

## **Topic: Accounting and Tax Compliance Behaviours of Ethnic and Indigenous Entrepreneurs: A New Zealand Perspective**

### **Abstract**

*The influx of immigrants in most developed nations within the English speaking world has resulted in culturally and linguistically diverse populations in Australia, Canada, New Zealand, the United Kingdom and the United States of America. Despite this, government policies within these developed nations have remained largely Anglo with little regard for the growing cultural diversity and the difficulty ethnic groups have in effectively assimilating into the broader host culture. This paper examines the existing tax policies and tax administration in New Zealand and their effect on ethnic and indigenous entrepreneurs' accounting and tax behaviours. With sparse accounting and tax research on race and culture, there is much to be gained from an in-depth qualitative study on the tax practices and perceptions of ethnic and indigenous entrepreneurs in New Zealand. The study found that differences in tax practices and perceptions by ethnic and indigenous entrepreneurs are related to differences in their cultural values. The findings warrant further attention from accountants, academics, the business community, policy makers in terms of accounting and tax education, tax administration, tax assistance and tax regulation.*

### **Introduction**

Significant human mobility between countries resulting from relatively lax immigration laws and globalisation has resulted in multi-cultural societies particularly amongst the more developed Organisation for Economic Co-operation and Development (OECD) countries. The convergence of many nations within a single country means that governments are faced with culturally and linguistically diverse citizens. This diversity creates major challenges for governments seeking to assimilate and integrate ethnic groups into the broader host culture with the aim of maintaining social harmony (Inglis, 1995) through the ideology of multiculturalism.

Two countries which have attempted to incorporate this ideology in their government policies are Australia (Bowen & Lundy, 2011; Forrest & Dunn, 2007) and Canada (Ralston, 1998) which passed the Canadian Multiculturalism Act in 1988.<sup>1</sup> Other countries such as Germany, New Zealand (NZ) and the United Kingdom (UK) have selectively incorporated multiculturalism in their policies; for example, by adopting the mixed member proportional (MMP) representation voting system in the political arena.<sup>2</sup>

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<sup>1</sup> The Canadian Royal Commission on Bilingualism and Biculturalism (1963) focused on the political awareness of multiculturalism. Multiculturalism was officially included in governmental policies in 1971. The Multiculturalism Act of 1988 (Canada 1988) provided 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.

<sup>2</sup> Under the MMP system, the voter casts two votes: one for a constituency representative and the other for the party. Due to this voting system, several minority parties have joined forces with the major parties to form the

Despite concerted efforts by some OECD countries to be culturally inclusive, it has been reported that ‘the contemporary Australian is struggling to disengage from a legacy of Anglo privilege and cultural dominance’ (Forrest & Dunn, 2007, p. 700). Though the Treaty of Waitangi in NZ requires policies to embrace biculturalism between indigenous Maori and *Pakeha* (New Zealander of European descent), there has been little regard for the growing cultural diversity of the citizens since 1986 (Forrest & Dunn, 2007).

The NZ population is projected to have an increasing growth of Asians and Pacific Islanders (ethnic groups) and a continued decline of Anglo Europeans (the dominant cultural group) for the next 10 years. The indigenous Maori population has been projected to remain unchanged (Statistics New Zealand, 2010b). Australia, the UK, Canada and the United States also face similar declining trends for the Anglo Europeans. This trend points to the greater cultural mix of citizens within the developed nations and therefore tax authorities are required to regulate heterogeneous taxpayers with differing cultural backgrounds.

This research aims to examine at a micro process level how ethnic and indigenous business entrepreneurs comply with the tax requirements in NZ. Tax compliance affects taxpayers’ behaviours in terms of record keeping (Evans, Carlon, & Massey, 2005; Mc Kerchar, 1995); tax assistance used (Klepper & Nagin, 1989; Lewis, Ashby, Coetzer, Harris, & Massey, 2005; Sakurai & Braithwaite, 2003); cash management (Adams & Webley, 2001; Ashby & Webley, 2008; Wallschutzky & Gibson, 1994); and their relationships/perceptions with the tax authority (Feld & Frey, 2007; Job, Stout, & Smith, 2007). Cultural underpinnings are important given that this study is examining a group of culturally diverse entrepreneur-taxpayers. The purpose of this research is to contribute to the study of tax compliance activities within an inter-cultural framework.

## **Motivation for the study**

Reports on ethnicity have often been associated with criminal offences committed by cultural groups (Van Broeck, 2001; Wood, 1947). For example, the Australian Institute of Criminology reports that “adult migrants from New Zealand, Lebanon, Vietnam, Turkey and Romania have been identified as having a higher involvement in criminal activity than the Australian-born population, while juveniles from Lebanese, Turkish, Vietnamese, Indo-Chinese and New Zealand backgrounds were more highly represented in the criminal justice system than their Australian-born counterparts” (Bartels, 2011, p. 2). Similar reports such as tax evasion committed by ethnic and migrant groups in Australia and New Zealand were also published (Rothengatter, 2005; Yuan, Cain, & Spoonley, 2013). Concerns have also been raised about the high crime and suicide rates, ill-health and welfare dependency amongst indigenous groups in Australia, Canada and NZ (Australian Institute of Health and Welfare, 2011; Kirmayer et al., 2007; Mitchell, 2009).

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ruling coalition government. For example, the smaller parties in New Zealand such as the Greens Party, Maori Party and the United Future Party have formed coalition governments with the major Labour and National parties since the introduction of MMP in 1993.

Given the above reports, one may ask why ethnic and indigenous groups exhibit less than desirable behaviours considered abhorrent to the host countries. Perhaps one of the reasons may be attributable to their cultural values which are at odds to those of the dominant (host) culture. Facing these cultural challenges, ethnic and indigenous groups may face complex issues including isolation and disenfranchisement thus resulting in recalcitrant behaviours. Related to this kind of behaviours is to identify how ethnic and indigenous groups approach their tax compliance obligations in a developed nation such as NZ with Anglo tax laws.

## **Tax Research**

Tax research is predominantly black letter of law (Lennard, 2013) or positivist (J. Alm & McKee, 1998; J. Alm, Sanchez, & De Juan, 1995). These research approaches have either muted the voices of actual taxpayers who have been impacted by tax regulations or either their voices have been so highly summarised and aggregated that it becomes insignificant and therefore got lost in the midst of legislative interpretation of the tax acts. Part of the reasons for this trend could be due to the disconnect tax researchers had from actual taxpayers. Further, tax researchers are on salaries and therefore are not aware of the need to account and calculate tax liabilities such as invoicing, keeping and producing receipts. Record keeping for calculating tax liabilities can be laborious and time consuming (Evans et al., 2005; Prescott & Hooper, 2009).

This study examines the “real” issues affecting citizen-taxpayers which have not been captured by the current legal, political, economic or positivistic approaches. In particular, it examines the social and political impacts of taxation on culturally diverse small and medium sized enterprises (SMEs) taxpayers. With this, this study aims to address the dissatisfaction with the current body of tax research and to provide a glimpse of the real dynamics of business taxpayers, who have to delicately balance their business operation and managing the administrative part of tax requirements.

This study is important since tax is a social practice and to identify the impact of Anglo tax laws on ethnic and indigenous SME taxpayers. One of the key questions that arises in the context of cultural diversity and tax compliance is whether SME taxpayers from ethnic and indigenous groups are more, or less, likely to comply than the general population. The findings from this type of study may assist tax lawyers, accountants and tax regulators to better understand culturally diverse taxpayers’ behaviours towards tax requirements. This knowledge would help them provide customised tax assistance and tax education to assist with integrating these groups to the broader host culture. The tax compliance practices of SMEs are also of interest to tax authorities and academics because of the high risk of tax gap (OECD, 2009).

## **Small businesses and tax compliance practices**

SMEs contribute significantly to employment and economic value added outputs in both developed and developing countries (The World Bank, 2013). They operate in almost all industries, from specialised goods and services (Taylor & Murphy, 2004), imports and

exports (Ahmad, 2010), in niche markets (Tierlinck & Spithoven, 2013), and general retailing and takeaways (Jenn, 2012). SMEs are generally perceived to be the “seedbed for indigenous business owners” (Atawodi & Ojeka, 2012, p. 87) and SMEs are renowned for operating in the informal economy (Cash Economy Task Force, 2003; Morse, Karlinsky, & Bankman, 2009).

Though SMEs operate in most business sectors, they have limited resources for administrative and compliance requirements (Nelson, 2008). These resource constraints pose particular challenges to small businesses in complying with government regulations and requirements (Ahmed & Braithwaite, 2005; Sawyer, 1996). Further, there is no differentiation in tax rates for small or large businesses in NZ and no special tax concessions are granted for SMEs unlike their Australian and UK counterparts (Income Tax Act 2007). The complex taxation systems (with multiple forms of taxes and with different rates) together with a myriad of government compliance requirements have disadvantaged SMEs to some extent. Amongst these government requirements are health and safety, employment relations, resource management, consumers guarantee and taxation. Taxation is the most encountered regulation for SMEs.<sup>3</sup>

Literature has shown that SMEs faced regressive tax compliance costs (Hasseldine, 1995; Inland Revenue, 2010) with poor record keeping and documentation (Abdul-Jabbar, 2009; Prescott & Hooper, 2009) and they have lower tax knowledge (McKerchar, Hodgson, & Walpole, 2009). There is also a general dissatisfaction with the high tax rates and the number of taxes to be paid (David Joulfaian & Rider, 1998; Kirchler, 1999; Nkwe, 2013) as these taxes are perceived as hindering business growth (Adebisi & Gbegi, 2013). Further, tax payments made by SMEs are viewed negatively (Ashby & Webley, 2008; Kirchler, 2007); and returning taxes collected on behalf of the government is perceived as a financial loss and wealth erosion (Kamleitner, Korunka, & Kirchler, 2012). They also perceive the tax system to be unfair (Murphy, 2003; Nkwe, 2013) and they are more disassociated from the tax system (Ahmed & Braithwaite, 2005). They also admit to paying less than their fair share of taxes (Bajada, 2002). SME owners reluctantly contact tax authorities (Coleman & Freeman, 1997; Yong & Cheng, 2011) and they only do so when they encounter a taxation problem (Wallschutzky & Gibson, 1994)

## **Tax compliance research**

The current literature has been inundated with reports on tax evasion or non-compliance activities of taxpayers (James Alm, 2012; D. Joulfaian, 2009; Webley, Robben, Elffers, & Hessing, 1991). They attribute the cause of tax evasion activities to the “economic deterrence” model which suggests that people cheat on their taxes due to economic and self-interests (Allingham & Sandmo, 1972). This economic deterrence model has been actively promoted by positivists using student surveys and laboratory experiments (James Alm, 2012; J. Alm & McKee, 1998; B. Tran-Nam, 2003). However, this model was challenged by

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<sup>3</sup> NZ SMEs are required to comply with regulations such as the Fair Trading Act, the Consumers Guarantee Act, the Minimum Wage Act, Privacy Act (1993), the Income Tax Act and the Resource Management Act.

proponents of the “fiscal psychology” group who claims that non-economic factors such as tax morale, norms and demographic factors are also important determinants for tax compliance (Cullis & Lewis, 1997; Torgler, 2005; Trivedi, Shehata, & Lynn, 2003; Wenzel, 2004).

Further, it has been found that procedural justice in terms of tax administration (Murphy, 2005; Yong, 2012) and distributive justice in terms of tax spending allocation (Cropanzano & Ambrose, 2001; Feld & Frey, 2007) also contributes towards tax compliance. More recently, culture has been recognised to affect tax (non) compliance both cross-culturally (McGee, Ho, & Li, 2008; Richardson, 2008; Tsakumis, Curatola, & Porcano, 2007) and intra-culturally (Adebisi & Gbegi, 2013; Coleman & Freeman, 1997; Jeyapalan Kasipillai & Abdul-Jabbar, 2006; Li, 2010; Rothengatter, 2005). However, most of the tax literature on culture is fixated with tax evasion attitudes and perceptions, instead of exploring the social and political impacts of taxation on taxpayers’ behaviours.

Most tax surveys on actual taxpayers face extreme low response rates, some as low as less than 20 percent (Abdul-Jabbar & Pope, 2009; Hasseldine, 1995; Binh Tran-Nam & Karlinsky, 2010). Laboratory experiments and tax surveys relating to tax and culture are normally conducted using convenient tertiary student samples of the researchers (James Alm & Torgler, 2006; Birch, Peters, & Sawyer, 2003; Chan, Troutman, & O’Byran, 2000; Devos, 2006).

Student samples are not good proxies for actual taxpayers and their findings suffer from low external validity (McKinnon, 1988; Patton, 2002). First, students are not perfect representatives for actual taxpayers due to their differences in age, working and taxpaying experiences from actual taxpayers (Cuccia, 1994; Yong, 2006). Majority of the students are younger and have higher education than average citizen (Fehr, Fischbacher, von Rosenbladt, Schupp, & Wagner, 2003). Second, even though there are claims that students do not behave differently from non-students in experimental research (James Alm, 2012; James Alm & Jacobson, 2007), the findings suffer from low external validity. This is because real factors such as social stigma of jail time and loss of reputation cannot be modelled in experimental research (Kirchler, 2007; Levitt & List, 2007), and that the “absence of social pressures could inhibit the same psychological processes as actual taxpayers which are important in the real world” (Torgler, 2007, p. 11). Students were found to game-play in experimental research (Cuccia, 1994) and they are comparatively less compliant and they take more risks than non-students (Gerxhani & Schram, 2006; Starmer, 1999). In addition, there is a real shortage of research on taxpayers using actual taxpayer data.<sup>4</sup>

Finally, Boden et al., (2010) observed that tax is a specialized area of expertise with constant changes to rules and boundaries. As a rule-bound field it is “easy prey for positivism across all disciplines to which tax matters” (Boden et al., 2010, p. 541). For example, in tax law this

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<sup>4</sup> For more information on the critique for not having enough actual taxpayer data and the lack of generalisability of actual taxpayer data in tax research, see 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.

takes the form of black letter, formalist analyses; in political science, understandings based on rational actor models of human behaviour. In accounting, “analyses of tax tend to be subsumed within market-based research, behavioural science” (Boden et al., 2010, p. 541). There is a growing acknowledgement of the need to step outside the traditional black letter, formalistic, modes of enquiry and draw on historical and cultural theories in understanding how tax works in practice (Mumford, 2002; Oats, 2012).

### **Exclusion of ethnic and indigenous groups in tax research**

Tax surveys and laboratory experiments using tertiary students disadvantaged not only actual taxpayers but more so for ethnic and indigenous groups. They are either not part of the sample survey or do not participate in major research due to lack of access, ignorance or cultural reasons. Often they are being ignored, overlooked or not even researched. To be heard and given a voice and being taken seriously is often not an option for ethnic and indigenous groups unless the research is specifically targeted at them.

Unfortunately, most studies about ethnicity and indigenous groups normally concentrate on the negative aspect of them (Australian Institute of Health and Welfare, 2011; Kirmayer et al., 2007; Mitchell, 2009; Prescott & Hooper, 2009) which makes them more vulnerable. In retaliation, the race relations and protesters would label these reports as discriminatory and racist. Given that, researchers have been strongly deterred from studying these groups due to fear of being labelled racist or not politically correct. Race/culture related research can stir up certain sentiments which may conform to the norms of the society.

Research on cultural values is not favoured by mainstream journals as the sample size is small and there is interaction between the researcher and participants. Given that, their findings are not statistically generalisable to the larger population and the participants’ opinions are not “objective” (J. Alm & McKee, 1998; Neuman, 2011; Shadish, 1995). This creates a gap in understanding how ethnic and indigenous groups operate and policy makers and regulators continue to propose policies without full knowledge about them.

Despite the cultural diversity of citizens in most developed nations within the OECD, tax policies and tax administration continue to operate under the assumption of the cultural beliefs of the host (dominant) group. Some of the benchmark used to measure the performances of ethnic and indigenous groups is usually based on the dominant of the norms (which is usually the ones that have been regularly surveyed). It is therefore not surprising that ethnic and indigenous groups do not fare as well as the dominant cultural group. Often, they deviate from the norms and are labelled “anomalies” or outliers. With that, tax researchers would suggest tax policy recommendations without accounting for the views and needs of the ethnic and indigenous groups.

As a rebuttal, most research on ethnic and indigenous groups have justify the differences in behaviours to culture (Ahlstrom, Chen, & Yeh, 2010; Lindsay, 2005; Luczak, Mohan-Neill, & Hills, 2010). To the ethnic and indigenous groups, culture is the very essence of who they are (Hall, 1976; Hofstede, 1984; Hofstede & Hofstede, 2005) whereas culture to the host

(dominant group) is very much taken for granted (Hofstede, 2001; Hofstede & Hofstede, 2005; Schwartz, 1999). Often, the cultural values of ethnic and indigenous groups can be diametrically opposite to those of the host (dominant group). Ethnic and indigenous people are aware that they are different and they do not want to draw attention to themselves as they are constantly bombarded with adverse statistics such as welfare dependency, ill-health, suicide and poor cash management from merciless media attention (Australian Institute of Health and Welfare, 2011; Kirmayer et al., 2007; Mitchell, 2009).

Finally, most tax researchers have failed to survey actual participants due to their inability or unwillingness to access actual taxpayers (Devos, 2006; Marriott, Randal, & Holmes, 2010) and/or their research methodology precludes surveying actual taxpayers (J. Alm, Jackson, & McKee, 1992; James Alm & Torgler, 2006). By ignoring the impact of tax regulations and administrations on taxpayers could only lead to impartial knowledge of the effects of taxation on citizens. This is especially important given that taxation or taxation policies are made by people and for people as discussed in the next section.

## **Research Methodology and Design**

Tax is very much a social and institutional practice and this needs to be recognised as such to a much greater extent. There is still not enough attention paid to this important aspect of tax as an institution as observed by Oats (2012, p. 5): “A neglected aspect of tax scholarship is what actually happens in the real world when tax rules and regulations are put into play.” She also exhorts tax researchers to challenge the hegemony of positivist approaches (Oats, 2012) and to become more reflexive and receptive to methodological and philosophical debates taking place in other disciplines.

Further, “tax is an organisational, institutional, social and cultural phenomenon that raises important questions around its power effects in society more widely” (Boden et al., 2010, p. 541). Heeding this call and the need to understand the effects of taxation in society, this paper examines the effects of tax regulations on the tax compliance behaviours of ethnic and indigenous SME groups in NZ by adopting a qualitative and interpretative approach. The ethnic and indigenous SME groups are made up of collectivistic Asian, Pacific and Maori groups and the host culture in NZ is the Anglo European (Statistics New Zealand, 2010a).

Given the cultural diversity of the sample, there is a need to adopt a relativist ontology where multiple realities are assumed (Denzin & Lincoln, 2005; Guba, 1990). As Pacific, Maori and Asian groups prefer face-to-face interactions (Brown, Tower, & Taplin, 2005; Tsui-Auch, 2004; Warriner, 2007), a subjective epistemology (Guba, 1990) is therefore adopted. The naturalistic methodology (Lincoln & Guba, 1985) is used to collect and analyse the research evidence.

Certain protocols were adopted when researching indigenous Maori. They include information sharing, co-participation in the research by the participants and a high element of trust is required between the researcher and participants (Bishop, 1996; Smith, 2006). Similar protocols were also suggested for researching Pacific Peoples with emphasis placed on

dialogues and researcher's direct contact with the participants (Brown et al., 2005; Lucas, 2009; Prescott, 2008, 2009). Finally, poor tax survey response rates from SMEs (Abdul-Jabbar & Pope, 2009; J. Kasipillai, Hanefah, Mat-Udin, & Marimuthu, 1999) and on ethnic entrepreneurs (Chaganti & Greene, 2002; Ray, 1994) further reinforced the need for the qualitative approach for this study.

Given the above practical and methodological issues with ethnic groups, a total of 59 face-to-face, in-depth interviews were conducted with 36 entrepreneurs (nine from each group of Anglo European, Maori, Asians and Pacific Peoples), eight tax practitioners and 15 business experts from November 2006 to May 2010. The business experts were knowledgeable in every aspect of SME operations and they interact with SMEs regularly. They were representatives from business and government agencies, policy makers, tax regulators and business advisory groups.

The participants were drawn from the largest city in NZ, Auckland, for several reasons. First, Auckland has the highest number of SMEs in the country with three times more than the second highest, Canterbury (Ministry of Economic Development, 2009, 2011). Second, Auckland is the most culturally diverse city in NZ (Statistics New Zealand, 2010a). Third, Auckland has the highest net Maori asset base in NZ, which is twice that of the second highest in the Waikato region (NZIER, 2007). Fourth, Auckland remains the fourth largest 'Pacific' country by population (Baker, 2007) and the city of Auckland is often described as the Polynesian capital of the world (Robie, 2009).

## Interview Questions and Data Analysis

Some fixed and open ended questions were adopted and the interview schedule was improvised to suit each participant. The open-ended questions allowed the researcher to enter the fieldwork without being constrained by predetermined categories of analysis (Patton, 2002; Punch, 2005). This approach allows the participants the freedom to express what is important in terms of their beliefs and perceptions towards tax compliance (Gaskell, 2000; Liamputtong, 2009).

Specific questions for the entrepreneurs explored their tax compliance practices and perceptions. Business experts were asked about the effects of cultural values on the tax compliance behaviours of SMEs. Tax practitioners were asked about the accounting and tax compliance challenges faced by SMEs. The accounts of the business experts and tax practitioners were used to triangulate the accounts given by SME owners.<sup>5</sup> The analysis of the findings follows a path as suggested by O'Dwyer (2004) which involves data reduction, data display, and data interpretation and conclusion drawing. O'Dwyer's method is an adaptation of the analytical process developed by Miles and Huberman (1994).

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<sup>5</sup> Triangulation using multiple sources is an important function for qualitative research in terms of validity. For further information see Lynne Oats, 'Gathering and interpreting qualitative data' in L. Oats (ed.) *Taxation: A Fieldwork Research Handbook* (Routledge, 2012) 19 ; and Dawn Snape and Liz Spencer, 'The Foundations of Qualitative Research' in J. Ritchie & J. Lewis (eds.) *Qualitative research practice* (Sage Publications, 2003) 1.



This study examines the tax payment experiences and ethnic SME taxpayers' perceptions of the NZ tax authority. The perceptions form their tax attitudes and their willingness to contribute to taxes. Whilst this paper concentrates on using cultural values to help explain tax compliance differences, there may be other non-cultural factors that could affect tax compliance behaviours, but these do not form the focus of this study.

## **Culture and People's Behaviours**

According to Hofstede, a person's behaviour is partially determined by his or her culture which is defined as the "collective programming of the mind that distinguishes the members of one group or category of people from others" (Hofstede & Hofstede, 2005, p. 4). Culture affects one's behaviour and it "forms the roots of action" (Trompenaars, Hampden-Turner, & Trompenaars, 1994, p. 24).

This study concentrates on the Asians, Pacific Islanders and indigenous Maori entrepreneurs in NZ. These groups have common cultural traits of high power distance and collectivism. High power distance indicates the less powerful members of institutions within a society expect and accept that power is distributed unequally and that authority figures ought to be respected and obeyed (Hofstede, 2001; House, 2004).

Collectivism describes the degree to which members of a culture place a greater emphasis on the group rather than the individual himself/herself. 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. Their allegiance is towards meeting group's needs at the individual's expense (Hall, 1976; Hofstede & Hofstede, 2005; House, Hanges, Javidan, Dorfman, & Gupta, 2004). Research has shown that the Asians, Pacific Islanders and indigenous Maori exhibit high power distance (Begley & Tan, 2001; Hofstede, 2001; Lucas, 2009; Pfeifer, 2005) and they are collectivistic people (Podsiadlowski & Fox, 2011; Tiatia, 1998; Warriner, 2007).

## **Findings and Analysis**

### **Culture and Accounting and Tax Practices**

Since tax compliance activity is a form of social interaction, it is reasonable to expect culture to have an impact on tax compliance practices and perceptions. Taxpayers from different cultures comply with their beliefs, norms and values which may differ from those of the host (dominant) culture. Culture may affect taxpayers' strategic approach to tax compliance such as avoiding late penalties, minimising compliance cost and preventing bad credit history with the tax authority. Culture may also affect taxpayers' perceptions of the tax authority thus determining their level of cooperation with the tax authority and their willingness to participate in the informal economy.

This study has found the collectivistic groups had access to their extended family's financial, technical and emotional assistance relating to tax obligations (Podsiadlowski & Fox, 2011; Tsang, 2002; Weidenbaum, 1996). Their strong in-group collectivism allows them financial

access from families to avoid business foreclosure and financial shame (Ray, 1994). The Asian group in this study had more financial access to their extended families' resources than the Pacific and Maori groups:

*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)*

Further, the Asians are more financially literate (Department of Labour, 2010) and are motivated to plan for their tax payments. These two factors contribute to their success in paying their taxes on time and to avoid late tax payment penalties. The Asians' taxpaying behaviour can be traced to their thrifty nature and their hawk-like obsession in financial management (Ahlstrom et al., 2010; Asia New Zealand Foundation, 2013; Begley & Tan, 2001; Bjerke, 2000) unlike the Pacific and Maori groups who lacked financial literacy:

*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)*

*What we have seen among Pacific business owners are lack of business planning, no business experience and poor financial management and literacy skills and they start a business with no equity. (Business Expert 11: Male and from a government agency)*

*Maori haven't positioned themselves in their finances and they jumped too quickly into business without much business education or planning. (Business Expert 14: Male and from a government agency)*

Unlike the Asians, collectivism is detrimental to the Pacific and Maori groups in terms of taxpaying. This is because they are forced to place higher priority in satisfying their group's obligation than their own business obligation. Allegiance to extended families and to church giving play important roles for the Maori and Pacific cultures which led to tax payment difficulties (Macpherson, 1992; Meleisea, 1987; Warriner, 2007). Their willingness to satisfy group's obligations is to preserve harmony in the group and to maintain their status in society (De Bruin & Mataira, 2003; Prescott, 2009). Due to their willingness to compromise business with personal (group) matters, most Maori and Pacific entrepreneurs are deprived of cash for their business:

*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)*

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

Pacific and Maori's obligation towards the groups has led to delay and/or non payment of taxes and filing tax returns late. The consequence is higher tax compliance costs with

penalties and stress. Their tax compliance problems are compounded by their lack of financial knowledge and cash management skills:

*I must say that the financial part is one of my down-fall for the business. (Maori 7: Male in the advertising and production business)*

*Managing cash flows was an issue for us and it is still an issue but it is not as bad ... At the start we did not have any budget and we did not track where the money was going. We didn't keep money for taxes and then cash flow suffered. (Pacific 1: Male in the healthcare business)*

Not only do the Maori and Pacific entrepreneurs struggle with cash management, but often there is a blurring of tax monies collected on behalf of the government and their business finance i.e. there is no mental accounts kept for tax and personal finance (Ashby & Webley, 2008; Prescott & Hooper, 2009):

*Like my husband's family is not taught about budgeting as they could not differentiate between the money collected on behalf of the IRD and their money. They think it belonged to them and therefore can spend them. (Maori 1: Female in the construction business)*

The Asians are taught to never get on the wrong side with the tax authorities as this would be detrimental to their business in the future (Gupta, Levenburg, Moore, Motwani, & Schwarz, 2008). This motivates the Asians to ensure that all tax payments are kept up by undertaking good financial planning. These lead to favourable outcomes of lower tax compliance costs and good track records with the Inland Revenue Department (IRD). On the other hand, delays in tax payments by the Maori and Pacific entrepreneurs have resulted in higher tax compliance costs.<sup>6</sup>

Given the above analysis, there is a need to assist Pacific and indigenous Maori entrepreneurs with their taxpaying behaviour to avoid tax penalties. In order to do so effectively, tax authorities, tax practitioners and business experts ought to teach and stress the importance of financial management and literacy skills necessary for tax compliance. Financial incentives should be given by tax authorities to encourage early tax payments and this is particularly relevant for the Maori and Pacific groups. It will also motivate them to prioritise their business obligations over their group's obligations. They should be educated to differentiate between business and personal needs and avoid using business monies for their group purposes. This illustrates a greater cultural awareness is needed by tax administrators, tax practitioners and business experts in terms of ethnic and indigenous entrepreneurs' taxpaying decisions.

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<sup>6</sup> Refer to ss 120, 139 and 141 of the New Zealand Tax Administration Act 1994 for the various forms of penalties and interest charged for tax payment delays.

## Perceptions of the tax authority

None of the Maori participants in this sample sought help from the IRD despite its advice is free. Some authors have suggested the reason for their non-contact with the government department is a consequence of the historical European oppressive nature in terms of colonisation and land confiscations (Frederick & Henry, 2004; Warriner, 2007). The following quote illustrates the reality of this perception towards government bureaucracy by the Maori and to a lesser extent the Pacific entrepreneurs:

*Don't get on the bad books with the IRD as they are unforgiving and nasty. It is like you fall into a pool with the sharks you know and you get bitten. (Maori 3, male: Music and Media Production Business)*

*Sometimes you are too scared to contact the IRD because they may think that you have broken the law. (Maori 4, male: Television production business)*

*The IRD seemed to be to be very alien and very "white" process and IRD is a very faceless organisation ... They portray themselves as a bureaucracy ...and they are out there to take your money and not to help you in anyway.(Maori 6: Female in the journalism and TV production business)*

*... the perception is the IRD is the big bad wolf (Maori 9: Male in the communication business)*

*All you get from the IRD is the fear, penalty, stress ... It is like a big brother who is bullying all the time and you don't want to do anything nice in return because they are horrible (Pacific 3: Male in the food and catering business)*

Most Maori and Pacific entrepreneurs in this study were deterred from contacting the IRD even when they have a tax problem due to fear of an authoritative figure. Their lack of contact and non-attendance to their tax problems have led to tax penalties, which further reinforced their perceptions of the IRD as a representative of the Crown with oppressive powers:

*They (the Maori) are terrified of the IRD or anything relating to compliance. This has something to do with the history, and how the government has dealt with the people in terms of the land loss and the Crown. The injustices relating to the historical events and the perceptions of the "big brother governance" still remain in some people. (Business experts 3, female from a government agency)*

This fear of government by indigenous people is not only found in NZ but also in Australia and Canada (Gibson, 2000; Neu, 2000; West-Newman, 2005). This fear can be traced to their ancestors being oppressed by British colonisers in terms of land confiscations, annihilations through wars, infectious diseases and unfair treaties (Anderson et al., 2005; Dockery, 2010; Fowler, 2005). These events led indigenous peoples to fear governments even at the present times. Their high power distance cultural traits also meant that authorities are to be obeyed with unquestioning loyalty. The perception of tax authority as representative of the

government has generated fear amongst the Maori and Pacific groups and to a lesser extent the Asians. The Asians address this fear by ensuring they have good tax payment history with the IRD. On the other hand, the Maori and Pacific owners would not voluntarily contact the IRD due to their perceptions of the tyrannical powers of government departments.

## **Implications, Conclusions and suggestions for future research**

This study shows that cultural values do to some extent affect some aspects of ethnic and indigenous entrepreneurs' tax compliance behaviours. Cultural values can either enhance or constrain successful tax compliance in terms of taxpaying decisions and the perceptions of the tax authority. This study has several important implications for tax authorities, the accounting profession, and the business community.

First, a better understanding of the cultural values impinging on tax compliance behaviours and perceptions can alleviate any misunderstanding as to why some ethnic groups may behave differently from the mainstream host culture. This is particularly so when some tax non-compliance is not deliberate (i.e. to evade taxes) but is caused by cultural obligations and orientations. It would benefit tax authorities to distinguish non-compliance brought about from defiance towards tax regulations and those that are caused by cultural factors.

Second, there is a need for the accounting profession to understand the underlying cultural values influencing their ethnic and indigenous clients' tax behaviours. By doing so, the accounting profession will be seen to play a relevant role in their clients' tax compliance process. For example, Pacific and Maori entrepreneurs may benefit from advice on how to differentiate their business and personal finances and to improve on their ability to meet tax obligations. In addition, they ought to be aware that cultural values can sometimes impede or enhance successful tax compliance behaviour due to their attitudes towards group's obligations and their perceptions towards authority figures.

Third, tax authorities require an understanding of the possible cultural reasons for some ethnic and indigenous groups' tax payment difficulties. The findings from this study showed that tax authorities should customise their regulatory measures and assistance programs to better match the varied behaviours of ethnic and indigenous taxpayers. This approach is consistent with the call for responsive regulation (Braithwaite, 2007; Job et al., 2007) and the suggestion that a suite of regulatory strategies is needed because a "one size fits all" strategy (Braithwaite, 2003) is less effective given the cultural heterogeneity of taxpayers. By being responsive in their regulatory approach, tax authorities could ensure that tax policy, education and support are targeted to achieve the best tax compliance outcomes from culturally diverse taxpayers.

Fourth, in a multicultural society, the tax authorities need to overcome cultural barriers by being more responsive to ethnic differences, particularly, that of distrust and fear. A collective attitude of distrust and fear towards tax authority has prevented some entrepreneurs from interacting with the IRD. The recommendation from this research is that tax authorities must seek ways to communicate more effectively with various ethnic and indigenous groups

to alleviate their distrust and fear.<sup>7</sup> This may involve hiring ethnic and indigenous tax staff that understands the underlying cultural values impinging on the tax compliance processes and perceptions of taxpayers.

Some limitations of this study should be noted. First, like most qualitative research, the sample size is small<sup>8</sup> (Neuman, 2011; Silverman & Marvasti, 2008) and therefore the study is directed at obtaining informative interview evidence rather than providing statistical generalisations (McKerchar, 2010). Second, the sample is limited to NZ so the findings may not be readily transferable to other countries due to cultural differences in their citizen-taxpayers and tax systems. The aim of qualitative research is not about making statistical inferences about all SME taxpayers because of the non-random sampling process. However, the research findings did shed some light that ethnic and indigenous entrepreneurs had differing tax compliance processes and perceptions due to their cultural backgrounds. This issue had not been explored at depth in the past.

In terms of future research, comparative research in other developed OECD countries could test whether the proposed cultural associations on tax compliance behaviours do exist elsewhere. In addition, the tax compliance processes of ethnic and indigenous groups in other multicultural nations could also be examined. For example, in Australia the high percentage of Italian, Greek, Lebanese and Asian entrepreneurs together with Aboriginal and Torres Straits people would allow for the use of semi-structured interviews to ascertain whether their tax compliance behaviours conform to the existing literature. Similar research in Canada with the indigenous First Nation people and other non-Anglo ethnic groups should also be considered. Such future research contributions have the potential to advance and add to our knowledge of the tax compliance behaviours of SME taxpayers of which currently little is known about them (Kamleitner et al., 2012). This present study has shed some insights into the tax compliance processes and perceptions of an ethnically diverse small business taxpayer groups in NZ.

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<sup>7</sup> Behavioural literature has demonstrated that individuals will have a higher response rate to communications which take account of their cultural differences. For further information, see Coleman, C & Freeman, L. (1997) Cultural foundations of taxpayer attitudes to voluntary compliance. *Australian Tax Forum*, 13(3), 311-336.

<sup>8</sup> Only 30 small business taxpayers were interviewed in the study by McKerchar, M., Hodgson, H., & Walpole, M. (2009). Understanding Australian small businesses and the drivers of compliance costs: A grounded theory approach. *Australian Tax Forum* 24(1), 151-178. 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 *eJournal of Tax Research* 106-133.

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