

**SMALL BUSINESS OWNERS' ATTITUDES TOWARD GST
COMPLIANCE: A PRELIMINARY STUDY**

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Abstract

A significant body of research has been devoted to understanding the factors that influence compliance with tax law. Early studies on compliance were primarily focused on individuals and income tax. Recent comprehensive reviews of the literature identified that groups of taxpayers and compliance with other tax types, such as consumption taxes, remain under-explored. To contribute to the extant literature, this study follows on from works that have investigated the compliance attitudes of small business taxpayers on consumption tax. From a compliance perspective small businesses differ from individual taxpayers in that they are likely to have greater opportunities to evade taxation. With about 3 million GST returns filed in 2013, and the significant proportion of small businesses in NZ, it is important to understand their attitudes toward Goods and Services Tax (GST).

This preliminary study therefore focused on small businesses owners' (SBOs) tax attitudes toward the NZ's GST system. A self-administered questionnaire was distributed to 300 SBOs in Southland and semi-structured interviews were held with eight SBOs.

Few interesting findings were obtained from this study. First, there is some evidence of 'mental accounting' which is in line with Adams and Webley's study (2001). Majority of SBOs viewed that GST was collected on behalf of Inland Revenue (IR) and was being held until it was time to make payment to the tax authority. However there was also a small minority who appeared to perceive that GST collected as part of their businesses turnover. The concept of mental accounting and its potential relationship with tax compliance is certainly an area that warrants further investigation.

Second, not all SBOs perceived the GST system as being reasonably simple or easy to understand; as a result many resort to a tax practitioner for help. The increasing use of accounting software packages in the sector and the possible unintentional non-compliance that may be occurring because of overreliance on these systems is of interest.

Third, tax penalty and tax audit are salient in the minds of SBOs. The cost of being penalised if caught is an effective deterrent.

Fourth, although the system is viewed as being reasonably simple and fair, issues relating to the internet and GST on imports, and administration cost of GST were particularly frustrating

to SBOs. SBOs also appeared to have different personal experiences and different levels of trust in IR.

Fifth, the SBOs' GST morale with regards to proper invoicing and classification of goods and services appeared positive. Majority would not feel good in falsifying invoices or misclassifying good or services, although some suspect others do. However, many are aware of customer's preference to pay cash to business owners to avoid GST and one third of the sampled owners even admitted themselves doing the same thing

The results have to be interpreted with caution due to the low response rate which is clearly a limitation of the study in terms of generalising the findings of this study. Despite the limitation, the results gained from this study are insightful and provides avenues for future research.