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Title: Cultural diversity and tax compliance of SME entrepreneurs

Abstract

Despite the economic importance of the tax collection process undertaken by SMEs, little is known about their tax compliance behaviour particularly in relation to cultural factors. With the increasing cultural diversity of SMEs in most OECD countries, there is a need to understand how they comply with the tax regulations. This knowledge is important for both tax authorities and the business community in identifying factors that may hinder successful tax compliance by SMEs.

This study aims to examine the tax compliance dynamics of the four largest ethnic SME groups in New Zealand. Additional perspectives were sought from tax practitioners and business experts to provide insights into the cultural influences of networks and time and risk orientations. Collectivistic Maori, Asian and Pacific groups prefer face-to-face relationship building and consequently, 59 SME entrepreneurs, tax practitioners, and business experts were interviewed between 2006 and 2010.

Using Hofstede's (1980) cultural framework as the theoretical lens, this study found some collectivistic groups experienced greater challenges with their record keeping. Ethnic groups with greater reverence towards authorities perceived the tax authority as exerting greater punishment for non-compliance. Finally, ethnic groups that were future oriented experienced fewer tax compliance difficulties.

This study showed that some ethnic groups experienced more tax compliance difficulties due to the cultural incompatibility with the New Zealand tax requirements. Consequently, there is a need for the business community and tax authorities to be aware that culture can impinge on the ethnic entrepreneurs' tax compliance perceptions and practices.

1. Introduction

Tax compliance research has gained much momentum among academics, politicians and tax regulators over the last forty years. This is because taxpayers' compliance affects the level of tax revenues needed to fulfil governmental's economic, social and fiscal objectives. Academic interest in tax compliance is to explore and advance the existing knowledge of how, what and why taxpayers choose to comply or not comply. Current tax compliance literatures have concentrated on economic factors (Allingham & Sandmo, 1972; J. Alm & McKee, 1998; Tran-Nam, 2003); psychological and social factors (Cullis & Lewis, 1997); social norms (Lederman, 2003; Wenzel, 2005); and demographic factors (Birch, Peters, & Sawyer, 2003; Loo & McKerchar, 2011; Trivedi, Shehata, & Lynn, 2003) but little is known about ethnicity and tax compliance though Birch et al., (2003) consider ethnicity on tax compliance to be an emerging issue. Given the cultural diversity of citizens in most Organisation and Economic Cooperation Development (OECD) countries, it is worthwhile identifying the impact(s) of ethnicity on taxpayers' compliance.

This study uses a qualitative (in-depth semi-structured interview) approach to determine whether ethnicity affects tax compliance of New Zealand ethnic entrepreneurs of small and medium sized enterprises (SMEs). This study examines the tax compliance behaviours and perceptions of New Zealand SMEs from the perspectives of SME entrepreneurs, tax practitioners and business experts. Business experts have on-going relationships with SME entrepreneurs relating to business, financing and tax requirements. The knowledge gained from this research should inform the efforts of tax regulators, government agencies, and policy makers to more effectively target their regulatory measures and assistance programs towards culturally diverse taxpayers including SMEs.

New Zealand is culturally diverse with ethnicities of European, Maori, Asian, Pacific Peoples and "others". (Statistics New Zealand, 2010). The different ethnic groups sampled in this research had different beliefs, origins, and values. For example, all the Europeans in this research were of Anglo-Saxon descent, the Maori were predominantly tribal with a minority urbanised, all the Asians were first generation migrants and most of the Pacific participants were affiliated to a traditional church. Despite the cultural diversity of SME entrepreneurs, they are regulated under the same self assessment tax regime which requires fair and honest reporting of their tax liability and to pay their taxes on time (James & Alley, 2000).

There are three reasons why this research is important for the tax authority, policy makers and business community. First, SME operators' tax compliance affects the amount of tax revenue collected which affects the government's ability to fulfil their fiscal, economic and social objectives (Alley, Maples, Veal, & Polson Higgs & Co., 2004; Chittenden, Kauser, & Poutziouris, 2003). Second, small businesses are known to participate in the cash economy due to the greater opportunity available to them (Ashby & Webley, 2008; Bajada, 2002; Morse, Karlinsky, & Bankman, 2009; Noble, 2000). They have "unregistered income with no third party reporting" (Gerxhani & Schram, 2006, p. 403) and consequently, they are considered the "hard to tax group from the informal sector" (McGee, Ho, & Li, 2008, p. 147). Third, the cultural diversity of the ethnic SME groups may reveal differences in their tax compliance practices and perceptions thereby requiring customised monitoring approaches and tax assistance.

This study begins by outlining the research background in section two and introduces prior literatures on tax compliance and ethnicity in section three. Section four outlines the research aims and questions followed by section five with the research methodology and method. Section six discusses the findings which are then followed by conclusion and recommendations for policy making in the final section.

2. Background

Ethnicities have been equated to cultural groups with a set of shared values, beliefs, and norms to solve basic human problems (Basu & Altinay, 2002; Hampden-Turner & Trompenaars, 1996). An ethnic group has been defined as a "collectivity within a larger society having real or putative common ancestry, memories of shared historical past" (Basu, 2006, p. 582). An ethnic business is a business having "a set of connections and regular patterns of interaction among people sharing common national background or migratory experiences" (Aldrich & Waldinger, 1990, p. 112).

SMEs are the dominant form of organisations in most countries including New Zealand (IFC & The World Bank, 2010; OECD, 2004). The government including those from New Zealand recognises the important economic contributions SMEs make towards production and employment (Australian Bureau of Statistics, 2004; Commerce Committee, 1998; Small Business Advisory Group, 2006). As at February 2008, New Zealand SMEs provided "50 percent of all employment in the country" (Ministry of Economic Development, 2009, p. 13)

and in 2007, they contributed “58 percent of all total value-added output amounting to \$48,508 million” (Ministry of Economic Development, 2009, p. 18). The juxtaposition of these statistics highlights the important role SMEs play in terms of the dynamics of the larger economy. In addition, SMEs are responsible for a significant proportion of innovations (C. Smith, 2007) and are unique due to the overlap of ownership and management.

Most New Zealand SMEs are concentrated in the larger cities such as Auckland, Canterbury, and Wellington. Auckland does not only have the highest number of SMEs (Ministry of Economic Development, 2009, p. 21) but it is also the most ethnically diverse region in the country (Statistics New Zealand, 2010). It also has the highest percentage of the country’s net Maori asset base relevant for indigenous SME undertakings (NZIER, 2003, 2007) and it is the fourth largest Pacific ‘country’ by population (Robie, 2009). With these, Auckland provides an ideal location for researching ethnic SMEs.

This research considers the tax compliance practices and perceptions in relation to the ethnicity of SME entrepreneurs. Taxation issues are pervasive to SME entrepreneurs as they affect decisions such as business structures, wages paid, charitable contributions made, and profits declared for the period. Taxation issues is one of their main concerns (Business New Zealand, 2008; Massey & Quin, 2001) and business failures have been associated with poor record keeping for taxation purposes (Evans, Carlon, & Massey, 2005; Prescott & Hooper, 2009). Most tax research on SMEs thus far had not considered the interface of culture (caused by ethnicity) and their tax compliance behaviours and attitudes. However the study of culture is important as “the efficacy with which a culture equips a people to deal with situations it faces is seldom explored, yet it is one of the most important determinants of advantage and disadvantage” (Crocombe, 2008, p. 150).

Though the study of ethnicity is considered an emerging issue in tax compliance research (Birch et al., 2003), this research limits the study of ethnicity to SME taxpayer group. SME taxpayers are different from other taxpayers as they have regressive tax compliance costs (Hasseldine, 1995); have lower compliance statistics compared to other taxpayers (Giles & Caragata, 1999; K. Smith & Kinsey, 1987); are tax collectors on behalf of the government for employment and value added taxes (Committee of Experts, 1998; Joulfaian & Rider, 1998); and have more opportunities to participate in the cash economy (Kirchler, 2007; Noble, 2000). The rationale for this research is to determine whether SME taxpayers are culturally

homogeneous in terms of discharging their tax compliance obligations whilst regulated by a western tax regime.

2.1 Research aims and questions

The overall aim of this research is to determine whether cultural values affect SME entrepreneurs' tax compliance behaviours and the policy implications thereof. By understanding the entrepreneurs' tax compliance behaviours, it should help the tax authority and business community to identify areas of strengths, weaknesses, concerns, and challenges pertinent to ethnic entrepreneurs and to provide targeted service, support and education to help them comply.

Specifically, the way ethnic SME entrepreneurs perceive tax compliance and their decisions and practices. The rationale for considering tax compliance and ethnicity was partly influenced by Rothengatter (2005b) who claimed that the "extent that cultural norms and values regarding business conduct and one's payment of taxes may vary from one ethnic group to another" (p. 14). This research considers intra-cultural research despite an increasing number of cross-cultural research and tax compliance (J. Alm & Torgler, 2006; Richardson, 2005) because "intra-national variations can often be as significant as cross-national differences" (Tung, 2008, p. 41).

3. Research on tax compliance and ethnicity

The aim of this research is to discuss how cultural values affect tax compliance perceptions, tax practices and decisions of ethnic SME entrepreneurs. Tax compliance studies on culture have largely been cross-cultural using experimental and survey research methods on students and general taxpayers (J. Alm & Torgler, 2006; McGee et al., 2008; Torgler & Schneider, 2007). Cross-cultural researchers assumed cultural homogeneity within countries which was considered fallacious by Tung (2008) given the increasing cultural diversity in most OECD countries. In addition, using students for tax research may be misleading as they inappropriately represent general taxpayers due to their age, education, work and taxpaying differences (Cuccia, 1994; Fehr, Fischbacher, Rosenbladt, Schupp, & Wagner, 2003).

There have been various intra-cultural studies on ethnicities and tax evasion attitudes on students, general taxpayers and SME operators (Birch et al., 2003; Coleman & Freeman, 1994, 1997; Kasipillai & Abdul-Jabbar, 2006; Rothengatter, 2005a; Song & Yarbrough,

1978). However their focus was on tax evasion and non-compliance attitudes of which existing literatures had proven that not everyone had the intention or predisposition to cheat on their taxes (J. Alm, 1999; Long & Swingen, 1991; Pyle, 1991). This study however considers what ethnic SME entrepreneurs perceive and undertake to comply with the tax requirements.

3.1 Culture and business behaviours

In order to effectively regulate culturally diverse business, there is a need for tax authorities to account for and have a sound understanding of the range of culture-determined value systems. This is because culture, although basically unconscious, manifests itself in the business practices and decisions made (Hall, 1976; Hampden-Turner & Trompenaars, 1996; Hofstede & Hofstede, 2005; Hoppe, 1990; Schein, 1985). The study of culture is also important as one “cannot strip people of their common sense constructs or routine ways of seeing” and one “cannot understand why (an) individual and organisation acts as they do without considering the meanings they attribute to their environment” (Trompenaars, Hampden-Turner, & Trompenaars, 1994, p. 19). Given that this study is about the four major ethnicities in New Zealand, it is therefore worthwhile discussing literature pertaining to their business behaviours.

3.1.1 European cultural values and business

Most literature written about New Zealand Europeans acknowledges that they are predominantly from Anglo cultures (Frederick & Henry, 2004; Pfeifer, 2005), are individualistic (Bellah, 1985; Hofstede, 1991). Europeans emphasise individual accomplishments, wealth accumulation and personal achievements (Frederick & Henry, 2004; Morris, Davis, & Allen, 1994). They are accountable for their own actions and “personal identity is distinct from the business identity” (Gupta, Levenburg, Moore, Motwani, & Schwarz, 2008, p. 228). They believe that power and status are earned through competition and hard work (Cox, Lobel, & McLeod, 1991; Lee & Peterson, 2000).

Survey research indicates that Europeans are risk takers and are willing to accept uncertainty in business (Frederick & Henry, 2004; Shane, 1995). These attributes motivate them to find innovative ways to solve business problems. They believe that the code of law exists equally for all, with no preferences given for different circumstances (Frederick & Henry, 2004) i.e. a universalistic outlook (Trompenaars et al., 1994). Frederick & Henry (2004) attributed the

individualistic, achievement oriented, risk taking, and universalistic traits of Europeans to their having more business success relative to Maori businesses.

3.1.2 Maori cultural values and business

Maori emphasised nurturing interpersonal relationships through mutuality, *aroha* (love) and retaining one's *mana* (aura and prestige) (Mead, 2003; Patterson, 1992) which led some Maori entrepreneurs to give substantial discounts to their clients (Warriner, 2007). Due to the emphasis placed on *mana* and *aroha*, the needs of the collective often override the individual's needs, as refusal to comply can stain one's *mana*, considered unbearable for collectivistic Maori (Warriner, 2007). However, Maori operators can access financial, emotional support, business information, and labour assistance from extended families when needed (De Bruin & Mataira, 2003; Henry, 2007; Mataira, 2000; Zapalska, Perry, & Dabb, 2003).

Research showed that Maori self employed had relatively less formal tertiary education and/or trade qualifications (Zapalska et al., 2003) than non-Maori. They were less exposed to business related subjects whilst at school and many had ventured into business without much planning or consideration for compliance obligations (Frederick & Henry, 2004). Consequently, they had low "staying power" (Frederick & Henry, 2004) and had "higher failure rates compared to non-Maori businesses" (Small Business Advisory Group, 2008, p. 11). Their lack of business success could be traced to: multiple title land ownership (Warriner, 2007); lack of business knowledge and skills (Frederick & Henry, 2004); poor governance and compliance capabilities (Frederick & Henry, 2004); and incorrect perception of wealth accumulation (De Bruin & Mataira, 2003; Mahuta, 1989). Their attitude towards possession is "to utilise and share which contrast(s) to the accumulate and acquire dispositions of non-Maori" (De Bruin & Mataira, 2003, p. 179).

3.1.3 Pacific cultural values and business

Giving and reciprocity are integral to Pacific businesses as this reflect their island culture (Cowley, Paterson, & Williams, 2004) as they affect their social standing (Prescott & Hooper, 2009, p. 297). Many put the group's interest ahead of their individual interests (Cowley et al., 2004; Duncan, 2008), which is manifested by their giving towards the extended families (Cahn, 2008), overseas remittances (R. Brown, 1994; Tisdell, 2000) and church giving (Macpherson & Macpherson, 2004; Meleisea, 1987). They consider "the needs

of the community to be higher than those of the individual and immediate family” (Prescott & Hooper, 2009, p. 299). Other group obligations involve business decisions to nurture relationships by giving free or heavily discounted products to extended family members (Cahn, 2008; Duncan, 2008; Kramer & Herbig, 1994).

Prescott (2009) found that most Pacific entrepreneurs did not have proper business planning or business skills. Their reluctance to record business transactions and procrastinating in performance of tasks to some vague future date is symptomatic of living for the present moment instead of emphasising and addressing the uncertainty of the future (Lucas, 2009; Prescott, 2009). In addition, Prescott’s (2009) research showed that Pacific entrepreneurs were unskilled in accounting, unwilling to embrace technology in their business and were fixated with their cash balances as measures of their business success. Their reluctance towards on-going record keeping, lack of business planning and low anxiety towards the future (McCoy & Havea, 2006) had resulted in some business failures (Prescott & Hooper, 2009).

3.1.4 Asian cultural values and business

In business, collectivistic Asians are “characterised by long lasting relationships; implicit, shared and indirect communication codes; spoken (rather than written) agreements; clear distinctions between insiders and outsiders” (Fulop & Richards, 2002, p. 275). Tung (1996) showed that interaction amongst Asians is characterized by “trust and communal sharing but the attitude towards those outside the group is one of suspicion and cold indifference” (p. 240). Strong Asian collectivism was manifested in the practice of *guanxi* or “connections” (Tung, 1996) which relates to drawing on personal networks to secure favours in business relationships (Bjerke, 2000; Ho & Redfern, 2010). Good *guanxi* was crucial for business success (Bjerke, 2000; Chu, 1991) as having the “right” connections with certain individuals and/or authorities (including tax authorities and government officials) was more important than having the right product and knowledge (Ho & Redfern, 2010; Yeung & Tung, 1996). However, *guanxi* can involve heavy demands from these networks (Fan, 2002).

As Asians emphasised family reputation and saving “face”, they ensured they do not get on the wrong side with the authority” (Gupta et al., 2008, p. 238). To the Asians, “saving face” is more than esteem or self respect (Tung, 1996) as business failures can bring a strong sense of shame and “loss of face” (Redding & Ng, 1982). The desire to avoid shame is important

(Tung, 1996) since business failure “shames the founder due to its public nature, loss of social status and the sense of letting the family down” (Begley & Tan, 2001, p. 539). The implications of “saving face” motivated Asian operators to not opt for business failure when encountering difficulties (Yang, 1991).

Asian businesses have been noted to have strong links with informal networks developed from kinship, extended family ties or close associates (Tsui-Auch, 2005). Their informal business networks are relationship based, long term and can provide rich reservoirs of cheap or free finance, cheap co-ethnic labour, information, and vital business connections (Basu & Altinay, 2002; Licht & Siegel, 2006; Tsang, 2002). These networks had a utilitarian focus as they were based on exchanges of favours, rather than expressions of friendship (Bjerke, 2000; Weidenbaum, 1996). Some regarded business relationships as a “commercial investment or a form of insurance” (Wang, Zhang, & Goodfellow, 1998, p. 36).

Literature has shown that overseas Asians such as ethnic Chinese, Japanese and Koreans were heavily influenced by Confucian teachings which emphasise diligence, perseverance, flexibility, filial piety, self sacrifice, delayed gratification, frugality, responsibility and recognition of the hierarchical orderings of relationships (Gupta & Hanges, 2004; Hofstede & Bond, 1988; Tung, 1996). These practices had led to high saving rates, business tenacity, increased wealth accumulation, acquiring business skills and knowledge, and using innovative ways to reduce business costs (Hampden-Turner & Trompenaars, 1996; Hofstede & Bond, 1988; McGrath, MacMillan, Yang, & Tsai, 1992).

4. Research methodology and theoretical framework

Though the tax literature suggests several tax compliance factors for general taxpayers, adopting a taxpayer-centric view of tax compliance requires the researcher to avoid imposing any preconceived tax compliance notions on the taxpayer-participants. Instead, the researcher must draw out the taxpayers’ own perceptions of what tax compliance means for them. This focus of inquiry is best served by a qualitative methodology. In addition, quantitative survey questionnaires are unable to fully “reflect the cognitive processes required to assess complex phenomena” (Popper & Sleman, 2001, p. 230) such as tax compliance. Therefore in an attempt to obtain some understanding of the taxpayers’ cognitive processes associated with tax compliance, qualitative methods with the use of semi-structured in-depth interviews and

open-ended questions were employed. In addition, face-to-face interviews were more appropriate for accessing collectivistic Asian, Maori and Pacific groups, who valued trust and relationship building (A. Brown, Tower, & Taplin, 2005; Patterson, 1992; Tsui-Auch, 2008).

This research is concerned with reporting the ethnic SME entrepreneurs' perceptions of tax compliance and to discover what decisions and practices, they have when discharging their tax compliance obligations. It is considered that the answers to the research questions will be found by using the constructivist-interpretivist paradigm where multiple realities are accepted due to the unique construction of each participant (Guba, 1990; McKerchar, 2008; Patton, 2002). This paradigm focuses on the subjective and interactive perspectives of the participants and it is based on the participants' evaluations of how they make sense of what is going on in their world, which constitutes their reality. It also allows for "multiplicities" of views (Baxter & Chua, 2008) to be projected regarding tax compliance behaviours and perceptions.

59 purposive, snowballing and "information rich" (Arksey & Knight, 1999; Rapley, 2007) participants from three inter-related groups of SME entrepreneurs, tax practitioners and business experts were interviewed between November 2006 to May 2010. The four and half years in the field also familiarised the researcher with the tax compliance dynamics of ethnic entrepreneurs (Baxter & Chua, 2008; Law, 2004). The aim of this research is not to generate quantitative survey-based descriptions of SME entrepreneurs' compliance behaviours but to interpret them using Hofstede's (2001) cultural lens.

1. Hofstede's (2001) framework has been widely acknowledged as the leading framework for studying cultural differences between groups for various disciplines, including business, tax compliance, accounting and social sciences (de Mooij, 2001; Harrison & McKinnon, 1999; Lee & Peterson, 2000; Tsakumis, Curatola, & Porcano, 2007). Intra-cultural studies using Hofstede's framework were used to explain work commitments (Cohen, 2007); leadership perceptions (Popper & Sleman, 2001); marketing behaviours (Luczak, 2009) and the level of cooperation between citizens (Koch & Koch, 2007). The main attribute of Hofstede's framework is the five cultural dimensions of power distance, individualism-collectivism, masculinity-femininity, uncertainty avoidance and long and short term orientation. Power distance relates to the management of

inequality between people. Individualism-collectivism deals with the relationship between individuals and collectives and uncertainty avoidance relates to the individual's stance towards ambiguity and uncertainty. Masculinity-femininity with the former focussed on tasks whereas femininity is relationship focussed. Long term and short term orientations relates to their stance towards time. These dimensions will be used to characterise how different ethnic groups organise themselves in terms of make tax compliance decisions.

5. Findings

5.1 Tax compliance perceptions of ethnic entrepreneurs

Different ethnic groups perceived tax compliance to mean different things. For some it was a normal part of their business routine, whereas for others it was stressful, and involved considerable paperwork and cash payments. SME entrepreneurs were asked what words or images they had of tax compliance and Table 3 summarises their perceptions of tax compliance. Most SME entrepreneurs associate tax compliance with paperwork and tax payments with all the Asians and two thirds of the Maori entrepreneurs perceived paperwork as their number one concern with tax compliance. Much effort is required with the record keeping process, from initiating documents to recording, capturing and verifying business transactions, filing documents and summarising tax information, as experienced by A1 and M6:

“I suppose it means that we have to comply with what they (IRD) want and we don't have much of a choice. There is a lot of paperwork involved, and I have limited understanding of some of the paperwork. These involve a lot of time and it is part of the compliance that we had to do for the IRD. We are “slaves” in collecting and administering the taxes like the GST for the IRD. We are not paid for doing all these.” (A1)

“Being prepared for paperwork, and tax compliance, to me, is that the business is prepared, and have the tax returns done properly. It is about all the things you need to do to comply with running the business that has already been done. I also see the IRD in tax compliance as I have to be accountable to them.” (M6)

Words and concepts associated with tax	European	Asian	Maori	Pacific	Total

compliance					
Paperwork	5	9	6	4	24
Payment: cash outflows	3	4	1	4	12
No choice and having to meet an obligation	3	2	2	4	11
Headaches/Stress/Worry/Fear	2	0	4	4	10
Do everything right and have accurate tax returns	4	0	3	2	9
Penalties	2	2	3	1	8
Dealing with government department, IRD or a bureaucracy	1	1	3	1	6
Time involved	3	2	0	0	5
Unpaid tax collectors	0	2	0	0	2

Table 3: Words and concepts associated with tax compliance by ethnic SME operators

Other common words associated with tax compliance were “cash outflows”, an “obligation to comply”, “stress”, “worry”, and “doing everything right”. The seven top tax compliance perceptions were related to their accounting system and cash management skills. A significant number of Maori and Pacific operators associated tax compliance with stress and despondency. The stress was caused partly by their accounting system and also with difficulty in paying their taxes on time:

“Money, paperwork, a lot of paperwork to get the figures and numbers right and one BIG headache” (P1)

“Fear of the IRD, and don’t get on the bad books with them as I have heard some horror stories about people who got behind on their tax and the IRD was unforgiving and nasty. Penalties come on quite heavy when you are filing late.” (M4)

5.1.1 Record keeping systems and tax compliance - Asian group

Literatures have shown that untimely and inaccurate record keeping function can be a causal factor for SME failures (Evans et al., 2005; Prescott & Hooper, 2009). In order to file timely and accurate tax returns, entrepreneurs should be able to retrieve tax information easily from their accounting system, which requires accurate and timely record keeping. Consequently, lack of a good record keeping system can result in stress for the entrepreneurs:

“Tax compliance is part of a good accounting system. If they have good accounting system, tax compliance and getting the information for the tax returns will take less than 2 minutes.”(TP5)

In order to have good record keeping, accounting knowledge, proficiency and discipline with the record keeping process is necessary which is demonstrated by majority of the Asian entrepreneurs. Their record keeping discipline is reflective of their high to medium uncertainty avoidance trait, and long term orientation.

“I do it on the computer software. I collect all the receipts and invoices and I sit down once a month and input the data into the computer. I wait until I get the bank statement, and then I will record them in the computer system.”(A3)

“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. It only takes a few hours for me to input the information as there are not many invoices and some of the regular information is from the bank statement.” (A8)

Asians, with higher levels of uncertainty avoidance, were more concerned with ensuring proper records and their accounting systems were in place. Consequently, all of them associated paperwork with tax compliance but not with stress. Being meticulous and disciplined with record keeping involved time spent and getting the compliance tasks completed, which reflects their culture of masculinity (task focussed). Hence tax compliance were not associated with stress as they were able to file timely tax returns and pay their taxes on time. Their long term orientation and focus on cash accumulation also caused more of them to associate tax compliance with cash outflows.

5.1.2 Record keeping systems and tax compliance - European group

Like the Asian group, most Europeans in this research showed discipline with their record keeping which reflects their medium term orientation and their cultural characteristics of masculinity, in ensuring tax compliance tasks were completed by the due dates:

“For the GST, just from our invoicing and we gather the information from the bank statement and input them in a spreadsheet and I do it monthly and everything has to be tallied up. It will be saved on a disc and I give that to the accountant. I used to do with someone else, but now I do them all myself. All the balances have to be cross checked and agreed with the total amount.” (E9)

Coming from a low power distance culture, Europeans did not like to be accountable to an authority figure such as the IRD. They therefore felt the obligation to comply, and more of them, compared to the other ethnic groups, perceived tax compliance to be associated with accurate records and doing everything correctly. Their individualistic traits required them to ensure all tax returns were filed accurately to avoid potential query and penalty from the IRD.

The above comments from the Asian and European sample suggest greater confidence in their record keeping system and therefore greater accuracy of their tax returns. This contrasts with the Pacific and Maori entrepreneurs, who associated tax compliance with mental anguish such as stress, worry and fear.

5.1.3 Record keeping systems and tax compliance - Pacific group

Unlike the Asian group, five Pacific operators admitted to having basic or no tax knowledge. In addition, they showed little priority and interest towards record keeping which reflects their short term time orientation and low uncertainty avoidance. It also confirms existing literature that Pacific operators tend to procrastinate in work related tasks until they become absolutely necessary (Crocombe, 2008). In contrast to long term oriented Asians, short term oriented Pacific in this sample showed less discipline and proficiency with their record keeping processes, which led to less confidence with their tax returns:

“You deal with earning money and in between time I do not look at tax to really study it. I haven’t taken the time nor am I interested because I would look at it and say “pass”. I rather do something else than to do that I put all my jobs as a block in my book and I should be a lot more organised. I should have had it ready but because I am not in my organised state, it is

sort of bits of papers here and there. Probably what I am not good at is to tally up all my expenses for tax and I haven't sorted them out them to claim for taxes. I don't think I have done it properly.” (P6).

“I typed all the information on the spreadsheet which was supposed to be every night which leads to every week and then every Sunday. I definitely do it every six weeks and I still have got two weeks. I know what is missing to catch up, and sometimes I am sending it at 11pm and I do that online and with online it still gets there on time.” (P7)

With their above attitude and approach towards record keeping, Pacific entrepreneurs were less certain with the accuracy of their records and therefore experienced more mental anguish with tax compliance. These observations were confirmed by BE11, BE12 and TP7 that Pacific SME entrepreneurs lacked discipline and were unsystematic with their record keeping, which heightened the stress associated with tax compliance:

“The work ethics of the Pacific way, to be honest, discipline isn't our greatest strength. When I say that, it is almost like we are a culture that we are not inclined to be very systematic or process driven when it is kind of whatever that is before us do what it is. It is kind of live day to day and live week to week. You know it isn't common within the Pacific way to have a huge work ethics. Yes, we are hard workers but it is not a natural work ethics, and we have to do it because we have to do it, rather than being intrinsically motivated to do so.” (BE11).

“The average Pacific Islander looks at tax compliance that as long as they do the minimum, they will be OK. They want to put the responsibility into someone else's hands and they don't want to take ownership of it.” (BE12)

The record keeping approach of the Pacific is very similar to the Maori group, as discussed in the next subsection.

5.1.4 Record keeping systems and tax compliance - Maori group

To the Maori group, tax penalties and bureaucracy were largely associated with tax compliance, brought on by late/non tax filing and their perceptions of government departments. The late/non tax filing was related to their inability to generate timely tax information and tax payment delays:

“My husband didn't file a return for one year, and the IRD would not give us a diversion. We then owe a bill for quite a substantial amount with penalties, and it took us 7 months to clear the debt.” (M1)

“If the small businesses did not pay their GST on time, then they are done by the IRD with the penalties.” (M5)

The other main word associated with tax compliance for Maori, was stress, which was related to their lack of accounting proficiency and interest towards record keeping. Consequently, a significant number of them outsourced the record keeping task, which alleviated their compliance costs:

“Financial is not my strong point. I would run my business pretty much without the financials and I don’t even worry about it. I would find out whether I have money or not by looking at the bank account balance.” (M3)

“I hate the paperwork and stress but I had to learn.” (M7)

“In terms of the paperwork and administration, it is not one of my strengths and so it can be frustrating for me at times. I outsource all my tax stuff to the accountant and that saves me a lot of time.” (M5)

The main reasons for Maori operators’ inability to pay their taxes on time in this research were due to seasonality in income, collection problems and lack of alternative financing. Most Maori businesses were seasonal and they did not have alternative income/funding which reflects their low uncertainty avoidance and short term time orientation. In spite of having tax payment difficulty, M2 did not aggressively pursue debt owing from *whanau* members, due to collectivistic traits. Maori inability to borrow from mainstream finance was due to their collective land ownership, considered unsuitable collateral, thus verifying existing literature on the low cash reserves in Maori businesses (De Bruin & Mataira, 2003; Warriner, 2007):

“Mainly is because they 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 cannot use the land as collateral against the loan.”(BE5)

The above perceptions of tax compliance were in direct contrast to what was expected from the tax practitioners. To the tax practitioners, tax compliance was associated with the ability to file accurate and timely tax returns and pay their tax liabilities on time which aligns with the requirements of a self assessment tax regime:

“To file all necessary tax returns on time and accurately. Compliance means form filling for tax returns, whereas the payment of taxes relate to budgeting and financial planning.” (TP1)

However the above tax compliance requirements were beyond most SME operators as they were not proficient record keepers or money managers:

“Not many small businesses are excellent bookkeepers.” (TP2)

“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 does the return every six months, this can be problematic.” (TP1)

“To SMEs, tax compliance is hard and they don’t know what to do and again they are busy running their business. They can’t be tax experts because there is so much for them to actually know which they can’t know it all.” (BE13)

In addition, there were several reasons contributing to the negative perceptions of tax compliance by ethnic SME entrepreneurs. First, many entrepreneurs under-estimated the amount of accounting knowledge, skills and time required to comply. Second, they did not know how and from where to seek appropriate assistance required for compliance. For example, simple bookkeeping tasks were often sought from accountants instead of bookkeepers. Third, many did not have an appropriate record keeping system that matched their accounting skills. Fourth, some were not concerned or bothered with their record keeping. Fifth, a lack of financial literacy was evident in poor cash management, resulting in delays in tax payments. The following are some observations by tax practitioners and business experts regarding the tax compliance process of SMEs:

“Fifty percent of the small businesses do not really know about their tax obligations and 50 percent choose not to know about it. Some can’t be bothered. They need to know their tax obligations. They need to have their finger in the pulse about cash, how much tax to pay and when to pay them.” (TP7)

“Often times it comes down to a number of things like lack of knowledge and lack of information. The other thing is lack of financial literacy skills, and the other thing too sometimes it is almost living in a state of denial that “yes OK the tax bill has come through and I will pay it next month or the month after and stuff like that.” (BE11)

These comments suggest that the negative perceptions towards tax compliance by SMEs were a result of a lack of attention and importance given towards record keeping. These behaviours could be traced to their cultural values towards work, cash flow and time. In summary, having literacy, proficiency, and discipline in record keeping are necessary to successfully file timely and accurate tax returns. The cultural values that enhance an ability to file timely

tax returns are closely associated with long term orientation, medium to high uncertainty avoidance and masculinity values. It was due to these cultural traits that Asians and Europeans experienced less stress and penalties with tax compliance compared to the Pacific and Maori groups.

5.2 Interplay of cultural factors for filing timely tax returns

So far, the cultural factors impinging on the ethnic operators' perceptions of tax compliance requirements have been related to all five cultural dimensions of Hofstede. The interplay of high uncertainty avoidance, masculinity and long term orientation determines the emphasis placed on disciplined and meticulous record keeping process to ensure successful tax compliance for the Asian group. Their long term orientation and frugality attitudes encouraged them to keep tax compliance costs down and ensuring timely tax returns were filed.

The medium uncertainty avoidance values of the European group reinforced, by their medium term orientation and masculinity traits, caused them to be relatively disciplined with their record keeping. In contrast, the low uncertainty avoidance and short term oriented Pacific and Maori groups showed less confidence, interest and discipline with their record keeping. They experienced more difficulty with filing timely tax returns, which resulted in higher stress and tax compliance cost. Hence, cultures with medium to high uncertainty avoidance, medium to long term orientation and masculinity traits were more able to file timely tax returns compared to low uncertainty avoidance and short term oriented cultures. This is best summarised in Table 4.

Ethnic groups	Able to file timely and accurate tax returns	Specific record keeping issue	Cultural dimensions	Cultural values that enhance or deter ability to file tax returns on time

Asian sample	Yes	<ul style="list-style-type: none"> ▪ Disciplined with record keeping 	<ul style="list-style-type: none"> ▪ High uncertainty avoidance ▪ Long term orientation 	Enhance
European sample	Yes	<ul style="list-style-type: none"> ▪ Disciplined with record keeping 	<ul style="list-style-type: none"> ▪ Medium to low uncertainty avoidance ▪ Medium term orientation ▪ Masculinity trait 	
Maori and Pacific sample	No	<ul style="list-style-type: none"> ▪ Less disciplined and interest in record keeping 	<ul style="list-style-type: none"> ▪ Low uncertainty avoidance ▪ Short term orientation 	Deter

Table 4: Interplay of cultural factors on the ethnic SME samples and their inclination to file timely and accurate tax returns

6. Summary and conclusion

All 36 entrepreneurs negatively associated tax compliance with paperwork, cash outflow, stress, penalties and dealing with government bureaucracy. Some of these perceptions were linked to the cultural values of uncertainty avoidance, long term orientation, individualism-collectivism and masculinity. It had been found that higher uncertainty avoidance, masculinity and medium to long term orientation contributed to timely and more complete record keeping process. The Asian and European groups in this research showed more proficiency and confidence with their record keeping compared to the Maori and Pacific groups. Hence there is a greater need for record keeping assistance for the Maori and Pacific groups in order to comply.

This research showed that cultural values do affect tax compliance perceptions and practices and therefore it is needful for the tax regulators to be aware of their effects when interacting with culturally diverse taxpayer groups. It also point to the different assistance required by

different groups as the assistance need to be targeted to best meet the needs of culturally ethnic SME groups.

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