

Influences of networking, relationship building and quanxi (social capital) and tax compliance behaviours

Dr Sue Yong

Auckland University of
Technology

Introduction

1. Increasing cultural diversity of citizens (taxpayers) in developed nations
2. Social capital plays a vital role in the success of ethnic businesses especially for start ups. They also play a role in maintaining the success of some ethnic businesses in terms of labour advantage (cheap (er) labour e.g. the Vietnamese businesses in Australia, the Hispanic businesses in the USA, the Asian businesses in Canada, the Indian/Pakistani/Bangladeshi businesses in the United Kingdom, and the Asian and Turkish businesses in Finland.
3. Social norms such as actions of peers have influenced and moderated tax evasion behaviours.

Research Questions and Importance of this Study

1. How do social norms and social capital influenced the tax compliance behaviours of ethnic business taxpayers in NZ?
2. Should tax authorities and policy makers customised their tax administration and regulations pertaining to a culturally diverse business taxpayer group?
3. Why is this study important?:
 - Tax revenues affected: social, economic and fiscal policies
 - Lower compliance statistics from SMEs
 - Cultural differences – may affect monitoring and assistance needed from taxation and regulatory bodies

Social Norms and Tax Compliance (Literature Review)

- Social Norms:

Wenzel (2004, 2005): social norms moderate tax evasion behaviours

Balestrino (2010): social norms affect conformism and stigma in tax dodging.

Traxler (2010): social norms affect tax morale

Bobek (2007): Social norms help to explain tax compliance intentions and why tax compliance rates are higher than predicted by economic models

Cullis (2012): Social norms frame the decision to pay tax by changing their perceptions of their entitlement to incomes

Social capital and SMEs (Lit Rev)

- **Social Capital:**

Katila and Wahlbeck (2011): employment of labour and how they can obtain working visas

Pare et al., (2008): entrepreneurial practices, co-direction of a firm, venture creation, management and business development.

Deakin et al., (2007): success of start-ups and entrepreneurial development amongst ethnic businesses. Provided advice to run start-up businesses

Wang and Altinay (2012): access to ethnic products and suppliers of utilities and facilities

Tax compliance, record keeping and ethnicity: Literature review

- Sparse research on SMEs despite their collection efforts and tax evasion statistics: Joulfaian (2009) and Torgler (2007)
- Emerging issue (Birch et al., 2003)
- Differences in tax attitudes and tax payments (Rothengatter 2005, Coleman & Freeman 1994, 1997, Song & Yarborough 1978, Birch et al., 2003)
- No differences in tax evasion attitudes between ethnicity in M'sia (Kasipillai & Abdul- Jabbar 2006)

Record keeping for compliance: (Prescott and Hooper 2009, Prescott 2009, Frederick & Henry 2004)

Cross-cultural and intra-cultural research and tax compliance: Literature review

Cross cultural: Alm & Torgler (2006), McGee et al.,(2008), Torgler & Schneider (2007): assumed cultural homogeneity

Intra-cultural: Birch et al., (2003), Coleman & Freeman (1994, 1997), Kasipillai & Abdul-Jabbar (2006), Rothengatter (2005), Song and Yarborough (1978), Loo & McKerchar (2011): tax evasion and non-compliance attitude

Aim: How do social norms and social capital influenced the tax compliance behaviours of ethnic business taxpayers in New Zealand?

Research methodology and design

1. Qualitative approach:

- Three major players: SME, Tax agents and Business experts
- Several SME research used qualitative
- Overcome the low response rates
- Collectivist groups prefer face to face contact.

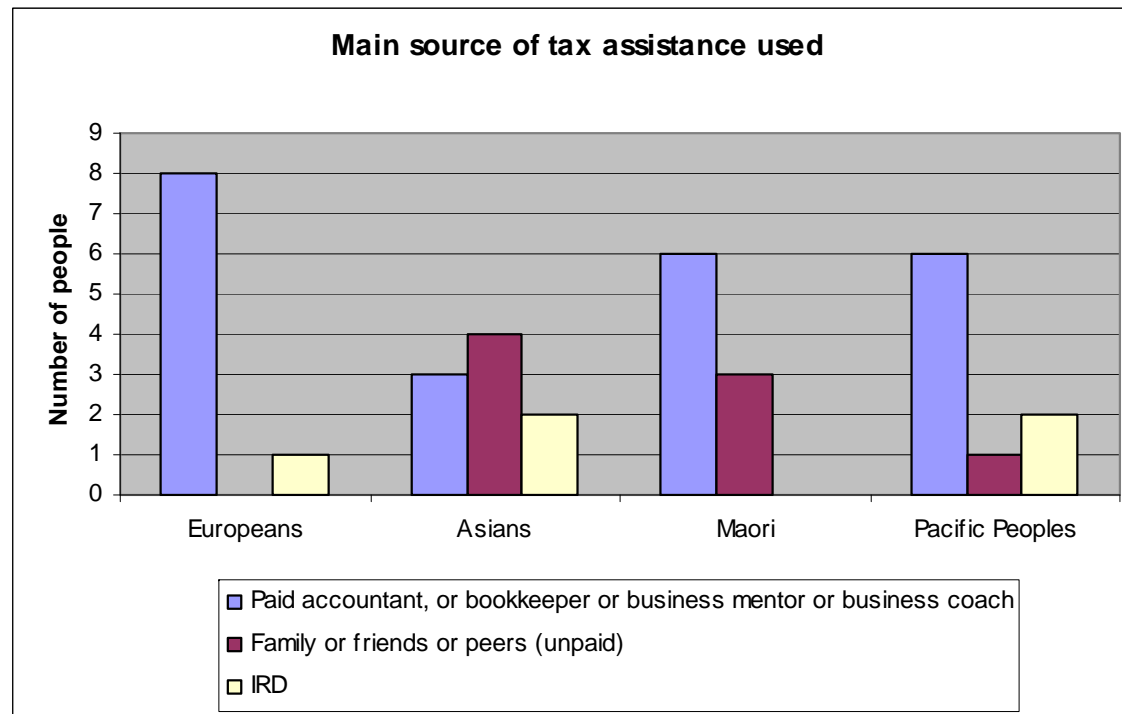
2. 59 participants from NZ – purposive and snowballing sampling process used:

- 36 ethnic taxpayers from 4 different ethnic groups (European, Indigenous Maori, Migrant Asians and Pacific Peoples)
- 8 tax practitioners
- 15 business consultants and government agencies representatives

Demography of business taxpayers

- 88% - micro businesses 12% - small and medium according to NZ's definition
- 44% male, 47% female and 9% husband & wife
- 31% were from 0 – 5 years, 36% from 6-10, 28% more than 10 years and 5 % did not disclose
- Represented 74% of all the industrial sectors as recorded in ANZSIC: 14 out of 19 sectors

Findings: Tax assistance used by ethnic groups



Findings: Tax assistance used-Asian

“I ask my CA friend because I feel they have more up to date knowledge of what is going on. To engage a tax accountant would be expensive for a small business” (A8)

“As for the income tax return, my accountant does it because there is some technical stuff which I need some expert help. The accountant can give me some good ideas and he can warn me and give me some advice as to how to best to go about doing the accounts. He is used as a safety check in case there is an IRD query.”(A6)

Findings: Tax assistance used-Pacific

“In the Samoan culture there is the big pride thing about telling people that you need help. It is too embarrassing to ask for help even though you need it. It is also very shameful to receive help because it is admitting that you can’t do something which you are really proud of and have messed up.” (P4)

“The Pacific Islanders look at authorities with high esteem, and that’s why they struggle with having to do the accounts themselves as they have always relied on others to tell them what and how to do it. They are predominantly followers.” (Govt agency representative 4)

Findings: Tax assistance used-Pacific

“Like some Polynesians we do not question the accountants and go back and ask them. I am always too scared to question my accountant too. It is kind of fear them as they will not look at you favourably and help you more in the future sort of thing. My attitude is that I try to stay away from them as much as I can, and also I don’t want to upset them or question them.” (P3)

Findings: Tax assistance used- European

“We don’t have a group of peers where we can go to pick their brains if we have some business and tax problems. This is common for some SMEs because they are so caught up with their business.”(E1)

“I would speak to my accountant because she is more knowledgeable about our accounts. I feel that she can explain the accounts clearly and I can understand her even though I ask her several times of the same question. I still prefer to talk to my accountant than the IRD as the accountant will give us some solid advice on our business. I would feel more comfortable with my accountant and I can rely on my accountant to sort it out for us. Possibly also that the accountant is working for us but not necessarily the IRD.” (E9)

Findings: Tax assistance used- Maori

“It seemed to be to be very alien and very “white” process, and the IRD is a very faceless organisation. They 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.” (M6)

“Sometimes you are too scared to contact the IRD because they may think that you have broken the law. It is not the same like talking to your accountant or to a friend.” (M4)

Findings: Tax assistance used- Maori

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

“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.” (Govt agency representative)

Findings: Tax assistance used- Maori

- *“Even though there is assistance available from the IRD to help with the payment, most small businesses do not look to the IRD as someone who will help them. They look at the IRD as somebody who will hurt them. It is the perception that the people had, that the IRD is the big bad wolf. I don’t think anybody really had much of a favourable view of the IRD.” (M9)*

Contributions: to practice and theory

- Social norms and social capital play a vital role in ethnic businesses in terms of tax advice when it is available. When unavailable, they would resort to paid tax advisers. Few would rely on the tax authority due to fear, high esteem and mistrust in dealing with a government agency who is perceived as oppressive and not promoting their business affairs.
- These practices of social norms and social capital have to some extent influenced tax compliance perceptions, attitudes and tax compliance costs for ethnic businesses.
- Adds to existing sparse literature on SME's tax compliance behaviours.

Contributions: to policy

- Some of these practices do enhance voluntary tax compliance whereas some do not.
- Greater awareness of the effects of social norms and social capital on tax compliance of ethnic business taxpayers.
- Any positive manner should be encouraged and any negative influences be combated, monitored and regulated properly.
- Need to customised regulatory approaches to meet the ethnic taxpayers' needs to encourage compliance which is part of responsive regulation (Braithwaite 2007)

Limitations of this Study

- Like all qualitative studies, in order to get in-depth understanding of the phenomenon, a small sample is the norm.
- Qualitative research findings are not suitable for statistical generalisations but rather for theoretical generalisations.
- Samples are from one location and purposive: not random

Conclusions and suggestion for future studies

- Requires customised regulatory tax policies for culturally diverse taxpayers
- Learnt that social norms and social capital are important components in influencing tax compliance for ethnic taxpayers. There is a contrast in tax compliance behaviours between individualistic and collectivistic cultures in New Zealand.
- Extend the study in other location and countries with collectivistic and individualistic cultures with similar self –assessment tax regime using the same and/or alternative methodology.