Record keeping and tax compliance perceptions of indigenous and Pacific small business owners

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Introduction

1. Increasing cultural diversity of SME ownership in the OECD countries due to globalisation and lax immigration laws. Non-European groups have difficulties securing mainstream employment » business ownership is an alternative option.

2. SMEs are important taxpayers as they are tax collectors on behalf of government for various taxes

3. SMEs contribute the majority of businesses in the OECD, with more than 90% in NZ, Australia, UK and the USA. They are important suppliers of employment and they contribute significantly to the economy.
Cultural diversity of SMEs

1. NZ is a multicultural society (Pio, 2010, Statistics New Zealand, 2011). Similar trends in Australia, UK, USA, Canada and Western Europe.

2. NZ has the four largest cultural groups in small business:
   - European, Asian, Maori and Pacific
   - Largely concentrated in the three largest cities in the country: Auckland, Christchurch and Wellington
   - No longer can assume cultural homogeneity amongst SME taxpayers (Tung 2008)
     - Compliance amongst SMEs is vital to combat the cash economy and to ensure the integrity of the tax system
     - Policies may be less applicable to some cultural groups
     - Tax regulatory and assistance measures may need to be customised to the different cultural groups
Literature Review


Cross-cultural research and tax compliance:

1. Richardson 2008, 2009
2. Tsakumis et al 2007

**Problem**: assumed cultural homogeneity and used students as participants = low external validity
Intra-cultural research and tax compliance

1. Birch et al 2003
3. Song & Yarborough 1978,
5. Dornstein 1976

Problem:
They all concentrate on tax evasion and non-compliance attitude. However, not everyone is predisposed to tax cheating (Elffers et al 2000, Pyle, 1991).
Record keeping for SMEs: (Prescott and Hooper 2009, Prescott 2009, Frederick & Henry 2004, Rawlings 2012)

Problem:
Is their record keeping (or lack of it) affect business and tax decisions?

- Kirchler 2007– little was done on SMEs
- Joulfalian and Rider 1998 - high tax non compliance
Research Questions

1. Do cultural values affect record keeping procedures and tax compliance perceptions and if so, how?
2. Do indigenous and Pacific business owners have similar record keeping process and tax perceptions as European (dominant cultural groups)?
Cultural values of indigenous and Pacific groups in New Zealand

- Indigenous Maori and Pacific groups are generally:
  - **Collectivistic** (group’s obligations has priority over individual’s obligation) (Frederick and Henry 2004, Reilly 2004, Patterson 1992, Mead 2003, Prescott 2009, Cahn 2008, Podsiadlowski and Fox, 2011)
  - **High power distance** (social inequality and have high regards for authority) (Pfeifer 2005, Henry 2007, Mahuika 1992, Hooper and Prescott 2009, Crocombe 2008)
Research methodology and design

1. **Qualitative approach:**
   - Several SME research used qualitative approach (Coleman and Freeman 1994, Rothengatter 2005, Rawlings 2012)
   - Overcome the low response rates (Kasipillai & Abdul-Jabbar 2006, Loo & McKerchar 2011, Chaganti and Greene 2002)
   - Collectivist groups prefer face to face contact (Wagner 1995, Triandis 1998).

2. **59 participants from Auckland – purposive and snowballing sampling process:**
   - 9 ethnic SME operators each from the 4 largest ethnic SME groups = 36 taxpayers. Will concentrate on the 18 Maori and Pacific business operators in this study
   - 8 tax agents
   - 15 business experts (the last two groups are to triangulate the taxpayers’ accounts)
Findings: Tax compliance perceptions

1. Stress, Paperwork, cash outflows, obligations imposed, penalties

- Stress and Paperwork: Maori and Pacific
- Cash outflow and obligations imposed: Pacific
- Concerns for accuracy: Maori and Pacific
- Penalties/bureaucracy: Most evident - Maori
Findings: Tax compliance specifics

1. **Maori** – Views IRD as a government bureaucracy with oppressive powers resulting in more stress/fear from tax compliance requirements.

   “Sometimes you are too scared to contact the IRD because they may think that you have broken the law.” (M4)

   “They are terrified of the IRD or anything relating to compliance even with the local government and things like that. This has something to do with the history, and how the government has dealt with the people in terms of the land loss, the Crown and stuff like that. It still affects some people even though it is a historical event. The injustices relating to the historical events and the perceptions of the “big brother governance” still remain in some people.” (BE 3 and BE4)

2. **Pacific** – High respect towards the IRD and have tax payment problems:

   “For us, we don’t question the authority. It would be they are supposed to be the “enlightened” one you know. kind of fear them, and you don’t want to question them. It is also the sort of respect too like someone in authority and you have to respect them. You can’t question them.” (P3)

   “Managing cash flows was an issue for us. At the start we did not have any budget, and what we did was money was coming in and money was going out and we didn’t track where the money was going. Like we didn’t keep money for PAYE, or keep money for tax or for GST and then cash flow suffered.” (P1)
Findings: Record keeping and tax information

- Paid assistance - high compliance cost, showed lack of accounting interest and tax knowledge, more stress due to the uncertainty involved with accounting records, delays in record keeping process: (High PD, relationship based, collectivistic, fear of failure)
- Had more tax payment problems (Collectivistic (wealth sharing), relationship based)

“Pacific businesses are similar like the Maori like the family ties. Family pressure, sending money home and the church impacts on their cash flows does put pressure on a lot of them.” (BE6)
Interplay of cultural factors

**Record keeping**: The combination of collectivistic, high power distance, relationship based cultural values lead taxpayers to be less predisposed to filing timely and accurate tax returns.

**Tax payments**: The combination of collectivistic and relationship based cultural values lead taxpayers to have more tax payment difficulties.

**Tax perceptions**: High power distance cultural values lead taxpayers to fear tax authorities more and they tend to view tax authorities more negatively and are less willing to have direct contact with them.
Contribution made to knowledge and practice

- Cultural values to some extent do influence tax compliance perceptions and practices.
- Greater cultural awareness of the factors that constrain tax compliance by certain cultural groups.
- Tax authorities should customised their regulatory approaches to encourage compliance by the different cultural groups.
- Part of the responsive regulation process (Braithwaite 2007)
Conclusions and limitations

- Requires a suite of policies and not a one size fits all approach to regulate culturally diverse taxpayers
- Small sample: common to all qualitative research
- Samples are from Auckland, New Zealand
- Other ethnic and sub-ethnic groups were not considered
- Adds to existing sparse literature on culture and tax compliance literature