

Tax Compliance and Cultural Values: The Impact of ‘Individualism and Collectivism’ on the Behaviour of New Zealand Small Business Owners

Authors: Dr Sue (SE) Yong (a) and Associate Professor Fiona Martin (b)

Abstract

Due to changes in immigration rules and globalisation, most developed countries including Australia, Canada, New Zealand, the United Kingdom and United States of America are becoming more culturally diverse. The consequence of cultural diversity challenges the present assumption of homogenous resident taxpayers. This leads to the need to examine existing tax policies and administration. Sparse research on tax compliance and culture also provides the rationale for an in-depth qualitative study of ethnic small business taxpayers’ compliance behaviours. This study examines the attitudes and abilities of small business operators in New Zealand towards paying their taxes on time. The small business operators are categorised into New Zealand’s four largest ethnic taxpayer groups, Europeans, Asians, Maori and Pacific Peoples. The study adopts a qualitative research methodology and evaluates the taxpayers’ behaviour through the lens of the cultural values of ‘individualism’ and ‘collectivism’. The results of this study are relevant for tax administrators, academics and practitioners in New Zealand and also Australia, in view of the fact that Australia is also a multicultural nation.

Introduction

There is a trend, as identified by the Organisation for Economic Co-operation and Development (OECD),¹ of developed countries becoming more culturally diverse.² Culturally diverse societies include Australia,³ Canada,⁴ New Zealand (NZ), the United

¹ OECD, ‘Settling in: OECD Indicators of Immigrant Integration 2012’ <http://www.oecd.org/about/>.

² Natalka Patsiurko, John Campbell and John Hall, ‘Measuring Cultural Diversity: Ethnic, Linguistic and Religious Fractionalization in the OECD’ (2012) 35 *Ethnic and Racial Studies* 195.

³ At 30 June 2013, 27.7 per cent of the Australian estimated resident population was born overseas (6.4 million people). This was an increase from 30 June 2012, when 27.3 per cent was born overseas (6.2 million people). In 2003, ten years earlier, 23.6 per cent were born overseas (4.7 million people) Australian Bureau of Statistics, ‘3412.0 - Migration, Australia, 2011-12 and 2012-13’ Australia’s Population by Country of Birth.

⁴ Canada, Royal Commission on Bilingualism and Biculturalism (1963-1969). The *Canadian Multiculturalism Act 1988* (Canada) provides that all federal institutions should promote policies, programs and practices that ensure equality of all Canadian citizens in terms of employment and advancement in those institutions; Helen Ralston, ‘Race, Class, Gender and Multiculturalism in Canada and Australia’ (1998) 5 *Race, Gender & Class* 14, 14.

States of America (USA)⁵ and the United Kingdom (UK). These countries had previously been dominated by a Western Anglo-Saxon or European culture.⁶ One of the consequences of this diversity is the rise of ethnic minority groups⁷ which are ‘groups within a community which have different national or cultural traditions from the main population’.⁸ Ethnic minority groups can therefore pose major challenges to tax administrators due to their differing cultural norms and beliefs. Research has identified the importance of cultural norms and beliefs as powerful forces shaping people’s behaviours, perceptions, and decision making.⁹

In view of this background, the first author undertook a study designed to identify and understand the tax payment behaviour of the four largest ethnic groups that operate small businesses in New Zealand.¹⁰ The study adopts a qualitative research methodology approach together with the concepts of ‘individualism’ and ‘collectivism’ as cultural values within which to position the research questions. According to Hofstede,¹¹ ‘individualism stands for a society in which the ties between individuals are loose: Everyone is expected to look after her/himself and her/his immediate family only. Collectivism stands for a society in which people from birth onwards are integrated into strong, cohesive in-groups, which throughout people’s lifetime continue to protect them in exchange for unquestioning loyalty.’

The knowledge gained from this research is intended to inform New Zealand government regulators, tax administrators, policy-makers and tax practitioners regarding the tax payment decisions of its ethnically diverse taxpayers. This is consistent with the call for responsive regulation to encourage voluntary compliance which is crucial under the self-assessment

⁵ In 2009-10 one-third of the US population was born overseas, see OECD, ‘Settling in: OECD Indicators of Immigrant Integration 2012’ <http://www.oecd.org/about/> 18.

⁶ Geert Hofstede and Gert Jan Hofstede, *Cultures and Organizations: Software of the Mind* (McGraw Hill, 2nd ed, 2005) .

⁷ K Clark and S Drinkwater, ‘Recent Trends in Minority Ethnic Entrepreneurship in Britain’ (2010) 28 *International Small Business Journal* 136.

⁸ Angus Stevenson, *Oxford Dictionary of English* (Oxford University Press, 3rd ed, 2010) 601.

⁹ H Markus and S Kitayama, ‘Culture and the Self: Implications for Cognition, Emotion, and Motivation’ (1991) 98 *Psychological Review* 224; Parmod Chand and Michael White, ‘The Influence of Culture on Judgments of Accountants in Fiji’ (2006) 16 *Australian Accounting Review* 82.

¹⁰ These are the categorisations given by the New Zealand government as provided by Statistics New Zealand (2010). *2006 census data – QuickStats-about-culture-and-identity-tables.xls* <<http://www.stats.govt.nz.ezproxy.aut.ac.nz/Census/2006CensusHomePage/QuickStats/quickstats/about-culture-and-identity-tables.>>. The four largest ethnic groups as classified by the New Zealand government are: Europeans, Asians, Maori and Pacific Peoples.

¹¹ Geert Hofstede, *Culture Consequences: Comparing Values, Behaviours, Institutions, and Organisations Across Nations* (Sage, Thousand Oaks, 2001) 225.

regime.¹² The authors argue that this research is important, as taxpayers' ability to pay their taxes when they are owing impacts on the revenues collected and protecting the integrity of the tax system. The results of this study will build on the currently sparse tax literature on the influence of cultural values on the behaviour of small business.¹³ It is also relevant for Australian audiences, as Australia has a similar tax and common law system to New Zealand, being dominated by British culture due to its colonial ties with the UK.

The paper is organised into six parts. Following the Introduction, Part II outlines the varying definitions of small business, provides background to their importance in the New Zealand and Australian economies and data regarding the tax compliance issues that they face. Part III examines the existing literature on tax compliance and cultural backgrounds relating to small and medium enterprises (SMEs). Part IV establishes the rationale for choosing New Zealand small businesses as the sample study and explains the use of the cultural values of individualism and collectivism as the theoretical lens for this study. This is then followed by Part V which explains the research methodology and discusses the research findings. The paper concludes with thoughts about the implications of these findings.

Part II

Economic role and tax compliance of SMEs in New Zealand and Australia

There is no agreed single definition of SME. The New Zealand government defines SMEs as businesses that employ fewer than 20 employees.¹⁴ On the other hand, Australia accepts the criteria of having 20 staff for small but not medium sized businesses.¹⁵ SMEs are important as they constitute the numerical majority of all businesses in many developed countries¹⁶ and

¹² Valerie Braithwaite, 'Responsive Regulation and Taxation: Introduction' (2007) 29 *Law and Policy* 3; Lars Feld and Bruno Frey, 'Tax Compliance as the result of a Psychological Tax Contract: The Role of Incentives and Responsive Regulation' (2007) 29 *Law and Policy* 102.

¹³ Bernadette Kamleitner, Christian Korunka and Erich Kirchler, 'Tax Compliance of Small Business Owners' (2012) 18 *International Journal of Entrepreneurial Behaviour & Research* 330, 331; Cynthia Coleman and Lynne Freeman, 'Cultural Foundations of Taxpayer Attitudes to Voluntary Compliance' (1997) 13 *Australian Tax Forum* 311.

¹⁴ New Zealand Ministry of Economic Development, 'SMEs in New Zealand: Structure and Dynamics 2011', 5.

¹⁵ Australian Bureau of Statistics, 2001, 'Small Business in Australia' 1321.0.

¹⁶ In Australia and New Zealand over 95% of businesses are SME; In Australia 97 per cent of businesses are small according to the most recent ABS figures, ABS, 2001, 'Small Business in Australia' 1321.0; A 2014 Government report in New Zealand states that 97 per cent of businesses there are small, New Zealand, Ministry of Business Innovation and Employment, 'The Small Business Sector Report, 2014', 3.

they contribute to the economy in terms of employment and value added outputs.¹⁷ SMEs commonly arise in many industries. For example they are dominant in industries that supply goods and services to customers;¹⁸ provide specialised skills;¹⁹ involve imports and exports;²⁰ and service general and niche markets.²¹ However, due to their size, they have limited resources for administrative and compliance tasks.²² Many small businesses do not have expert or dedicated personnel to undertake their accounting and tax functions.²³ Resource constraints pose some challenges to small businesses in terms of fulfilling their tax compliance obligations.²⁴

It has been shown that tax compliance costs for small businesses are regressive²⁵ and they bear a disproportionate cost burden relative to the size of their business.²⁶ The regressivity of the tax compliance costs is due to the small size of the business, poor record-keeping practices, tax law complexity, and the pace and volume of legislative changes and reforms.²⁷ A 2008 Australian study showed that compliance costs increase as a percentage of total taxes borne as business size (by turnover) declines.²⁸ SME taxpayers exhibit lower tax compliance

¹⁷ For example, in 2011 the New Zealand Government reported that New Zealand SMEs contributed about 40 per cent of the economy's output on a value-added basis, and 31 per cent of all employees, New Zealand Ministry of Economic Development, 'SMEs in New Zealand: Structure and Dynamics 2011', 3; The World Bank, *Doing Business 2013: Smarter Regulations for Small and Medium-Size Enterprises* (2013, The World Bank).

¹⁸ Gideon Azumah, Lenny Koh and Stuart Maguire, 'SMEs E-Strategies Within the Logistics and Tourism Industries' (2007) 4 *International Journal of Management and Enterprise Development* 520.

¹⁹ Michael Taylor and Andrew Murphy, 'SMEs and E-Business' (2004) 11 *Journal of Small Business and Enterprise Development* 280.

²⁰ Syed Zamberi Ahmad, 'Supporting SMEs Internationalisation: Impact of Government Export Assistance Programmes on Firms' Export Performance' (2010) 9 *International Journal of Management and Enterprise Development* 63.

²¹ Peter Tierlinck and Andre Spithoven, 'Formal R & D Management and Strategic Decision Making in Small Firms in Knowledge- Intensive Business Services' (2013) 43 *R & D Management* 37, 37.

²² Susan Nelson, 'Tax Policy and Sole Proprietorships: A Closer Look' (2008) LXI (3) *National Tax Journal* 421, 425.

²³ Clifford Smith, 'On Governance and Agency Issues in Small Firms' (2007) 45 *Journal of Small Business Management* 176; and Claire Massey, 'The Size and Significance of the Small Business Sector' in C Massey (ed) *Entrepreneurship and Small Business Management in New Zealand* (Pearson Education, 2005) 3.

²⁴ Productivity Commission, 'Regulator Engagement with Small Business: Productivity Commission Research Report September 2013' (Australian Government, 2013) 2.

²⁵ Cedric Sandford, 'Minimising the Compliance Costs of a GST' (1998) 14 *Australian Tax Forum* 125, 131.

²⁶ Binh Tran-Nam, Chris Evans, Michael Walpole, and Katherine Ritchie, 'Tax Compliance Costs: Research Methodology and Empirical Evidence from Australia' (2000) 53 *National Tax Journal* 229; John Hasseldine, 'Compliance Costs of Business Taxes in New Zealand' in C Sandford (ed) *Tax Compliance Costs Measurement and Policy* (Fiscal Publications, 1995) 126.

²⁷ Binh Tran-Nam and Stewart Karlinsky, 'Small Business Tax Law Complexity in Australia: A Further Study' (2010) 16 *New Zealand Journal of Taxation Law and Policy* 153, 154.

²⁸ Price Waterhouse Coopers, 'Small Medium Enterprises Total Tax Contribution Report, Commissioned by the Department of the Treasury' (2009) 3.

statistics relative to wage and salary earners²⁹ and small business owners are considered a high-risk group in terms of tax compliance.³⁰ They are also a major player in the income tax gap.³¹

Some researchers have suggested that since personal and business affairs are closely intertwined for SME owners, these owners often perceived taxpaying as a loss of economic freedom and wealth erosion.³² Furthermore, systems that do not provide for the payment of taxes by SMEs throughout the year, with the bulk of taxes payable at the end of the year often results in inability to pay. This is due to SMEs having difficulty budgeting for large one off payments.³³ In addition, as they are collectors of value added and employment taxes on behalf of the government,³⁴ many do not make a mental separation for these taxes.³⁵ In other words, many small business owners perceive taxes collected as belonging to them,³⁶ and therefore returning these taxes to the government is seen as a financial loss.³⁷

Prior research has shown a mixed result regarding the helpfulness of tax authorities towards SMEs.³⁸ Some have found tax authorities to be helpful,³⁹ and yet some SME taxpayers have

²⁹ Bernadette Kamleitner, Christian Korunka and Erich Kirchler, 'Tax Compliance of Small Business Owners' (2012) 18 *International Journal of Entrepreneurial Behaviour & Research* 330, 330; David Joulfaian and Mark Rider, 'Differential Taxation and Tax Evasion by Small Business' (1998) 51 *National Tax Journal* 675.

³⁰ Organisation for Economic Co-operation and Development, *Compliance Risk Management: Managing and Improving Tax Compliance* (OECD, 2004).

³¹ Peggy Hite, Toby Stock and Bryan Cloyd, 'Reasons for Preparer Usage by Small Business Owners: How Compliant Are They?' (1992) 37 *The National Public Accountant* 20, 21; Susan Nelson, 'Tax Policy and Sole Proprietorships: A Closer Look' (2008) LX1 *National Tax Journal* 421.

³² Erich Kirchler, *The Economic Psychology of Tax Behaviour* (Cambridge University Press, 2007); Julie Ashby and Paul Webley, "'But Everyone Else is Doing It": A Closer Look at the Occupational Taxpaying Culture of One Business Sector' (2008) 18 *Journal of Community & Applied Social Psychology* 194.

³³ Some countries, such as New Zealand, have addressed this problem by introducing provisional taxes if their residual income tax exceeds \$2500. These are taxes paid in advance and in instalments during the year in order to reduce the magnitude of the taxes owing at year end as required under s 15B *Tax Administration Act 1994* (NZ). Failing to pay provisional taxes incurs penalties under ss 139B and 141AA to 141K TAA. However, provisional taxes can be burdensome for small businesses as they are required to pay taxes in advance of earning their taxable incomes.

³⁴ David Joulfaian and Mark Rider, 'Differential Taxation and Tax Evasion by Small Business' (1998) 51 *National Tax Journal* 675.

³⁵ Semisi Prescott and Keith Hooper, 'Commons and Anti-Commons: Tongan Business Experiences in New Zealand' (2009) 21 *Pacific Accounting Review* 286.

³⁶ Caroline Adams and Paul Webley, 'Small Business Owners' Attitudes on VAT Compliance in the UK' (2001) 22 *Journal of Economic Psychology* 195, 208; Julie Ashby and Paul Webley, "'But Everyone Else is Doing It": A Closer Look at the Occupational Taxpaying Culture of One Business Sector' (2008) 18 *Journal of Community & Applied Social Psychology* 194.

³⁷ Bernadette Kamleitner, Christian Korunka and Erich Kirchler, 'Tax Compliance of Small Business Owners' (2012) 18 *International Journal of Entrepreneurial Behaviour & Research* 330, 330.

³⁸ Margaret Mc Kerchar, 'Understanding Small Business Taxpayers: Their Sources of Information and Level of Knowledge of Taxation' (1995) 12 *Australian Tax Forum* 25; Patrick Noble, 'Qualitative Research Results: The New Zealand Cash Economy - A Study of Tax Evasion Amongst Small and Medium Businesses' (Paper

experienced tax authorities as unsympathetic, judgmental and uninterested in their business.⁴⁰ This result showed that SMEs do not always view tax authorities as valuable sources of information or support for them which led to many employing tax practitioners as intermediaries with the tax authorities.⁴¹ Other studies indicate that SME taxpayers show strong resentment towards the tax system as they are concerned about the large range of taxes paid to tax authorities.⁴² Many SME owners feel disassociated from the tax system, and they also admit to paying less than their fair share of taxes.⁴³

Relatively little is known about the tax compliance behaviours of SMEs other than they operate in the cash economy; have inadequate tax knowledge to fulfil their tax obligations;⁴⁴ have more opportunities to evade taxes;⁴⁵ and they perceive tax authorities as being able to elicit compliance from them.⁴⁶

The present study therefore aims to further our understanding of SME owners' tax behaviour. This will be done by examining the potential effects of the cultural values of individualism and collectivism on their tax payment experiences.

Part III

Existing Research into the impact of cultural values on tax compliance

presented at the meeting of the CTSI 1st International Conference, Australian National University, Canberra, 4 5 December 2000).

³⁹ Sweeney Research, 'Understanding the Small and Medium Enterprise Market' (2010).

⁴⁰ Kristina Murphy, 'An Examination of Taxpayers' Attitudes Towards the Australian Tax System: Findings from a Survey of Tax Scheme Investors' (2003) 18 *Australian Tax Forum* 209.

⁴¹ Yuka Sakurai and Valerie Braithwaite, 'Taxpayers' Perceptions of Practitioners: Finding One Who is Effective and Does the Right Thing?' (2003) 46 *Journal of Business Ethics* 375; and Lin Mei Tan, 'Taxpayers' Preference for Type of Advice from Tax Practitioner: A Preliminary Examination' (1999) 20 *Journal of Economic Psychology* 431.

⁴² Sue Yong and Alvin Cheng, 'The IRD Taxpayer Charter and the Small Business Community' (2011) 17 *New Zealand Journal of Taxation Law and Policy* 1; J Adebisi and D Gbegi 'Effect of Multiple Taxation on the Performance of Small and Medium Scale Business Enterprises: A Study of West African Ceramics Ajeokuta, Kogi State' (2013) 4 *Mediterranean Journal of Social Sciences* 323.

⁴³ Eliza Ahmed and Valerie Braithwaite, 'Understanding Small Business Taxpayers: Issues of Deterrence, Tax Morale, Fairness and Work Practice' (2005) 23 *International Small Business Journal* 539.

⁴⁴ Ibid; Margaret McKerchar, 'Understanding Small Business Taxpayers: Their Sources of Information and Level of Knowledge of Taxation' (1995) 12 *Australian Tax Forum* 25.

⁴⁵ Ruth McIntosh and John Veal, 'Tax Evasion and New Zealanders' Attitudes Towards it' (2001) 7 *New Zealand Journal of Taxation Law and Policy* 80; Cash Economy Task Force, *The Cash Economy Under the New Tax System: Report to the Commissioner of Taxation* (Commonwealth of Australia, 2003).

⁴⁶ Eliza Ahmed and Valerie Braithwaite, 'Understanding Small Business Taxpayers: Issues of Deterrence, Tax Morale, Fairness and Work Practice' (2005) 23 *International Small Business Journal* 539.

There have been several studies on the impact of culture on tax compliance. These have looked at the issue cross-culturally (between countries) and intra-culturally (within a country) to examine the tax behavioural differences between nations and ethnic groups respectively. Generally, research has shown that cultural values between nations and ethnic groups have an impact on the tax compliance/evasion attitudes of taxpayers.⁴⁷ Ethnicity or cultural groups within a country connote a sense of kinship, common culture, and self-identification with an ethnic group.⁴⁸ An ethnic group can be defined as a 'collectivity within a larger society having real or putative common ancestry or memories of shared historical past'.⁴⁹

Cross-cultural research using the cultural values of 'power distance', 'uncertainty avoidance', 'individualism/collectivism' and 'masculinity/femininity'⁵⁰ has found that these values affect the tax compliance and evasion attitudes of citizens in different countries.⁵¹ A study in 2007 compared countries with high rates of tax compliance to those with lower rates.⁵² The study concluded that non-compliant countries are those with high uncertainty avoidance, low individualism, low masculinity and high power distance. Richardson extended this study by including legal, political, religious and cultural factors when he considered tax evasion attitudes across 47 countries.⁵³ His regression analysis results indicate that the higher the level of uncertainty avoidance, and the lower level of individualism, legal enforcement, trust in government, and religiosity, the higher the level of tax evasion across countries. His results showed that cultural values together with socio-political and legal factors are important determinants of tax compliance (evasion) behaviours.⁵⁴

⁴⁷ Robert McGee, Simon Ho and Annie Li, 'A Comparative Study on Perceived Ethics of Tax Evasion: Hong Kong vs the United States' (2008) 77 *Journal of Business Ethics* 147; Grant Richardson, 'The Relationship Between Culture and Tax Evasion Across Countries: Additional Evidence and Extensions' (2008) 17 *Journal of International Accounting, Auditing & Taxation* 67.

⁴⁸ John Hutchinson and Anthony Smith, *Ethnicity* (Oxford University Press, 1996).

⁴⁹ Anuradha Basu, 'Ethnic Minority Entrepreneurship' in Mark Casson, Bernard Yeung, Anuradha Basu and Nigel Wadeson (eds), *The Oxford Handbook of Entrepreneurship* (Oxford University Press, 2006) 580, 582.

⁵⁰ For more information about these cultural values, see Hofstede above n 6. 'Power distance' looks at the relationship of the individual to the relevant authorities. 'Individualism/Collectivism' describes the degree of emphasis the individual places between himself/herself and the group they belong to. 'Uncertainty avoidance' describes the individual's reaction towards ambiguous and unknown situations. 'Masculinity/femininity' relates to the extent to which a society stresses achievement or nurturing.

⁵¹ For further discussion see George Tsakumis, Anthony Curatola and Thomas Porcano, 'The Relation Between National Cultural Dimensions and Tax Evasion' (2007) 16 *Journal of International Accounting, Auditing & Taxation* 131; Richardson above n 47.

⁵² George Tsakumis, Anthony Curatola and Thomas Porcano, 'The Relation Between National Cultural Dimensions and Tax Evasion' (2007) 16 *Journal of International Accounting, Auditing & Taxation* 131.

⁵³ Richardson above n 47.

⁵⁴ Ronald Cummings, Jorge Martinez-Vazquez, Michael McKee and Benno Torgler, 'Tax Morale Affects Tax Compliance: Evidence from Surveys and an Artefactual Field Experiment' (2009) 70 *Journal of Economic Behaviour and Organization* 447.

The importance of culture in tax compliance is further reinforced by survey studies undertaken on tertiary students. Richardson found tax compliance differences between Australian and Hong Kong students' were caused by differences in cultural values and the legal-political systems of those countries.⁵⁵ McGee, Ho and Li also found Hong Kong students to be more accepting of tax evasion compared to USA students.⁵⁶ Similarly, Chan observed that collectivistic Hong Kong students are less compliant and have less favourable attitudes toward the tax system compared to individualistic USA students.⁵⁷ Collectivistic Hong Kong participants did not view government as part of their in-group, and therefore were able to justify their lack of tax compliance on this basis.

Intra-cultural research using New Zealand tertiary business students revealed that 51 percent of European, and 28 percent of Chinese students, admitted to understating their taxable incomes in the five years preceding the study. Furthermore, Europeans and Maori were more likely to know others who had evaded taxes.⁵⁸ Further laboratory simulation results on New Zealand students also found a lower propensity to pay tax among male Maori and Chinese, while tax honesty was most evident among Pacific Islanders and female Chinese and Indians.⁵⁹

Other intra-cultural studies such as Frey found that southern Italians have lower levels of civic virtue than northern Italians,⁶⁰ and that former East Germans are less cooperative than former West Germans in public goods contribution.⁶¹ However, more recent research shows that former East Germans demonstrate higher tax morale than former West Germans and that 'the cultural background seems to have an effect on tax morale'.⁶² Similarly, an Australian

⁵⁵ Grant Richardson, 'An Exploratory Cross-Cultural Study of Tax Fairness Perceptions and Tax Compliance Behaviour in Australia and Hong Kong' (2005) 31 *The International Tax Journal* 11, 22.

⁵⁶ Robert McGee, Simon Ho and Annie Li, 'A Comparative Study on Perceived Ethics of Tax Evasion: Hong Kong Vs the United States' (2008) 77 *Journal of Business Ethics* 147.

⁵⁷ Chris Chan, Coleen Troutman and David O'Bryan, 'An Expanded Model of Taxpayer Compliance: Empirical Evidence from the United States and Hong Kong' (2000) 9 *Journal of International Accounting, Auditing & Taxation* 83.

⁵⁸ Angela Birch, Tina Peters and Adrian Sawyer, 'New Zealanders' Attitudes Towards Tax Evasion: A Demographic Analysis' (2003) 9 *New Zealand Journal of Taxation Law and Policy* 65.

⁵⁹ Lisa Marriott, John Randal and Kevin Holmes, 'Influences on Tax Evasion Behaviour: Insights from a Behavioural Simulation Experiment' (2010) 16 *New Zealand Journal of Taxation Law and Policy* 369, 391.

⁶⁰ Bruno Frey, 'The Role of Deterrence and Tax Morale in Taxation in the European Union' The Jelle Zijlstra Lecture (Netherlands Institute for Advanced Study in the Humanities and Social Sciences, 2003).

⁶¹ Axel Ockenfels and Joachim Weimann, 'Types and Patterns: An Experimental East-West German Comparison of Cooperation and Solidarity' (1999) 71 *Journal of Public Economics* 275.

⁶² Benno Torgler, *Tax Compliance and Tax Morale: A Theoretical and Empirical Analysis* (Edward Elgar

study revealed tax attitude differences between collectivistic Asians, Greeks and Lebanese and individualistic Australians,⁶³ and that collectivistic groups tended to be more tolerant towards the practice of the cash economy.⁶⁴ Similar results were also found in an interview study by Coleman and Freeman.⁶⁵ Studies in the USA found that ‘whites’ (a term used by early researchers for persons of Anglo-Saxon descent) were more tax compliant than ‘non-whites’⁶⁶ and ethnicity not only affected tax evasion decisions but also, taxpayer willingness to contribute to government by payment of taxes.⁶⁷

In 2000, Lieberman undertook a study of the determinants of cross-national variation in the development of tax policy and tax administration, particularly in respect of a country’s ability to collect taxes from upper-income groups. He used as the basis for this research a historical comparison of the political development of Africa and Brazil.⁶⁸ Lieberman concludes that it is not so much ‘culture’ that is relevant to ensuring that taxes are collected, but ‘argues that patterns of inter-and intra-class cohesion are critical to the ways in which the free rider problem of taxation gets resolved’.⁶⁹ He points out that part of these patterns depend on the historical development of attitudes to race and class and the cohesion within classes and between classes. This is a different approach to that adopted by the authors, who focussed on a very different taxpaying group, SMEs, and their ethnic background, as opposed to upper-income groups.

Overall, the authors argue that cross cultural research demonstrates that cultural values can have an impact on tax compliance behaviours,⁷⁰ however the amount of research on this topic

Publishing, 2007) 232.

⁶³ Maarten Rothengatter, ‘Social Networks and Tax (Non-) Compliance in a Multicultural Nation: Emerging Themes from a Focus-Group Study Among Ethnic Minorities in Australia’ (2005) 11 *International Journal of Entrepreneurial Behaviour & Research* 280.

⁶⁴ Ibid 298-299.

⁶⁵ Cynthia Coleman and Lynne Freeman, ‘Cultural Foundations of Taxpayer Attitudes to Voluntary Compliance’ (1997) 13 *Australian Tax Forum* 311, 311.

⁶⁶ Jeffrey Roth, John Scholz and Ann Witte, *Taxpayer Compliance, Volume 1, An Agenda for Research* (University of Pennsylvania Press, 1989); Young-dahl Song and Tinsley Yarbrough, ‘Tax Ethics and Taxpayer Attitudes: A Survey’ (1978) 38 *Public Administration Review* 442.

⁶⁷ Robert McGee, Simon Ho and Annie Li, ‘A Comparative Study on Perceived Ethics of Tax Evasion: Hong Kong Vs the United States’ (2008) 77 *Journal of Business Ethics* 147.

⁶⁸ Evan Scott Lieberman, ‘Payment for Privilege? Race and Space in the Politics of Taxation in Brazil and South Africa’ PhD Thesis, University of California, Berkeley, 2000.

⁶⁹ Ibid 4.

⁷⁰ Alan Lewis, Sonia Carrera, John Cullis and Philip Jones, ‘Individual, Cognitive and Cultural Differences in Tax Compliance: UK and Italy Compared’ (2009) 30 *Journal of Economic Psychology* 431; Maarten Rothengatter, ‘Social Networks and Tax (Non-) Compliance in a Multicultural Nation: Emerging Themes from a Focus-Group Study Among Ethnic Minorities in Australia’ (2005) 11 *International Journal of*

is small. It should also be noted that not all taxpayers are predisposed to tax cheating,⁷¹ nor do they always search for ways to cheat the tax system.⁷² This is, however, the area that has seen the most intensive research. Torgler laments that ‘tax compliance researchers have paid substantial attention to tax evasion and thus to the decision as to how much income to report in a tax return. But little is known about individuals’ compliance behaviour and variables such as timely filling out of the tax form and paying taxes on time’.⁷³

This study developed out of the realisation that there was a paucity of research into the behaviour of taxpayers who operate SMEs. Not only was there little research into the tax compliance behaviour of SMEs but, what little research that does exist is focussed on tax planning or evasion. It was therefore felt that ethnic SME taxpayers should be examined in relation to their organisational abilities and attitudes towards the payment of actual tax owing, rather than tax planning or evasion.

Part IV

1. Rationale for choosing New Zealand as the sample study

Both New Zealand and Australian tax systems were inherited from the English (British) law,⁷⁴ as they were past colonies of Great Britain.⁷⁵ Like the UK, Australia and NZ adopt a common law system and have similar self-assessment tax systems whereby taxpayers are responsible for the calculation and payment of their tax liabilities. Under this system the onus is on taxpayers to ensure that correct taxes are calculated and paid on the due dates.⁷⁶ Though this study is undertaken in NZ, it can reveal some useful insights because it has a common

Entrepreneurial Behaviour & Research 280, 280.

⁷¹ Susan B Long and Judyth A Swingen, ‘The Conduct of Tax-Evasion Experiments: Validation, Analytical Methods, and Experimental Realism’ in P Webley, H Robben, H Elffers and D Hessing (eds), *Tax Evasion: An Experimental Approach* (Cambridge University Press, 1991) 128, 130.

⁷² Bruno Frey and Klaus Foppa, ‘Human Behaviour: Possibilities Explain Action’ (1986) 7 *Journal of Economic Psychology* 137, 144.

⁷³ Benno Torgler, *Tax Compliance and Tax Morale: A Theoretical and Empirical Analysis* (Edward Elgar Publishing, 2007) 258.

⁷⁴ John Prebble, ‘New Zealand Taxation and Taxation Law’ in Xavier Cabannes (ed) *Issues on Taxation in the South Pacific/Regards sur la Fiscalité dans le Pacifique Sud Comparative Law Journal of the Pacific Hors Série XVIII* (2015) 99, 101; Keith Hooper, ‘Tracing the Origins of Taxation’ in Hooper et al,(eds) *Tax Policy & Principles: A New Zealand Perspective* (Brooker’s, 1998) 1, 2.

⁷⁵ Kevin Holmes, ‘Should Accountants Determine How Much Tax We Pay?: International Accounting Standards vs Taxable Income and Capital Gains’ (2008) 14 *New Zealand Journal of Taxation Law and Policy* 316, 324.

⁷⁶ Robin Woellner et al, *Australian Taxation Law* (CCH, 24th ed, 2014) 10.

law tradition and is culturally diverse and these factors may apply to other common law countries such as UK and Australia.

Like Australia, NZ is a multicultural society with a significant number of ethnic groups⁷⁷ and an indigenous culture that predates European colonisation. Maori are New Zealand's First Nation⁷⁸ and a significant cultural minority estimated at around 15 per cent of the total population.⁷⁹ The four largest ethnic groups in NZ are: Europeans (mainly of Anglo-Celtic descent), Maori, Asians and Pacific Peoples.⁸⁰ Population projections indicate declining trends in the number of people of European descent and an increasing trend in the Asian and Pacific groups⁸¹ with Maori staying proportionately the same.⁸² The declining trend of the Anglo population is also common in other western OECD countries.⁸³

There are three other reasons why NZ is an appropriate country to base a study using cultural values and tax compliance behaviours of SME owners. First, NZ has an indigenous Maori population. Research on tax compliance of indigenous peoples is virtually non-existent and therefore findings regarding their tax compliance behaviours are useful for tax regulatory and tax assistance purposes for NZ. Second, NZ's largest city, Auckland, has one of the highest Pacific Peoples populations in the world.⁸⁴ Like the indigenous Maori, research on tax compliance of Pacific Peoples is almost non-existent even though this group constitute one of the largest ethnic groups in NZ.⁸⁵

⁷⁷ New Zealand is predominantly populated by Europeans (mainly of Anglo-Celtic descent), indigenous Maori, Asians, Pacific Peoples and other minor ethnic groups such as Middle Eastern and Africans. For detailed statistics of the demographic mix, see Statistics New Zealand, 2013 Census-Major Ethnic Groups in New Zealand.

⁷⁸ A term commonly used to refer to the indigenous peoples of a country, see Fiona Martin, Brad Morse and Barbara Hocking, 'The Taxation Exemption of Canadian Indians as Governments and Individuals: How Does this Compare with Australia and New Zealand?' (2011) 40 *Common Law World Review* 119, 120.

⁷⁹ Statistics New Zealand, 2013 Census-Major Ethnic Groups in New Zealand; *Latimer v Commissioner of Inland Revenue* [2002] NZCA 121 [37].

⁸⁰ Statistics New Zealand, 2013 Census-Major Ethnic Groups in New Zealand.

⁸¹ Statistics New Zealand, National Ethnic Population Projections: 2013 (base) – 2038 1,3.

⁸² Maori make up approximately 15 per cent of the New Zealand population see Statistics New Zealand, (2013) Census-Major Ethnic Groups in New Zealand.

⁸³ There is an increasing proportion of non-Anglo members of the population in the United Kingdom, United States, Australia and Canada. For more information see Chris Bowen and Kate Lundy, *The People of Australia: Australia's Multicultural Policy* (Australian Government, 2011); Chris Bowen and Kate Lundy, *Response to the Recommendations of the Australian Multicultural Advisory Council in the People of Australia* (Australian Government, 2011).

⁸⁴ David Robie, 'Diversity Reportage in Aotearoa: Demographics and the Rise of the Ethnic Media' (2009) 15(1) *Pacific Journalism Review* 67, 72.

⁸⁵ In 2007 Pacific Islanders comprised 7 per cent of New Zealand's population, David Robie, 'Diversity Reportage in Aotearoa: Demographics and the Rise of the Ethnic Media' (2009) 15(1) *Pacific Journalism*

Third, there is little knowledge about the tax compliance behaviours of Asian peoples despite increases in the Asian populations of NZ and Australia.⁸⁶ According to research literature in the management and business disciplines, Asians are renowned for certain behavioural traits including the use of ‘guanxi’ (favours or connections) for the Chinese,⁸⁷ and because they have access to ‘in-group’ resources.⁸⁸ The concept of guanxi is seen to be a key Chinese cultural value. It consists of ties, relationships, networks and the development of trust within those relationships.⁸⁹ Drawing on guanxi can give an individual a competitive advantage.⁹⁰ It is also reported that business operators with Chinese and Indian backgrounds have strong financial management skills.⁹¹ The current research raises the question as to whether these Asian behavioural traits have any impact on their ability and willingness to pay taxes on time.

2. The Cultural Values of Individualism and Collectivism

This study uses the cultural values of ‘individualism’ and ‘collectivism’ as its analytical framework. Individualism refers to the degree to which members of a culture place a greater emphasis on the group versus the individual himself/herself. In those cultures where individualism is dominant, every person is expected to focus on what is best for him/her. In the collectivist cultures, the individuals are, from birth, integrated into strong, cohesive groups which continue to protect them throughout their lives in exchange for unquestioning loyalty.⁹² Their allegiance is towards meeting the group’s needs at the individual’s expense.⁹³

Review 67, 72; The percentage remains the same for 2013, Statistics New Zealand, 2013 Census-Major Ethnic Groups in New Zealand. Pacific Islanders are the fourth largest ethnic group after Europeans, Maori and Asians.

⁸⁶ In Australia, persons with Asian backgrounds constitutes one of the largest ethnic groups. Australian Bureau of Statistics <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/2071.0main+features902012-2013>.

⁸⁷ Howard Davies, Thomas Leung, Sherriff Luk and Yiu-hing Wong, ‘The Benefits of “Guanxi”: The Value of Relationships in Developing the Chinese Market’ (1995) 24(3) *Industrial Marketing Management* 207; I Yeung and Rosalie Tung, ‘Achieving Business Success in Confucian Societies: The Importance of Guanxi (connections)’ (1996) 25 *Organizational Dynamics* 54.

⁸⁸ Thomas Begley and Wee-Liang Tan, ‘The Socio-Cultural Environment for Entrepreneurship: A Comparison Between East Asian and Anglo-Saxon Countries’ (2001) 32 *Journal of International Business Studies* 537.

⁸⁹ Stuart Orr and Jane Menzies, ‘Using Social Networks and Guanxi in Case Study Research on Australian Firms doing Business in China’ (2012) 20(1) *Australasian Journal of Market & Social Research* 22, 23.

⁹⁰ Ibid.

⁹¹ David Ahlstrom, Shyh-je Chen and Kuang Yeh, ‘Managing in Ethnic Chinese Communities: Culture, Institutions and Context’ (2010) 27 *Asia Pacific Journal of Management* 341; Gordon Redding, *The Spirit of Chinese Capitalism* (Walter de Gruyter, 1993).

⁹² Hofstede above n 6.

⁹³ Christopher Earley and Cristina Gibson, ‘Taking Stock In Our Progress on Individualism Collectivism: 100 Years of Solidarity and Community’ (1998) 24 *Journal of Management* 265; Jemaima Tiatia, *Caught Between Cultures: A New Zealand-Born Pacific Island Perspective* (Christian Research Association, 1998); Virginia Warriner, ‘The Importance of Traditional Maori Values for Necessity and Opportunity: Maori Entrepreneurs-

Geert and Gert Jan Hofstede argue that a person's behaviour is partially determined by his or her culture.⁹⁴ Culture in this context is defined as the 'collective programming of the mind that distinguishes the members of one group or category of people from others'.⁹⁵ Culture is reflected in 'general tendencies of persistent preference for particular states of affairs over others, persistent preferences for specific social processes over others, and general rules for selective attention, interpretation of environmental cues, and responses'.⁹⁶ Culture, it has been suggested affects one's behaviour and it 'forms the roots of action'.⁹⁷ Two of the most commonly understood cultural values are individualism and collectivism. These values have been used to explain phenomena in many social science domains including marketing, management, accounting, international business, human resources, supply chain, customer relations and advertising.⁹⁸

The concept of collectivism has led to specific cultural behaviours. For example, Asians are very conscious of saving 'face' which is also evident in Maori and Pacific Peoples.⁹⁹ 'Face' 'generally is a matter of maintaining one's public dignity and standing'.¹⁰⁰ They do not like losing their credibility amongst their in-groups and if they do so, they can be treated as social outcasts. This can be unbearable, and in order to preserve 'face' (Asian and Pacific Peoples) and *mana/aura* (Maori), these collectivistic groups are obliged to fulfil group's obligations even at their own personal costs. Associated with 'face' and *mana*, the benefit of being part of the collectivistic group is the individual's access to their group's financial and non-financial assistance when it is available.¹⁰¹ This access has been one of the success factors for

Iwi-Based and Individually Owned' in D Leo-Paul and B Anderson (eds) *International Handbook of Research on Indigenous Entrepreneurship* (2007, Edward Elgar, 2007) 558.

⁹⁴ Hofstede above n 6.

⁹⁵ Hofstede above n 6 4.

⁹⁶ D Tse, K Lee, K L Vertinsky and D Wehrung, 'Does Culture Matter? A Cross-Cultural Study of Executives' Choice, Decisiveness and Risk Adjustment in International Marketing' (1988) 52 *Journal of Marketing* 81, 82.

⁹⁷ Alfons Trompenaars, Charles Hampden-Turner and Fons Trompenaars, *Riding the Waves of Culture: Understanding Diversity in Global Business* (Irwin Professional Publications, 1994) 24.

⁹⁸ Harry Triandis, Richard Brislin and Harry Hui, 'Cross-Cultural Training across the Individualism Collectivism Divide' (1988) 12 *International Journal of Intercultural Relations* 269.

⁹⁹ Kwang Hwang, 'Face and Favour: the Chinese Power Game' (1987) 92 *American Journal of Sociology* 944; Anne De Bruin and Patrick Mataira, 'Indigenous Entrepreneurship' in A De Bruin and A Dupuis (eds), *Entrepreneurship: New Perspectives in a Global Age* (Ashgate Publishing Limited, 2003) 169; M Cahn, 'Indigenous Entrepreneurship, Culture and Micro-enterprise in the Pacific Islands: Case studies from Samoa' (2008) 20 *Entrepreneurship & Regional Development* 1.

¹⁰⁰ J Scarborough, 'Comparing Chinese and Western cultural roots: Why "East is East and ..."' (1988) November-December *Business Horizons* 15, 15.

¹⁰¹ Maarten Rothengatter, 'Social Networks and Tax (Non-) Compliance in a Multicultural Nation: Emerging Themes from a Focus-Group Study Among Ethnic Minorities in Australia' (2005) 11 *International Journal of*

some collectivistic ethnic businesses in developed nations.¹⁰² Finance, labour, expert skills and business connections are often made available to in-group collectivistic members. However, there is an expectation that reciprocal assistance will be made by the recipient to the group should the need arises in the future.

This study aims to discuss the tax payment decisions of different ethnic SME groups in NZ. The obligation of these taxpayers to pay their taxes on time arises under s 15B of the *Tax Administration Act 1994* (New Zealand).

Part V

Research methodology, design and findings

1. Qualitative research methodology

This study uses the qualitative research approach.¹⁰³ In-depth interviews were adopted for a number of reasons. In particular, the ethnic diversity of the participants and the preference of non-European participants for face-to-face interactions.¹⁰⁴ This research method enabled better access to ethnic minority participants of Asian, Maori and Pacific Peoples

Entrepreneurial Behaviour & Research 280, 281; Howard Frederick and Ella Henry, 'Innovation and Entrepreneurship amongst Pakeha and Maori in New Zealand' in C Stiles and C Galbraith (eds), *Ethnic Entrepreneurship: Structure and Process* Vol 4 (Elsevier, 2004) 115.

¹⁰² Maarten Rothengatter, 'Social Networks and Tax (Non-) Compliance in a Multicultural Nation: Emerging Themes from a Focus-Group Study Among Ethnic Minorities in Australia' (2005) 11 *International Journal of Entrepreneurial Behaviour & Research* 280, 281; Monder Ram, David Smallbone and David Deakins, *Ethnic Minority Businesses in the UK: Access to Finance and Business Support* (London, British Bankers' Association, 2002); David Deakins, David Smallbone, Mohammed Ishaq, Geoffrey Whittam and Janette Wyper, 'Minority Ethnic Enterprise in Scotland' (2009) 35 *Journal of Ethnic and Migration Studies* 309.

¹⁰³ For further discussion on the justification and advantages of using the qualitative research methodology see Lawrence Neuman, *Social Research Methods: Qualitative and Quantitative Approaches* (Pearson Education, 7th ed, 2001); Pranee Liamputtong, *Qualitative Research Methods* (Oxford University Press, 3rd ed, 2009); Keith Punch, *Introduction to Social Research: Quantitative and Qualitative Approaches* (Sage Publications, 2nd ed, 2005).

¹⁰⁴ Research has shown that Asians, Maori and Pacific Peoples are reluctant to respond to survey studies. They prefer face to face interactions when participating in any research. See Alistair Brown, Gregory Tower and Ross Taplin, 'The Importance of Oral Communication in a Pacific Island Countries' Context' (2005) 7 *Journal of American Academy of Business* 133; Virginia Warriner, 'The Importance of Traditional Maori Values for Necessity and Opportunity: Maori Entrepreneurs-Iwi-Based and Individually Owned' in D Leo-Paul and B Anderson (eds) *International Handbook of Research on Indigenous Entrepreneurship* (Edward Elgar, 2007) 558; Lai Si Tsui-Auch, 'Impact of Regional Ethnicity on Family Business Behaviour in Singapore' in V Gupta, N Levenburg, L L Moore, J Motwani and T V Schwarz (eds) *Culturally - Sensitive Models of Family Business in Confucian Asia: A Compendium Using the GLOBE Paradigm* (The ICFAI University Press, 2008) 34.

backgrounds. It provided an avenue in which to build trust between the interviewer and these ethnic minority groups.¹⁰⁵

A qualitative analysis involves a process of examining and interpreting data in order to find the meaning that arises from this data. This then leads to understanding and the development of empirical knowledge.¹⁰⁶ Qualitative research is generally accepted as providing a richer understanding of human behaviour. Looking at the information from the viewpoint of the person who is experiencing the issues is one of the main reasons for undertaking a qualitative research.¹⁰⁷ The first author asked open ended questions of the interviewees so that they could express their ideas in their own words. The advantages of qualitative research are that it allows the nature of a problem to be better understood and thereby facilitates the development of appropriate guides to action. The interviews deepened our understanding of the importance of the taxation consequences to the specific population groups.¹⁰⁸

The majority of the cross cultural and intra cultural research on tax compliance, as discussed in Part III, adopted the survey or experimental research methods on tertiary student/participants. These methods have advantages and disadvantages.¹⁰⁹ The main advantages include the convenience of sampling together with high internal validity and reliability.¹¹⁰ However, there are significant disadvantages. The experimental research is artificial and therefore has low external validity,¹¹¹ students are not always good proxies for

¹⁰⁵ Ron Bishop, *Collaborative Research Stories: Whakawhanaungatanga*. (Dunmore Press, 1996); S Dhaliwa, 'Entrepreneurship-a learning process: The experiences of Asian Female Entrepreneurs and Women in Business' (2000) 42 *Journal of Education & Training* 445; A Brown, G Tower and R Taplin, 'The Importance of Oral Communication in a Pacific Island Countries' Context' (2005) 7 *Journal of American Academy of Business, Cambridge* 133.

¹⁰⁶ Juliet Corbin and Anselm Strauss, *Basics of Qualitative Research* (3rd ed, 2008) 1.

¹⁰⁷ *Ibid* 16.

¹⁰⁸ Margaret McKerchar, *Design and Conduct of Research in Tax, Law and Accounting* (Sydney, Thomson Reuters, 2010) 94.

¹⁰⁹ *Ibid*.

¹¹⁰ James Alm, 'Measuring, Explaining and Controlling Tax Evasion: Lessons from Theory, Experiments, and Field Studies' (2012) 19 *International Tax and Public Finance* 54.

¹¹¹ Chris Starmer, 'Experiments in Economics: Should we Trust the Dismal Scientists in White Coats?' (1999) 6 *Journal of Economic Methodology* 1; John Cullis and Alan Lewis, 'Why People Pay Taxes: From a Conventional Economic Model to a Model of Social Convention' (1997) 18 *Journal of Economic Psychology* 305.

actual taxpayers¹¹² and, the artificiality of experimental research can motivate student participants to game-play,¹¹³ and undertake more risks than non-students.¹¹⁴

In view of the above limitations of the survey and laboratory research method using students, it was decided to engage in qualitative interview research using actual taxpayers. The rationale was to assist in achieving high external validity¹¹⁵ and to provide an alternative approach to examining the tax compliance behaviours of ethnic SME groups. This approach also addresses concerns raised by several authors regarding the shortages of tax research studies using actual taxpayer data.¹¹⁶

However, the authors are mindful of the limitations of qualitative research. A common feature of all qualitative studies is the small sample size,¹¹⁷ as it can be difficult to find participants who are willing to provide useful information about the phenomenon being studied.¹¹⁸

The number of people interviewed was 59 which seems small, but which is considered a reasonably large number by researchers using the qualitative research approach. Guest, Bunce and Johnson suggest that there should be a minimum of twelve participants.¹¹⁹ As the

¹¹² Andrew Cuccia, 'The Economics of Tax Compliance: What Do We Know and Where Do We Go?' (1994) 13 *Journal of Accounting Literature* 81; Sue Yong 'A Critical Evaluation of the Economic Deterrence Model on Tax Compliance' (2006) 12 *New Zealand Journal of Taxation Law and Policy* 95.

¹¹³ Andrew Cuccia, 'The Economics of Tax Compliance: What Do We Know and Where Do We Go?' (1994) 13 *Journal of Accounting Literature* 81.

¹¹⁴ Klarita Gerxhani and Arthur Schram, 'Tax Evasion and Income Source: A Comparative Experimental Study' (2006) 27 *Journal of Economic Psychology* 402; Chris Starmer, 'Experiments in Economics: Should We Trust the Dismal Scientists in White Coats?' (1999) 6 *Journal of Economic Methodology* 1.

¹¹⁵ Jill McKinnon, 'Reliability and Validity in Field Research: Some Strategies and Tactics' (1988) 1 *Accounting, Auditing and Accountability Journal* 34.

¹¹⁶ John Hasseldine, Peggy Hite, Simon James and Marika Toumi, 'Persuasive Communications: Tax Compliance Enforcement Strategies for Sole Proprietors' (2007) 24 *Contemporary Accounting Research* 171,171.

¹¹⁷ For further discussion on the rationale for the small sample size for qualitative research, see Michael Patton, *Qualitative Research & Evaluation Methods* (Sage, 3rd ed, 2002); Margaret Mc Kerchar, *Design and Conduct of Research in Tax, Law and Accounting* (Sydney, Thomson Reuters, 2010). Only 30 small business taxpayers were interviewed in the study by Margaret Mc Kerchar, Helen Hodgson and Michael Walpole, 'Understanding Australian Small Businesses and the Drivers of Compliance Costs: A Grounded Theory Approach' (2009) 24 *Australian Tax Forum* 151. Twelve small businesses participated in another interview based Australian study undertaken by Philip Lignier 'The Managerial Benefits of Tax Compliance: Perception by Small Business Taxpayers' (2009) 7 *e-Journal of Tax Research* 106.

¹¹⁸ C Dunbar, D Rodriguez and L Parker, 'Race, Subjectivity, and the Interview Process' in J Gubrium and J Holstein (eds), *Handbook of Interview Research: Context and Method* (Sage Publications, 2002) 279; S Kvale and S Brinkmann, *InterViews: Learning the Craft of Qualitative Research Interviewing* (Sage, 2nd ed, 2009).

¹¹⁹ Greg Guest, Arwen Bunce and Laura Johnson, 'How Many Interviews are Enough? An Experiment With Data Saturation and Variability' (2006) 18 *SAGE Journals* 59.

interview process requires more time spent on collecting information compared to collecting quantitative data, there are, by necessity, fewer participants.

2. Research design

The study involved interviewing 59 persons. In qualitative research, participants are chosen on the basis of their relation to the research questions and to enable meaningful differences to be captured.¹²⁰ Participants were approached by the interviewer through networking with accounting and business professionals and some were recruited through referrals from key informants especially for ethnic minority groups. Qualitative researchers seek purposive and snowballing results instead of using random sampling processes in order to gain evidence from the answers to the research questions. With that in mind, a mixture of four different ethnic SME groups totalling 36 taxpayers was selected to give accounts of their tax payment ability. The four ethnic groups chosen were European, Asian, Maori and Pacific Peoples and there were nine taxpayers from each of the groups interviewed. Interviews were also conducted with eight tax practitioners and 15 business experts to triangulate and verify the truthfulness of the taxpayers' accounts.¹²¹

The interviews took place between 2006 and 2010. The selection criteria for SME owners were ethnicity, business size and industry. The businesses all employed fewer than 20 persons, as this is the New Zealand government definition of small and medium-sized enterprises.¹²² The businesses were chosen from the list of industries in the 2006 Australian and New Zealand Standard Industrial Classification.¹²³ The business experts and tax

¹²⁰ Nigel King and Christine Horrocks, *Interviews in Qualitative Research* (SAGE, 2010) 29.

¹²¹ Triangulation, using multiple sources is an important aspect of qualitative research as a means of ensuring validity. For further information see Lynne Oats, 'Gathering and Interpreting Qualitative Data' in L Oats (ed) *Taxation: A Fieldwork Research Handbook* (Routledge, 2012) 19; Dawn Snape and Liz Spencer, 'The Foundations of Qualitative Research' in J Ritchie and J Lewis (eds) *Qualitative Research Practice* (Sage Publications, 2003) 1.

¹²² New Zealand Ministry of Economic Development, 'SMEs in New Zealand: Structure and Dynamics 2011', 3, 5.

¹²³ The 2006 Australian and New Zealand Standard Industrial Classification (ANZSIC) were developed by the Australian Bureau of Statistics and Statistics New Zealand in the 1990s to reflect the structure of Australian and New Zealand industries. This research study sampled 14 out of the total 19 industries listed in ANZSIC 2006. The industries are: construction; wholesale trade; retail trade; accommodation and food services; transport and warehousing; information media and telecommunications; financial and insurance services; rental, hiring and real estate; professional services; administrative and support services; education and training; health care; arts and recreation services; and other services. The industries excluded were agriculture, mining, manufacturing and electricity as these industries were considered more applicable to regions outside the Auckland region, where the study was undertaken. Statistics New Zealand, *Total Income by Industry (ANZSIC 1996 and ANZSIC 2006) Annual Enterprise Survey 2007*.

practitioners were selected based on their frequent and on-going working relationships with the SMEs. The questions that were put to the SME operators were chosen in order to explore their tax payment decisions and the reasons for paying (or not paying) their taxes on time. The tax practitioners and business experts were asked about their clients' tax payment decisions, and their underlying rationale for payment decisions, that they observed from their contact with SME taxpayers. It was considered that tax practitioners would know when their clients' tax liabilities were due, and whether their clients were able to meet those payments. On the other hand, business experts provide mentoring, business and financial advice to their SME owners/clients and were asked questions based on this perspective.

All the participants were from Auckland due to the fact that it is the largest and the most culturally diverse city in New Zealand.¹²⁴ It has the highest number of SMEs in the country.¹²⁵ The Auckland region's share of the Māori commercial asset base is \$2.5 billion (or 15.2 per cent), from an estimated Māori commercial asset base for New Zealand of \$16.5 billion for 2006.¹²⁶ Finally, Auckland has the highest Pacific Peoples population in New Zealand and is often described as the Polynesian capital of the world.¹²⁷

3. Research Findings and Analysis

Table 1 summarises the responses from the 36 SME business owners and demonstrates the differences between the population groups in terms of having difficulties meeting their tax payment obligations.

Ethnic Origin	Difficulty in meeting tax payments and/or having to make arrangements with Inland Revenue	
	Yes	No
Pacific Peoples	7	2
Maori	6	3
Europeans	3	6
Asians	0	9
Total = 36	16	20

¹²⁴ New Zealand Ministry of Economic Development, 'SMEs in New Zealand: Structure and Dynamics 2011', 6.

¹²⁵ Ibid 5.

¹²⁶ New Zealand Government, Te Puni Kokiri, 'Realising Maori Potential' (2009) 3.

¹²⁷ David Robie, 'Diversity Reportage in Aotearoa: Demographics and the Rise of the Ethnic Media' (2009) 15 *Pacific Journalism Review* 67.

Table 1: Tax payment difficulties and payment arrangements with the Inland Revenue

Pacific Peoples Business Operators

Table 1 shows that more than two-thirds of the Pacific Peoples and Maori owners had difficulty paying their taxes on time compared to one-third of the Europeans and none for the Asians. In this study, the Pacific Peoples group had the most difficulty with paying their taxes on time. As collectivistic groups, they experienced pressure from various in-groups to fulfil these groups' financial obligations. Their in-groups were the church they belonged to and their extended families in NZ and overseas:

Family pressure, sending money home (to the Islands) and the church impacts on their cash flows does put pressure on a lot of Pacific families here. (Business Expert 6: Male and from tax administration and policy)

The culture to give to your family is ingrained in you the minute that you are born. Your whole existence is to give to the church and to give to the family. (Pacific Owner 7: Female in the arts and craft business)

Many SME operators with this background drew cash from their business to support relatives in the Pacific islands. They referred to this as making 'remittances'. Remittance is a kind of sharing, and it is considered essential by Pacific Peoples that they assist other in-group members.¹²⁸ Often remittances are given at the personal cost of the giver:

It is when someone in the family comes and say they need help, the Pacific business operator will dip into their cash register without thinking that they have their own bills to pay. It is always that the family comes first and that is a cultural thing. Giving to the church is also a big thing. (Business expert 10: Female from the Pacific government agency)

The study found that giving to in-groups was a primary factor behind the inability of Pacific Peoples to make timely tax payments. The interviews also revealed that poor cash flow

¹²⁸ Feletiliki Finau, The Impact of Working Capital Management Dynamics on Performance of *Tongan Enterprises in New Zealand* (UNITEC Institute of Technology, New Zealand, 2011) Masters thesis 65-66.

stemming from seasonality in incomes due to the industry they are in, poor debt collection¹²⁹ and lack of proper budgeting and record keeping, were exacerbating factors. Tax practitioners in this study observed that some Pacific SME operators did not have good record keeping, or keep a separate bank account for their personal and business monies, thus making tax payments difficult:

Some small businesses do not keep separate bank accounts for personal and business and this can be problematic. If they don't budget for GST, which can be substantial for those that only do the return every six months, this can be problematic. (Tax practitioner 1: Female, a sole practitioner)

Not many small businesses are excellent bookkeepers. (Tax practitioner 2: Male, a sole practitioner)

The majority of the Pacific Peoples in this sample showed little or no understanding of financial management and accounting, thus adding to their tax compliance woes:

I don't have a problem with paying the tax but what I want is to understand how to complete my tax returns because it is my challenge every year and I still feel in the dark for parts of it. I don't understand the language and filing the returns is still a mystery for me. (Pacific operator 6: Female in the clothes-making business)

The common trend is the lack of financial literacy for the Maori and Pacific Islanders. They never give it a priority and it is only seen as a priority if they do not have enough money or when something drastic happens in the family and they need money ... There is no short or long term planning for them because they like to live in the 'present'.(Business expert 12: Male from the government facilitation agency)

But often times what we have seen among Pacific business owners are lack of business planning, no business experience and poor financial management and

¹²⁹ This finding confirms earlier research undertaken on Pacific businesses in New Zealand, eg Finau, above n 128; Semisi Prescott and Keith Hooper, 'Commons and Anti-Commons: Tongan Business Experiences in New Zealand' (2009) 21 *Pacific Accounting Review* 286.

literacy skills and they start a business with no equity. (Business Expert 11: Male and from a government agency)

The Pacific sample was unable to draw financial assistance from their in-group members as this was unavailable. Instead, they experienced cash leakages from their businesses to fund their in-group's needs, which contributed to their inability to pay taxes on time. By not paying their taxes on time they incurred tax penalties and fines (and therefore became liable for higher tax compliance costs). Poor cash flow planning, lack of financial management and accounting knowledge contributed to their tax payment difficulties. In addition, they did not make a mental separation between their own money and taxes collected on behalf of the government. This resulted in payment of tax being seen as a burden:

I see tax as a burden as we have to collect all these GST, PAYE and then pay the government ... and we are all these one big tax collection place. (Pacific operator 1: Male in the health provider business)

When you have got the GST in and the GST out but they may not be of the same month and it can be complicated because company tends to spend the GST because of the cash flow and then the IRD hits you with the GST and it can be difficult. GST has caused a lot more problem than benefit. (Pacific operator 5: Male in the IT support business)

It seems reasonable to conclude that there are cultural reasons behind these SMEs experiencing difficulties with their tax payment. The cultural values of collectivism and sharing resources with their in-group members, exacerbated by the fact that they have poor financial management and lack of accounting knowledge, contribute to their finding tax payment difficult and onerous.

Maori business operators

The Maori SMEs also experienced difficulties with tax payments. Like their Pacific Peoples counterpart, giving and sharing their finances with extended families was the primary factor for not having adequate cash for tax payments. The motivation to share their finances is

aggravated by the perception that hoarding wealth and the pursuit of money are considered sinful and evil:

For a lot of Maori, they may think that wealth and the pursuit of money could be seen as a colonial way of life and it is a very 'white' way of chasing money. (Maori operator 6: Female in the journalism business)

I think it can be difficult for some Maori business operators because they see money or too much money as evil. (Business Expert 3: Female in the Maori government facilitation agency)

The traditional Maori attitude towards ownership and possessions is 'to utilise and share, which contrast(s) to the 'accumulate and acquire' dispositions of non-Maori'.¹³⁰ Their perception of wealth prohibits many from personally accumulating wealth for themselves. This results in their lack of equity in assets which is needed as security for mainstream borrowing. In addition, most do not have suitable collateral for borrowings due to the communal title ownership of Maori land, although Maori also own freehold land. The *Te Ture Whenua Maori Act 1993/Maori Land Act 1993* (NZ) (the MLA) governs the ownership and management of 'Maori Land'.¹³¹ Under the MLA, Maori companies and trusts control around 64 per cent of Maori Land.¹³² The Act establishes a Maori Land Court and allows for land to be held on trust for Maori with the income used for their benefit.¹³³ This however, does not preclude Maori from owning land privately, especially in the suburban areas.

The concept of community benefit is of particular relevance to Maori ownership of land as historically and traditionally land has been held communally rather than individually.¹³⁴ All these factors lead to a lack of assets necessary for mainstream borrowing:

Mainly is because Maori do not have the collateral for borrowings. For example, they may be living on the land but often the land is not theirs but it is jointly owned by the iwi (family) or hapu (sub-tribe). And therefore you

¹³⁰ Anne De Bruin and Patrick Mataira, 'Indigenous Entrepreneurship' in A De Bruin and A Dupuis (eds), *Entrepreneurship: New Perspectives in a Global Age* (Ashgate Publishing Limited, 2003) 169, 179.

¹³¹ MLA Preamble. Maori land is defined in MLA s 4 as 'Maori customary land and Maori freehold land'.

¹³² Taniri Kingi, 'Maori Land Ownership and Land Management in New Zealand' in Australian Agency for International Development, *Making Land Work, Volume 2: Case Studies on Customary Land and Development in the Pacific* (2008) 129, 138.

¹³³ MLA parts 1 and 12.

¹³⁴ Kingi above n 132, 137.

cannot use the land as collateral against the loan. (Business Expert 5: Male from Maori government facilitation agency)

For many Maori business operators, mainstream borrowing is therefore not an available financing avenue with which they can address tax payment difficulties. Because of that, many do not have an alternative solution when experiencing tax payment problems. This can result in high stress levels,¹³⁵ coupled with high tax compliance costs:

They (Maori businesses) do not know the repercussions of non-compliance. They leave it till too late and quite often they get into difficulty and they don't get help early enough. (Business Expert 4: Female in the Maori government facilitation agency)

Yes I have tax problems with the IRD and I don't do anything about it because I can't pay them. I just wait for some money to come in and then pay them even though there is tax penalty for lateness ... But personally, I have a \$10000 tax bill that I have to pay by February and I do not know where the money is going to come from to pay it. (Maori operator 2: Male in the film production business)

The majority of Maori in this study also showed a reluctance to contact the IRD. The IRD as a tax authority and a government agency is perceived as someone who would hurt them. This perception stems from historical oppression of Maori by the Crown in regard to land confiscation in the 19th century:¹³⁶

They (IRD) portray themselves as a bureaucracy, people in suits and out there to take your money and they are not people to help you in any way. (Maori operator 6: Female in the journalism business)

Most Maori businesses don't look at the IRD as someone who will help them but they look at the IRD as somebody who will hurt them and

¹³⁵ Inland Revenue, *Changes in SME Tax Compliance Costs: 2004 to 2009 Evaluation Report 2* (Inland Revenue, 2010); Business New Zealand, *Business NZ to the Inland Revenue Department on Reducing Tax Compliance Costs for Small and Medium-Sized Enterprises - Part One (Thresholds)* (Business New Zealand, 2008).

¹³⁶ Ella Henry, 'Kaupapa Maori Entrepreneurship' in D Leo-Paul and R Anderson (eds), *International Handbook of Research on Indigenous Entrepreneurship* (Edward Elgar, 2007) 536.

therefore they are afraid to go to the IRD. (Maori operator 9: Male in the marketing and consulting business)

They (the Maori) are terrified of the IRD (tax authority) or anything relating to compliance due to the history of the land loss to the Crown ... and the injustices still remains in some people. (Business Expert 3: Female in the government agency)

This study found that the majority of the problems associated with tax payments for Maori SME operators were related to lack of financial planning, low levels of financial management and accounting knowledge, and a historically based negative perception of the tax authority. Most Maori operators did not understand the need to set aside cash for tax payments. It was also observed by the business experts in this study that Maori tend to go into business without adequate equity, or any prior feasibility study:

Some also started with not enough capital or assets behind them and because of that they get into cash flow problems and compliance issues get into that as well. They get into trouble with the IRD because of the cash flow problem. That stems back to lack of forward planning ... Some don't keep an eye on how their business is doing financially. They are only interested in the money in the bank and they don't know about when some bills are due. (Business expert 3: Female in the Maori government facilitation agency)

One is that they (Maori businesses) have not positioned themselves in their thinking in regards to education. They haven't positioned themselves in their finances and they jumped too quickly because they believed that a good idea is all that they need to start a business and they jumped in without doing the homework. (Business expert 14 – Male with a business agency)

Overall, the study found that the common issues facing Maori operated SMEs, were their giving and sharing financial resources with in-groups, the perception of the tax authority as oppressive and unwilling to help them, lack of financial planning, inadequate equity, poor

accounting knowledge, poor record keeping and inability to borrow from the mainstream. By not addressing their tax payment problems they suffered high stress levels and high tax compliance costs.

Recognising the needs of Maori business operators, the New Zealand government, through the Maori Business Development Incorporation (Te Puni Kokiri), has offered on-going business mentoring, tax compliance and business management courses to ensure they succeed in business.¹³⁷ This is further supported by the availability of Community Compliance Officers or Kaitakawaenga Maori tax officers to assist Maori taxpayers with their tax compliance obligations.¹³⁸ These two Maori specific forms of assistance are made available under the Treaty of Waitangi settlement to compensate Maori for past injustices by the Crown (British government).¹³⁹

European business operators

One third of the Europeans operating SMEs in this sample experienced some difficulties with their tax payments. The interview data revealed that some of these difficulties were attributable to delays in debt collection and/or over-commitment in business investments. This is a common business issue and the Europeans had strategies for resolving their tax debt problems. As a result this problem caused them less stress than their Maori counterparts.

Most of the Europeans were disciplined with their tax payments and they always paid on time to avoid tax penalties and attention from the tax authority. In addition, they had access to mainstream borrowings to pay their taxes should the need arise:

We always make sure that we pay our taxes on time. Sometimes we had to use the borrowings but for most people, the worst thing is not to pay your taxes on time. This is because you will be paying more as there are penalties and the IRD may think that the business are having some issues and therefore may attract some attention from them. (European operator 9: Female in the flooring retailing business)

¹³⁷ Te Puni Kokiri, *The Footsteps of Maori Entrepreneurs* (Te Puni Kokiri, Wellington, 2013).

¹³⁸ See IRD at < <http://www.ird.govt.nz/taxagents/products/online-services/keyword/requests/online-business-advisory-visit.html>>.

¹³⁹ Treaty of Waitangi in < <http://www.justice.govt.nz/tribunals/waitangi-tribunal/treaty-of-waitangi>>.

If I really run out of cash, I just ring my bank and I have a really good relationship with my bank. I just ring him up and there is no paperwork involved. (European operator 4: Female in the education provider business)

The Europeans interviewed raised the most concern about the IRD's role in respect of SMEs. A high level of distrust was shown towards the IRD by this group. This confirms some findings from research in other countries,¹⁴⁰ although a 2010 telephone interview study of 1,000 participants in Australia, reported that 91 per cent of SMEs considered that their business was treated fairly and reasonably by the ATO.¹⁴¹ This study did not however, differentiate between ethnic groups.

The majority of participants in the current study did not trust the IRD to promote their interests and they preferred to use their accountants as intermediaries with the IRD as they considered them efficient and reliable.¹⁴² Unlike the Maori group, their attitude was not based on historical reasons but rather the perception that the IRD was not working in favour of SMEs:

I would not like the IRD to come and visit me because their interest is not with my business. My interest is my customers and to give them a good service. But tax is their (IRD)'s core business and there would be a conflict of interest as they would advise me contrary to my business interest. I want the tax man to stay away from my business. (European operator 8: Male in the IT consulting business)

Occasionally I will ring the IRD but this is about 10 years ago. I would now speak to our accountant as I have been "burnt" by the IRD ages ago and now because we have an accountant, we just ring him up and it is so

¹⁴⁰ Richard Bird, *Small Business and the ATO: Moving Towards a Market Based Approach* (ATO Publications, 1992); J Adebisi and D Gbegi 'Effect of Multiple Taxation on the Performance of Small and Medium Scale Business Enterprises: A Study of West African Ceramics Ajeokuta, Kogi State' (2013) 4 *Mediterranean Journal of Social Sciences* 323; Eliza Ahmed and Valerie Braithwaite, 'Understanding Small Business Taxpayers: Issues of Deterrence, Tax Morale, Fairness and Work Practice' (2005) 23 *International Small Business Journal* 539.

¹⁴¹ Sweeney Research, 'Understanding the Small and Medium Enterprise Market' (2010). This research was commissioned by the ATO and found that 91 per cent of participants in a telephone interview survey of 1000 small to medium sized businesses stated that their business was treated fairly and reasonably by the ATO.

¹⁴² This is consistent with the findings in Rex Marshall, Robert Armstrong and Malcolm Smith, 'The Ethical Environment of Tax Practitioners: Western Australian Evidence' (1998) 17 *Journal of Business Ethics* 1265; Lin Mei Tan, 'Giving Advice Under Ambiguity in a Tax Setting' (2011) 26 *Australian Tax Forum* 73.

easy and the work gets done rather than having to wait on the telephone queues for ages. We found our accountant to be very good and we trust him for doing the job for us. (European operator 3: Female in the decorating business)

Overall, the study demonstrated that the European operated SMEs experienced little difficulty with their tax payments. They were disciplined with their tax payments and were able to access mainstream borrowings when there was a financial need. They also had payment arrangements with the IRD to minimise tax penalties. Their use of accountants was largely because they trusted them to work in their interests, as the IRD was perceived as inefficient and not promoting the welfare of SMEs.

Asian Business Operators

None of the Asian owned SMEs in this study experienced any tax payment difficulties. The main reason for Asians not having difficulty in paying taxes can be traced to their ability to access in-group's finances from families.¹⁴³ Financial assistance from their families is necessary to prevent business foreclosure and to save 'face' for the individual business owner:

I see the Asian community very much work within their group, their own family, their own extended family ... They seldom use banks, the family is the bank. (Business Expert 9: Male and from a business agency)

Not only do the Asian owned SMEs have access to financial assistance from their in-groups, they are also more likely to have collateral for borrowings from mainstream banks. However, many do not use the banks due to the high cost of borrowing. Borrowing from in-groups is easier (without paperwork and collateral) and receiving assistance from in-group members strengthens their network ties. Financial assistance from in-group members within the Asian community has been well documented in the literature.¹⁴⁴ This form of assistance or

¹⁴³ David Ahlstrom, Shyh-jer Chen and Kuang Yeh, 'Managing in Ethnic Chinese Communities: Culture, Institutions and Context' (2010) 27 *Asia Pacific Journal of Management* 341; Gordon Redding, *The Spirit of Chinese Capitalism* (Walter de Gruyter, 1993).

¹⁴⁴ Thomas Begley and Wee-Liang Tan, 'The Socio-Cultural Environment for Entrepreneurship: A Comparison

'personal relations or *guanxi* (favours) for the Chinese has been identified as a form of social institution that engenders business transactions'¹⁴⁵ amongst members. Asians with strong collectivistic groups can rely on their in-group networks to access both financial and non-financial assistance.

Receiving assistance from in-group members obliges the individual to reciprocate the favours when the need arises, even if it is at the personal cost of the individual. By not returning these favours, the individual can be 'cast out' of the group.¹⁴⁶ Once that happens, it would be difficult, if not impossible for the individual to return to that group, as trust has been broken.¹⁴⁷ Trust and willingness to assist other in-group members are two key elements of collectivism. Unlike other collectivistic groups such as Maori and Pacific Peoples, the Asians formed in-groups without blood relationship with other members. These in-groups were formed due to external threats such as discrimination, and the need to survive in a foreign country.¹⁴⁸

Another reason why the sampled Asian group always paid their taxes on time was to prevent a bad credit history with the tax authority. Public knowledge of their inability to pay taxes would cause them to lose 'face'. Consequently, they are very concerned to not 'get on the wrong side with the authority'.¹⁴⁹ Measures that they undertook to ensure this included meticulous cash planning, having strong financial management skills and good record keeping systems:

Between East Asian and Anglo-Saxon Countries' (2001) 32 *Journal of International Business Studies* 537; Gordon Redding, *The Spirit of Chinese Capitalism* (Walter de Gruyter, 1993).

¹⁴⁵ Henry Yeung, 'Unpacking the Business of Asian Business' in Henry Yeung (ed) *Handbook of Research on Asian Business* (Edward Elgar, 2007) 1, 6.

¹⁴⁶ Jack Scarborough, 'Comparing Chinese and Western Cultural Roots: Why "East is East and ..."' (1998) Nov-Dec *Business Horizons* 15.

¹⁴⁷ Janet Landa, *Trust, Ethnicity, and Identity: Beyond the New Institutional Economics of Ethnic Trading Networks, Contract Law, and Gift-Exchange* (The University of Michigan Press, 1994); Cheng Lu Wang, Noel Siu, Bradley Barnes, 'The Significance of Trust and *Renqing* in the Long Term Orientation of Chinese Business-to-Business Relationships' (2008) 37 *Industrial Marketing Management* 819.

¹⁴⁸ Eric Tsang, 'Learning from Overseas Venturing Experience: The Case of Chinese Family Businesses' (2002) 17 *Journal of Business Venturing* 21.

¹⁴⁹ Vipin Gupta, Nancy Levenburg, Lynda Moore, Jaideep Motwani, and Thomas Schwarz, 'Conclusions: A Culturally-Sensitive Analysis of Confucian Family Businesses' in V Gupta, N Levenburg, L Moore, J Motwani and T Schwarz (eds), *Culturally-Sensitive Models of Family Business in Confucian Asia: A Compendium Using the GLOBE paradigm* (The ICAFI University Press, 2008) 223, 238.

No, we have not been in any tax payment difficulty before. We always have cash in the bank and we plan our outgoings all the time and I know when each payment is due. (Asian Owner 2: Male in the financial services and rental businesses)

I do have an accounting package and every time when an invoice is paid, I input that in the computer and it will generate the GST and it is quite easy. I just make sure that it is up to date. (Asian operator 8: Female in the information technology business)

According to one tax practitioner, having a good record keeping system not only makes tax compliance easier but it also assists with cash management for tax purposes:

Tax compliance is part of a good accounting system. If they (taxpayers) have good accounting system, tax compliance and getting the information for the tax returns will take less than 2 minutes. (Tax practitioner 5: Male a sole practitioner)

Seven out of the nine Asians in this study had tertiary level business qualifications and they used up to date accounting information for business decision making purposes. Due to the small size of their business, they were able to keep a watchful eye on their cash-flows and profitability. Two thirds of them understood that taxes collected on behalf of the government do not belong to them and they made a mental and financial separation in their books to record this. This is despite the fact that cash flow issues might give rise to the temptation to spend these monies:

Yes I am collecting the GST on behalf of the IRD. I have to be careful as when I collect \$110, I must set aside \$10 as this does not belonged to me. If not, I will spend it and will have cash flow problem. You need to purchase something as you have the money in the bank and it is very tempting to spend that money first. (Asian operator 9: Male in the internet retailing business)

In summary, the Asian SME operators interviewed always paid their taxes on time and did not experience any difficulties with tax payments. The motivation behind this appears to be rooted in their cultural values of collectivism, giving them access to in-group financial assistance. Their strong financial management skills and meticulous record keeping process

also enhanced their ability to pay taxes in a timely manner. The Asian business operators were very conscious of the adverse repercussions of not paying their taxes on time such as tax penalties (thus higher tax compliance costs) and bad payment history with the tax authority. Overall their intrinsic collectivistic cultural values and extrinsic factors such as record keeping and financial management skills have influenced their tax payment ability in New Zealand.

The above interview findings demonstrate that cultural underpinnings of the ethnic groups studied influenced their tax payment decisions. Collectivism is advantageous to Asians in terms of accessing financial assistance to help pay their taxes. On the other hand, collectivistic traits were detrimental to the Maori and Pacific Peoples as allegiance to extended families and church giving¹⁵⁰ led to adverse financial repercussions including tax payment delays, difficulties with payment and penalties. Stress and high compliance costs were also experienced by these two groups due to their inability to address tax difficulties promptly. Individualistic Europeans did not experience difficulties with payment of taxes but they preferred to use their accountants as intermediaries with the IRD due to lack of trust towards the IRD.

Part V

Conclusion

The thrust of this paper shows that in an ethnically diverse society such as New Zealand, there may be factors which affect taxpayers' compliance that might be more common in some ethnic groups than others. This research explores this idea further in terms of using two specific cultural values, 'individualism' and 'collectivism'. Individualism-collectivism has been largely used in cross-cultural tax research as discussed in the paper. The difference is

¹⁵⁰ Malama Meleisea, 'Ideology in Pacific Studies: A Personal View' in A Hooper, S Britton, R Crocombe, J Huntsman and C Macpherson (eds) *Class and Culture in the South Pacific* (Institute of Pacific Studies of the University of the South Pacific and Centre for Pacific Studies of the University of Auckland, 1987) 140; Clyde Macpherson, 'Economic and Political Restructuring and the Sustainability of Migrant Remittances: The Case of Western Samoa' (1992) 4 *The Contemporary Pacific* 109; Virginia Warriner, 'The Importance of Traditional Maori Values for Necessity and Opportunity: Maori Entrepreneurs-Iwi-Based and Individually Owned' in D Leo-Paul and B Anderson (eds) *International Handbook of Research on Indigenous Entrepreneurship* (Edward Elgar, 2007) 558.

that in this study these cultural values are applied intra-culturally on ethnic groups in New Zealand.

Like all research, this research is not without its limitations. One of them is the non-random small sample size which is common for all qualitative research. This means that the results may not be generalizable to all SMEs. Secondly, the samples are drawn from one location (Auckland) which may not be representative of all SMEs in New Zealand. However, the strength of this research is the depth of information provided by actual taxpayers. Furthermore, ethnic diversity of the participants provides valuable insights into their tax compliance practices and perceptions which are not often available or which are regularly overlooked.

Taxpayer compliance behaviour is a dynamic, multi-faceted and complex process.¹⁵¹ Understanding this process in its entirety is beyond the scope of this research, however it is argued that this study has demonstrated that cultural values do impact on the tax compliance of SME operators in New Zealand when paying their taxes. The research has shown that some non-compliance issues arise from the cultural influence of individualism-collectivism and not necessarily from deliberate resistance towards the tax system. A strong tie to collectivist values assisted Asian small business operators. This led to quick and inexpensive access to financial assistance to help pay their taxes. Furthermore, their concern with saving 'face' and ensuring that their business did not encounter any financial difficulties, also meant that they were able to mentally separate the taxes collected on behalf of the IRD, from the monies earned from the business. It is also arguable that their collectivist values motivated them to keep accurate business records as any failure would lead to being shamed by the community. On the other hand, the Maori and Pacific Peoples collectivistic traits, which were dominated by their allegiance to extended families and church giving,¹⁵² meant that the needs

¹⁵¹ Grant Richardson, 'Determinants of Tax Evasion: A Cross-Country Investigation' (2006) 15 *Journal of International Accounting, Auditing and Taxation* 150; John Cullis and Alan Lewis, 'Why people pay taxes: From a conventional economic model to a model of social convention' (1997) 18 *Journal of Economic Psychology* 305-321; James Alm and Michael McKee, 'Extending the Lessons of Laboratory Experiments on Tax Compliance to Managerial and Decision Economics' (1998) 19 *Journal of Managerial and Decision Economics* 259.

¹⁵² Malama Meleisea, 'Ideology in Pacific studies: A Personal View' in A Hooper, S Britton, R Crocombe, J Huntsman and C Macpherson (eds) *Class and Culture in the South Pacific* (Institute of Pacific Studies of the University of the South Pacific and Centre for Pacific Studies of the University of Auckland, 1987) 140; Clyde Macpherson, 'Economic and Political Restructuring and the Sustainability of Migrant Remittances: The Case of Western Samoa' (1992) 4 *The Contemporary Pacific* 109; Virginia Warriner, 'The Importance of Traditional Maori Values for Necessity and Opportunity: Maori Entrepreneurs-Iwi-Based and Individually Owned' in D

of these groups came before their own financial needs. Stress and high compliance costs were experienced by these two groups due to their inability to address tax difficulties promptly. Individualistic Europeans did not experience significant difficulties with payment of taxes but did demonstrate that they preferred to use their accountants as intermediaries with the IRD.

The results of this research have important implications for tax administration, policy makers, tax practitioners, academics and the business community. Not just in New Zealand, but in other ethnically diverse countries such as Australia. A better understanding of the cultural values of individualism-collectivism influencing ethnic taxpayers may alleviate many misunderstandings as to why there are differences in tax compliance behaviours between certain ethnic groups. Tax authorities need to have a better understanding of individualism-collectivism cultural values of their taxpayers, and how these values might impinge on tax compliance behaviour. This knowledge may assist them to customise their regulatory strategies to meet the needs of the taxpayers. This approach is consistent with the call for responsive regulation and the use of a suite of regulatory strategies instead of a 'one size' fits all approach. Being responsive in their regulatory approach may help to enhance voluntary tax compliance, which is vital under the self-assessment regime. This research is of particular significance to Australian tax administrators as they also deal with ethnically diverse small business operators.