassner, 2010). Tax evasion is linked to low tax morale. For instance, Italy had a larger shadow economy compared to the Netherlands, which had a higher tax morale than Italy (Frey & Weck-Hannemann, 1984). Across 162 countries, the size of the shadow economy averages 17.2% of GDP (Schneider, 2010). The average size of the shadow economy for 158 countries from 1991 to 2015 was 31.9%, with Zimbabwe and Bolivia having the largest at 60.6% and 62.3% of GDP,

respectively, and Austria and Switzerland the smallest at 8.9% and 7.2% of GDP, respectively (International Monetary Fund, 2010). In Hong Kong, the shadow economy constituted 12.39% of GDP in 2015 (Global Economy, 2015), which is below the global average. Therefore, tax evasion in Hong Kong is unlikely to be significantly driven by a shadow economy. Thus, what is left is the taxpayer's willingness or tax morale to pay tax. From a theoretical perspective, encouraging tax morale is an effective approach to counteract taxpayers' intention to evade tax.

All participants' data or cross-case interpretation

The majority of the 10 participants believed that the Hong Kong tax system effectively redistributed wealth and income and adhered to the well-regarded five canons of taxation. Furthermore, the 2023/24 IRD annual report indicated that tax evasion was not prevalent, with undercharged tax constituting only 0.35% of the total chargeable tax. Consequently, the conditions necessary for fostering tax morale are present within the Hong Kong tax system. The next step is to consider whether a theoretical framework supports Hong Kong to promote tax morale. Torgler et al (2007) proposed the following five determinants of tax morale: -

- (a) Effective tax administration by authorities
- (b) Fairness of the tax system,
- (c) Awareness of tax procedure and principles by the taxpayers,
- (d) Compliance perception amongst peers, and
- (e) Trusts in officials.

Good tax administration by tax authorities

Under (a), effective administration by tax officials can enhance tax morale as Feld and Frey (2002b) found that tax morale is maintained when taxpayers are treated with

respect, whereas it diminishes when tax authorities view taxpayers as individuals obliged by law to pay taxes. Feld and Frey (2002b) stated that when tax officials contact taxpayers in an informal manner to address tax errors, taxpayers often respond positively to this respectful treatment, thereby maintaining tax morale; and they categorize respectful treatment into (i) transparent and clear procedures and (ii) respecting taxpayers' character, and that taxpayers expect tax officials to possess the same level of expertise as private tax accountants, which contributes to the encouragement of tax morale.

Fairness of the tax system

Under (b) for fairness, it refers to the equity of the tax system for all taxpayers, ensuring it does not disproportionately benefit wealthier individuals at the expense of average working taxpayers (Feld and Frey, 2002a). It infers the taxation function of distribution of wealth and income. In addition, Song and Yarbrough (1978), as referenced in Torgler et al (2007), identified a direct link between fiscal inequality and tax evasion. Tax evasion tends to occur when individuals perceive the tax system as inequitable.

Awareness of tax procedure and tax principles

Under (c) for awareness of tax rules, Alm et al (1992) found that uncertainty in the fiscal parameters, such as the fine rate and the probability of detection increases tax compliance. This explains a relatively low tax evasion in Hong Kong as the clients served by the Participants in this study were anxious about the tax investigations because they were uncertain about the additional tax, penalties to be paid and the possibility of imprisonment. Conversely, when taxpayers are unaware of the income reporting procedure, they might fail to report rental income to the IRD. Participant I

noted that some clients did not report rental income after purchasing property because the IRD did not proactively inform them of the tax reporting requirements for rental income received, nor did the IRD send tax returns to those taxpayers.

Compliance perception amongst peers

Under (d) for public perception regarding tax evasion, the effect of peers' influence is once again recognized by scholars. Christiansen (2024) found that people's willingness to pay tax is greatly influenced by peers' attitudes. Christiansen's findings are supported by the business management theory of Theory of Reasoned Action (TRA) (Fishbein & Ajzen, 1975). TRA states that a person's voluntary behaviour is determined by their intention to perform their behaviour and that this intention is, in turn, a function of their attitude (perception towards the behaviour) and external norms in society. Here in the case of tax morale, a person's voluntary behaviour to pay tax is determined by their intention to pay tax and that intention to pay tax (tax morale) is a function of their inner attitude (perception of satisfactory government performance and living environment, perception of equity in the distribution of income and wealth) to pay tax, and external norms of society (peers' views). In other words, people are influenced by peers who intend to cheat tax (Wallschutzky, 1984).

Trusts in officials

Under (e) for public trust in officials, there is a highly positive correlation between trust in officials and tax morale. Christiansen (2024) posited that tax morale, which is an important factor to curb tax evasion, is associated with satisfaction with government performance, perception of equity in the distribution of income and wealth, satisfaction of the living environment, and peers' view to pay tax. People

trusting the government have a stronger inclination to tax morale because people having trust in government are willing to contribute to society and pay tax. (Torgler et al (2007). People are willing to pay taxes based on the 3 factors of (i) taxpayer's moral rules, (ii) feeling of fairness and (ii) good relationship between the taxpayer and the government or trust in the government (Torgler, 2007). People are willing to pay tax when other people are doing the same (Alm et al,1995). There is a strong correlation between tax compliance and patriotism (Konrad & Qari, 2012). Waweru (2004), while serving as the head of Kenya's revenue authority, emphasized the connection between taxation and patriotism by stating, "Pay your tax and set your country free."

Pros of the Hong Kong tax system

According to the participant data, Hong Kong's tax system is regarded as a fair system capable of redistributing wealth and income and adhering to the five canons of taxation. Data from participants in this study supports a correlation between tax compliance/tax morale and awareness of tax procedures and principles. The low tax evasion rate in Hong Kong is attributed to taxpayers' concerns about additional taxes, penalties, and the possibility of imprisonment. Peer influence on tax evasion or tax morale is supported by participant data and extant literature. Tax evasion is not common in Hong Kong, with slightly more than 0.35% of the tax chargeable being evaded in the past four years. Additionally, one Participant noted that only 0.5% of their clients were subject to tax investigations, primarily due to unintentional non-compliance with tax reporting requirements. The low tax evasion in Hong Kong can be attributed to the minimal presence of a large-scale shadow economy, and the integrity of a corruption-free government further contributes to this low level of tax evasion. According to the IRD 2023/24 annual report, current measures to curb tax

evasion include fines, penalties, and imprisonment, focusing on deterrence through punitive actions, which naturally did not mention the factors of absence of a large-scale shadow economy or the corruption free government because the IRD annual report merely reported the work of its own. The department publicized tax prosecution and imprisonment cases through press releases. However, literature suggested that methods for reducing tax evasion included enhancing tax morale to encourage voluntary compliance with tax regulations (Torgler et al, 2007).

Cons of the Hong Kong tax system

Participant data indicated that improvements in the tax authorities or officials could enhance tax morale. The Participants noted that different interpretations of the same tax law or procedure might occur with replacements in IRD officers. Taxpayers expect IRD officers to be knowledgeable and technically proficient. However, varying interpretations by different IRD officers regarding the same piece of tax law can reduce trust in the tax officials. Delays in the process of investigation, partly due to IRD officers' query function and partly due to indecision and replacements in IRD officers, were observed by the Participants.

Theoretical Framework to enhance tax morale in Hong Kong considering (a) current deficiencies and (b) potential risks to the sustainability of the tax system for adequate revenue collection

Hong Kong is anticipating economic uncertainty in the future, as indicated by data from eight out of 10 Participants. To address this uncertainty, it is crucial to promote tax morale to ensure effective tax collection and the sustainability of Hong Kong's system. Besley and Persson (2014) assert that low tax morale can result in an unsustainable reliance on regressive taxes. When less tax is collected, territory may

risk transitioning towards a developing economy rather than sustaining its developed status. Mauro (1998) noted that low tax morale undermines the sustainability of a tax system because in such an environment, individuals are less willing to pay taxes and may divert funds for other investments or short-term patronage, rather than for the benefit of the government. Genschel and Seelkopf (2016) argue that trust-building reforms and enhancing tax morale will improve the sustainability of the country and its tax system. Therefore, promoting tax morale is essential to maintaining the sustainability of the Hong Kong tax system. Additionally, the varying attitudes of IRD officers and their different interpretations of tax law and regulations highlight the need for tax morale to maintain public trust in the tax administration.

Improvement of Hong Kong tax system by promoting tax morale

Promotion of tax morale is most effective in jurisdictions with robust tax systems, minimal corruption, and insignificant shadow economies. Hong Kong exemplifies such a jurisdiction with a well-structured tax system designed for the re-distribution of income and assets. Consequently, Hong Kong has a strong foundation for enhancing tax morale to curb or prevent tax evasion. In promoting tax morale, the government should educate the public about Hong Kong's tax system, which adheres to the well-regarded five canons of taxation. The tax system functions to redistribute income and wealth from the rich to the poor, and the revenue collected is used to fund social expenditures on education, medical and social welfare (Stiglitz, 2019). Additionally, the government operates with minimum corruption and maintains a good infrastructure system. People are encouraged to comply with tax regulations and report income accurately in their tax returns, thereby reducing the costs associated with tax investigations and making the Hong Kong tax system effective and efficient in collecting taxes for public welfare. Data from Participants indicates that peer

influence is a significant factor in tax evasion; awareness of others engaging in tax evasion can prompt similar behavior in some individuals. Therefore, government efforts to foster public compliance with tax laws are important for maintaining a high tax compliance rate.

Simply put, to enhance tax morale, the government might educate the public about Hong Kong's efficient tax system, which adheres to the five canons of taxation. This system effectively redistributes income and wealth from the affluent to the less privileged, supports a corruption-free government, and ensures that collected revenue funds essential social expenditures such as education, medical care, social welfare, and infrastructure, which is for the good future of Hong Kong. Citizens are urged to comply with tax regulations by accurately reporting their income on tax returns, thereby mitigating the costs associated with tax investigations. By fostering compliance, Hong Kong's tax system can continue to operate effectively, efficiently, and for the benefit of people's welfare.

Execution of tax morale promotion

Given that the Hong Kong tax system is supported by a theoretical framework designed to enhance tax morale because tax evasion is not high as shown by the report of the IRD and Hong Kong tax system, as a good tax system, adopted the 5 canons of taxation in tax collection, Hong Kong has a foundation for promotion of tax morale. The subsequent step involves considering the implementation of measures to promote tax morale in Hong Kong. Luttmer and Singhal (2014) recommended the following 5 mechanisms to promote tax morale:

- (a) Intrinsic motivation,
- (b) Reciprocity motivation,

- (c) Peer effects and social influences,
- (d) Promotion of long-term cultural factors to encourage tax compliance, and
- (e) Provision of information on audit procedures, that is, to discover tax evasion, to the taxpayers.

(a) Intrinsic motivation

Intrinsic motivations include feelings of pride, and a positive self-image associated with honesty, fulfilling civic duties, and altruism towards others. This leads to a willingness to contribute to public goods through the tax system.

Intrinsic motivation refers to a desire to comply with the law. Luttmer and Singhal (2014) recommended that revenue authorities write letters to taxpayers emphasizing the importance of paying taxes and fulfilling civic duties. They cited the example of the German Church tax, where the tax payment compliance rate was high despite perceived enforcement being minimal. They also noted evidence of success in sending "morale suasion" letters to taxpayers that emphasized tax morale. Therefore, the Commissioner of Inland Revenue of Hong Kong might consider issuing letters to taxpayers explaining the importance of tax compliance and highlighting that it is a citizen's legal or civic duty.

Alternatively, tax returns could include statements informing taxpayers that the collected taxes fund education, medical care, social expenditures, and long-term infrastructures.

(b) Reciprocity

Reciprocity refers to both sides, the government and the taxpayers. Taxpayers' willingness to pay tax is dependent on the taxpayers' perception of the government's performance. Willingness to pay tax suggests that compliance with the tax law may be affected by the perception of the legitimacy of the state (Levi,

1989), the attitudes towards the government or perception about fairness of the tax schedule (Feld and Frey 2002b; Hofmann et al, 2008), of the government services provided to the people where those services are funded by the tax collected (Luttmer & Singhal, 2014). Thus, under this reciprocity dimension, a mere letter to pursuant taxpayers to comply with tax regulations may not suffice. It also depends on what the taxpayer perceives during his or her lifetime experience of the government performance and the quality of service provided by the government and fairness of the government as experienced by the taxpayers.

(c) Peer effects and social influences

Tax compliance rate is influenced by peers. In the UK, a message to the taxpayers explaining that “9 out of 10 taxpayers pay their tax on time” encouraged the taxpayer to pay tax on time (Luttmer & Singha, 2014). In Hong Kong, the tax evasion rate is relatively low, with the additional tax and penalty representing a mere fraction of the total revenue collected, the Commissioner of Inland Revenue could consider sending a letter to taxpayers to inform them that the number of taxpayers who underreport income is low. Thus, it may help to establish a social norm among taxpayers, promoting adherence to tax regulations and discouraging underreporting of income on tax returns.

(d) Culture

Culture refers to the perception or views of the taxpayers over a long period of time which may be across two generations who may be willing to comply with tax regulation or intending to evade tax. Culture may differ in countries which have some different races, such as in the United States (Luttmer & Singhal, 2014). In Hong Kong, there are not many different races and the present tax system in Hong Kong has been operating from 1947 when the statute law for tax

collection, the Inland Revenue Ordinance was enacted, which may not be long enough or to have multi-races so to provide a culture in the payment of taxes.

Thus, this dimension may not be relevant to Hong Kong.

(e) Information imperfection

Luttmer and Singhal (2014) found that most tax authorities limited their information on tax auditing and enforcement procedures. This creates mistrust between the taxpayers and the tax authorities. To remedy the situation it would be beneficial to let the taxpayers know more about the tax auditing procedures, allowing them to have more understanding of the tax audit procedure. As a result, it would save time in tax investigation of both IRD officers and tax accountants. The more the taxpayers learn about the tax investigation procedure, the additional tax and penalties to be imposed, the taxpayers will understand how to shorten the duration of tax investigation.

It is arguable that the effect of government's promotion of tax morale may not be significant. Yet, simple nudges to taxpayers such as presenting information in a more accessible form or providing payment reminders can reduce tax evasion (Carpio, 2014; Hallsworth et al, 2014). In addition, the cost of such government letters is relatively inexpensive.

To follow the theoretical framework to promote tax morale, the Commissioner of Inland Revenue might consider writing a letter to the taxpayers or holding reporters' conference that it is the honorable duty of citizens to discharge the duty of citizens to pay tax, that the taxes collected are used to the purpose of providing the social welfare of the people of Hong Kong, that we have a fair tax system with no reason to under-report income in tax returns, that more

information be disclosed to the taxpayer public on the tax investigation procedure. These letters of suasion can be issued along with the present enforcement procedure, with an expectation that the tax evasion rate will be lowered after the taxpayers understand the cost and consequences of under-reporting income in the tax returns. Internally, the IRD officers should align themselves with the often-used tax regulations to have a common understanding of the regulations so that taxpayers can have more trust in them.

Flexible tax enforcement measures to execute tax morale to enterprises in

Mainland China

The government of mainland China has implemented tax morale differently by incorporating a taxpayer rating system for enterprises (Yu and Fang, 2022). Luo and Guo (2023) summarized that the mainland Chinese government recognized two tax enforcement patterns: mandatory tax enforcement, where tax compliance is enforced through administrative and legal measures and non-compliance is penalized, and flexible tax enforcement, where the government encourages firms to pay taxes by offering incentives rather than penalties. Under the taxpayer rating system, enterprises are rated at five levels: A, B, M, C, and D, with A being the highest and D the lowest, based on a total evaluation score of 100 points. The evaluation criteria include tax registration (e.g. timely updates of enterprise information), tax filing accuracy and punctuality, bookkeeping and invoice management, tax payment compliance, and history of tax violations. The evaluation is released annually in April using the past year's data, and enterprises are allowed to appeal for an upgrade. A Level A enterprise scores 90 or above points, Level B between 70 and 90 points, Level M is designated for new enterprises, Level C between 40 and 70 points, and Level D below 40 points or due to automatic classification arising from serious

violations such as tax evasion over RMB 100,000 or total tax due, fraudulent VAT invoices (invoice showing value added tax, a form of sale of goods tax), refusal to pay taxes despite enforcement notices, and violent resistance to tax inspection. Luo and Guo (2023) highlighted the reputation-based effects of flexible tax enforcement. Enterprises were permitted to improve their ratings by rectifying violations (e.g. late payments) and applying for credit repair, such as correcting errors within a set period, paying overdue taxes, fines, and penalties, and maintaining clean records for six to twelve months post-violation. Consequently, enterprises were eager to attain a Level A rating, which has curbed tax evasion, as they are concerned about the reputation of the enterprise.

Section D - Conclusions

Emergent Theme A - Guidelines of tax accountants to serve clients in defending tax investigations

The findings of this study highlighted two themes: (a) the formulation of guidelines for tax accountants in serving clients in defending tax investigations with customer satisfaction, and (b) the promotion of tax morale to curb tax evasion.

The guidelines of the tax accountants to serve clients in defending tax investigation are based on the theoretical framework which includes the relevant items of the SERVPERF (service performance) model and the 5 imperatives in service quality. The guidelines are based on the 5 imperatives in service quality of (i) defining service role, (ii) responsiveness, (iii) reliability, (iv) problem resolution, and (v) empathy. The items of the 5 dimensions are based on the empirical data obtained from the lived experience of the participants. The guidelines are supported by theories and the valuable lived experience of the 10 Participants of a total of 370 years. The 28 items

of the 5 dimensions included, first, the understanding of the **service role of the tax accountants**, which is to understand the needs of the clients, which is to relieve the anxiety of the clients on the uncertainty of the additional tax and penalty to be paid, the lengthy period of the tax investigation, the different attitudes of the IRD officers and replacement of IRD officers. On the **responsiveness** dimension, the tax accountants should always be available to solve the problems of the clients, to facilitate the provision of information to the IRD. On the **reliability** dimension, the tax accountants should understand the weakness and strength of the case, the assets and liabilities of the clients, be familiar with the law the prevailing practice of the IRD so that the service can be competently delivered. On the **problem resolution** dimension, the tax accountants should be willing to understand the problems of the clients and to provide the right solutions at the right time. On the **empathy** dimension, the tax accountants should pay attention to the individual needs of the clients, provide clients with immediate access to the tax accountants, work for the best interest of clients and build trust between the clients and the tax accountants.

Apart from the theoretical framework of the dimensions or modified dimensions of SERVPERF (service performance) and the 5 imperatives for service quality, the guidelines of the tax accountants are based on the lived experience of the Participants, the data of this study. The Participants' contribution is valuable because the 10 Participants were purposely selected on the basis that tax accountants of at least 20 years' tax investigation are selected. In total, these 10 Participants have intensive experience of 370 years of tax investigation. Their views on whether Hong Kong tax system can redistribute income and wealth, whether the system can be sustained on a long-term basis, and how to curb tax evasion in Hong Kong is a valuable contribution to Hong Kong.

The value of the Participants views is limited by the fact that the taxpayers were not interviewed because the taxpayers, who suffered the long investigation, paid the additional tax and penalty, are not willing to be interviewed. Yet, the Participants, who had the first-hand experience of with the anxiety of the taxpayers, were the appropriate persons to provide the data to conduct this study. The method taken in this study is not uncommon. For example, for research in the work of lawyers, criminal lawyers' customers, who are victims of crimes, are not willing to do in-depth interviews.

This study is exceptional in that only a small group of customers were the focus. The group of customers under research was different from those of other research in Hong Kong whereas in other studies where a much large number of people were under study, such as customers of the airport (Lau, 2022).

Emerged theme B - Promotion of tax morale to curb tax evasion

Promotion of tax morale as an alternative or compliment to the penalty and punishment measures to curb tax evasion is supported by literature review and empirical data. People's willingness to comply with tax laws and rules to pay tax is supported by a good tax system, which is based on the application of the 5 canons of taxation, which is able to function to redistribute income and assets in the community, which is able to sustain for a long period of time, is away from corruption and exists with a good government gaining the trust of the people. The views that Hong Kong in general has a solid tax system and a good government are well supported by the participant data. Hong Kong adopts a low tax rate, a simple tax system, can collect sufficient tax to maintain the operations of the government, maintain its social welfare

policies, which is, in effect, redistribution of income and assets. The environment of Hong Kong can afford to curb tax evasion by or along with promotion of tax morale, which encourages people to pay taxes on good faith rather than by the fear of punishment. In short, Hong Kong is a good place to start with promotion of tax morale to curb tax evasion. On how to promote tax morale, Luttmer and Singhal (2014) advocated the issue of letters to the taxpayers to spell out the fairness of the tax system, as well as the functions of the government to redistribute the income and assets so as to maintain a fair society in and to encourage peer effects to pay taxes. To spell out the misconception or misunderstanding of tax investigation process, the Commissioner of Inland Revenue might consider publishing the tax investigation process to make it known to the public. All these strategies can be executed by the Commissioner of Inland Revenue without difficulties or many expenses. The Commissioner of Inland Revenue may also hold seminars, reporters' conferences or issue public announcements to deliver the above messages to the taxpayers. The Commissioner should align the IRD officers with the same view or obtain a consensus amongst themselves so that a common view on the same piece of tax law or regulations should be agreed internally amongst the IRD officers.

In addition, based on China's 10 years of flexible tax system experience since 2014, grading enterprise taxpayers has proven effective in encouraging compliance with tax law, reducing tax evasion. This approach might be considered by Hong Kong's Commissioner of Inland Revenue.

Section E – Contributions to knowledge

E1 – Theoretical contributions

E2 – Practical contributions

E3 – Societal contributions

E1 - Theoretical contributions

- (a) The research has investigated a research gap in the professional service provided by tax accountants to reduce taxpayer anxiety during tax investigations, which is a people-based professional service. The study found that the primary source of anxiety include uncertainty about the duration of the investigation, the additional tax and penalties, the possibility of imprisonment, the attitude of the IRD officers and replacement of IRD officers, if any. The tax accountant Participants addressed these concerns comprehensively. Customer satisfaction was achieved by the tax accountants' professional service, according to the standards set by the customer satisfaction theory and as measured using the SERVPERF (service performance) tool and demonstrated by the gifts received by the Participants and client referrals.
- (a) Modification or reduction of dimensions in SERVQUAL (service quality) and SERVPERF (service performance) to suit professional services. There are five dimensions in the customer satisfaction measurement tools of SERVQUAL (service quality) and SERVPERF (service performance) to assess customer satisfaction. However, in the context of professional services where minimal or no equipment is utilized as shown in this study, the tangible dimension can be dispensed with. For services provided by an individual professional, the assurance dimension is not necessary because it is required only when a team or staff assist significantly. In defending tax investigation, the tax accountant typically handles most of the work personally without staff assistance.

E2 - Practical contributions

The following are the practical contributions of this study.

- (a) Lengthy duration of investigation, which is the primary concern of taxpayers, is the crucial source of taxpayer anxiety. To mitigate this anxiety, it is recommended that the investigation period be shortened by both taxpayers ensuring prompt submission of required information to the IRD and IRD officers providing timely and reasonable feedback on information received. Avoiding IRD replacement of IRD officers and providing continuous training to IRD officers to enhance and update their tax knowledge and awareness of common practice amongst officers could also shorten investigation period and improve case processing efficiency. Participants' data show that some IRD officers delay responses, potentially due to their own experiences of GAD or other emotional illnesses, impacting their work. Therefore, it is justifiable to conduct research to identify the problems faced by IRD officers, understand the causes of their anxiety, if any, or other mental pressures, and explore ways to alleviate these issues. This would benefit both IRD officers and taxpayers by reducing the length of investigation periods.
- (b) The theme of "formulation of guidelines for tax accountants in serving clients under tax investigation with customer satisfaction" has emerged during the study. The guidelines are based on the good practices of the Participants.
- (c) The theme of "promotion of tax morale to curb tax evasion" has been emerged, as an alternative or complement to penalty and punishment measures, which, currently, are the only means available in Hong Kong to address tax evasion.
- (d) Provision of all public and social services to the public in an efficient and effective manner, not confined to tax collection, to prevent tax evasion in Hong Kong was found to be necessary. Literature review has indicated that exploring and understanding the importance of taxation fairness is crucial. Unfair taxation practices or other inequitable government policies and/or practices may elevate

tax non-compliance and even tax evasion among citizens (Song and Yarbrough, as in Torgler & Schaffner, 2007).

- (e) Peers' views and attitudes towards tax collection are important. When a significant number of individuals believe that it is acceptable social behavior to avoid paying taxes to what they perceive as an unfair government, this sentiment tends to be shared within the community, leading to increased tax evasion in society. This presents a challenge for the tax authorities to devise effective strategies to mitigate such behavior. Additionally, it is both costly and inefficient for the government to allocate excessive resources to combat tax evasion.
- (f) There is a consistent number of completed tax investigation cases over the recent years, highlighting the need to reduce the incidence of tax evasion and to prevent it from becoming a problematic issue in tax collection. Enhancing tax morale is an option available to the IRD.

E3 – Societal contributions

- (a) Customer satisfaction research on professional services was less common than that on the sale of goods. Therefore, similar studies should be conducted for other people-based professional services, such as those provided by lawyers, surveyors, medical professionals, architects, engineers, IT experts, and professionals involved in forensic accounting. This will help improve future customer satisfaction in these fields. A study analogous to this one could also be conducted into the anxiety experienced by the IRD officers.
- (b) Government may make use of customer satisfaction theory and models to measure the success of government sponsored hospitality campaign. On 3 June 2024, the Government of the Hong Kong Special Administrative Region (HKASR) launched the hospitality campaign by the Secretary for Culture, Sports and

Tourism, with an aim to promote and/or revive the tourist and hotel industries in Hong Kong (Hospitality Campaign launched, 2024). To assess the success of the actions taken by the hospitality operators or the parties concerned, many researchers made use of the customer satisfaction measurement model SERVQUAL (service quality) and its variant SERVPERF (service performance) (Saleh & Ryan, 1991; Pizam & Ellis, 1999; Ali et al, 2021). The researchers' choice of the customer measurement models of SERVQUAL (service quality) and its variant SERVPERF (service performance) shows the importance of these measurement models. To assess the effectiveness of this hospitality campaign since June 2024, the Government of Hong Kong Special Administrative Region could engage the researchers to employ SERVQUAL (service quality) and its variant SERVPERF (service performance) model in customer satisfaction project.

- (c) Research on other accounting services, such as auditing, forensic accounting, bankruptcy assignment to examine how customer satisfaction can be achieved. Furthermore, research on other professional services such as legal, medical, survey and construction services can be conducted in a way analogous to this study to examine how customer satisfaction is achieved by these professionals.

Section F – Justification for this dissertation

Traford et al (2014), having reviewed 100 doctoral theses of four universities and an educational institute, concluded that a research paper justified to be a dissertation requires two elements: originality and extending knowledge. The authors recommended an explicit statement in the research paper to contain these two elements. This study made an enquiry into how taxpayer anxiety under tax investigation was relieved by the tax accountants through customer satisfaction, which is a novel form of research. In fact, the researcher found that apparently no

study has been carried out in this area, although research was conducted into the stress of university staff, for both teaching and non-teaching members (Haque et al, 2016). This study has helped to better understand the service of tax accountants, specifically their ability to relieve taxpayer anxiety and use of customer satisfaction theory to understand how taxpayer anxiety can be relieved. Thus, this study is justified to be submitted as a research paper at a doctoral level.

E N D

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Appendix A

The following were the semi-structured questions prepared prior to the interviews with the Participants.

Subject matter of anxiety

1. What were the clients anxious about?

Anxiety indications

2. What were the anxiety indications of the clients?

Ways to relieve anxiety

3. What are the ways to relieve client's anxiety?
4. How can you help client?
5. What are the expectations of clients at the beginning?
6. Were the taxpayers satisfied with the service of the tax accountants and why to say so?

Responsiveness

7. In what way could client contact Participant promptly?
8. In what way could the required information be provided to IRD promptly?
9. Any delay in provision of information to IRD?
10. How could the investigation process be speeded up?

Reliability of service

11. How often did your client get the results as expected/advised?
12. How often did your clients follow your advice?
13. How often did your clients argue with you about your approach to handle or settle the cases?
14. How did you react to IRD when IRD was inaction or indecisive (to the documents submitted to IRD or that IRD took no action after lodgment of documents to IRD)?

Empathy with clients

15. How did you understand your client's case?
16. How and how often did you psychologically assist clients to undergo the investigation period?

17. What do you think are the most important matters in the serving tax clients in tax investigation?
18. How often do you think clients are satisfied with your service?
19. Any experience of your service being terminated by client? What were the reasons for the termination?

Tax evasion in Hong Kong

20. Do you think that tax evasion is widespread in Hong Kong?
21. What are the causes of tax evasion?
22. By what means that IRD should do to prevent/curb tax evasion in Hong Kong?
23. What are the existing means to curb tax evasion in Hong Kong?
24. Are the present means effective?
25. What are the differences between tax evasion and tax avoidance?

Fairness of Hong Kong tax system

26. How do you think that taxation is a means of redistribution of wealth/income?
27. How do you think that Hong Kong system functions for re-distribution of income/wealth?
28. What do you think about taxation in Hong Kong?
29. How do you think that a good tax system should meet five basic conditions: fairness, adequacy, simplicity, transparency, and administrative easiness. Do we have a good tax system in Hong Kong and why?
30. What other elements should a good tax system contain?
31. Do you think the present Hong Kong tax system can exist on a long-term on-going basis and why?
32. With the present and expected government expenditure and revenue collection, can the present Hong Kong tax system sustain for a long period of time?
33. How often can the present Hong Kong tax system be reviewed and improved?

Demographics of the Participants

34. How many years of experience in tax investigation?
35. How many years of private practice?
36. What are the common cases handled by you: companies, partnership, and/or individuals?

Appendix B

Invitation Letter

UNIVERSITY OF WALES, TRINITY SAINT DAVID

**Institute of Management and Health, Swansea Business Campus
at Hong Kong Management Association**

INVITATION TO PARTICIPATE IN RESEARCH

Project Title

Understanding the phenomena of taxpayer anxiety under tax investigation and the relief of their anxiety by tax accountants:

A qualitative study on customer satisfaction from tax accountants' experience

Dear

My name is Godwin Ng. I am a researcher at University of Wales, Trinity Saint David. I am kindly requesting your participation in the captioned research project. The intention of the research project is to find out the anxiety of taxpayers under tax investigation and how the tax accountants can relieve their anxiety and improve customer satisfaction in serving clients.

Participation is completely voluntary and you may withdraw from the study at any time.

Thank you for your time and participation.

If you would like to participate in the study, please sign the Consent Form.

Yours faithfully,

Godwin Ng

Doctor of Business Administration Researcher
University of Wales, Trinity Saint David

Appendix C

UNIVERSITY OF WALES, TRINITY SAINT DAVID

Institute of Management and Health, Swansea Business Campus
at Hong Kong Management Association

CONSENT TO PARTICIPATE IN RESEARCH

Project Title

Understanding the phenomena of taxpayer anxiety under tax investigation and
the relief of their anxiety by tax accountants:

A qualitative study on customer satisfaction from tax accountants' experience

I _____ hereby consent to participate in the captioned research by
Godwin Ng, a principal researcher at the Institute of Management and Health of the
University of Wales, Trinity Saint David.

I understand that the information obtained from this research may be used in future
research and may be published. However, my right to privacy is retained, that is, my
personal details will not be revealed in the research dissertation.

The procedure as set out in the **attached** information sheet has been fully explained.
I understand the benefits and risks involved. My participation in the project is
voluntary.

I acknowledge that I have the right to question any part of the procedure and can
withdraw at any time without negative consequences.

Name of participant _____

Signature of participant _____

Date _____

INFORMATION SHEET

Project Title

Understanding the phenomena of taxpayer anxiety under tax investigation and the relief of their anxiety by tax accountants:

A qualitative study on customer satisfaction from tax accountants' experience

You are invited to participate in a project conducted by Godwin Ng, a principal researcher at the Institute of Management and Health of the University of Wales, Trinity Saint David.

Purpose of the Study

The purpose of this research is to explore accountants' experiences and views on taxpayers' experiences during tax investigation, ascertain and understand the origins and sources of the taxpayer anxiety in order to explore how the tax accountants are able to reduce the taxpayer anxiety in order to increase customer satisfaction, and thus better serve tax clients in future.

Procedures

Godwin Ng, a principal researcher of this research will conduct face-to-face interviews with about 10 tax professionals who are his professional friends who have 20 or more years of experience of providing tax service to clients. He will ask them their experience with the clients to ascertain the causes of the anxieties of clients and the solutions to the anxieties.

Voluntary Nature of the Study

Your participation in the project is voluntary. You have every right to withdraw from the project at any time without negative consequence.

Risks and Benefits

Risks of transfer of personal data and sensitive information will be unlikely because the personal details of the tax clients will not be obtained. The benefit of this study will enable the tax professionals to know how to serve the tax clients better.

Confidentiality

Personal details of the tax clients will not be obtained. All information related to participants/interviewees will remain confidential and only be known to the principal researcher. The published information will not refer to the personal details of clients or participants/interviewees.

Further information and contact details

If you would like to obtain information about this research, please do not hesitate to contact Godwin Ng, principal researcher at email address of nggodwin@gmail.com or mobile phone number 9098 9605.

Godwin Ng

Doctor of Business Administration Researcher

University of Wales, Trinity Saint David

Research Supervisory Team:

Dr. Reuben Mondejar PhD (University of Navarre, IESE Business School (Barcelona))

MA (Harvard University) and

Dr. Tamara Savelyeva PhD (Virginia Tech University), MPS (Cornell University)

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