

**GST compliance in New Zealand:
A comparative study of taxpayers in the primary and trades sector**

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Abstract

Prior studies on tax compliance tend to focus on individuals and income tax. Recent comprehensive reviews of the literature (Alm, 2012; Torgler, 2008) have identified that groups of taxpayers and compliance with other tax types, such as consumption taxes, remain under-explored. To contribute to the extant literature, this study extends the work of Woodward and Tan (2015) on Goods and Services Tax (GST) compliance attitudes of small business taxpayers by using a larger sample and focusing on taxpayers in the primary and trades sector. These two sectors were selected as they are important contributors to the New Zealand economy and they potentially have more opportunities for noncompliance particularly in claim private expenses and performing cash jobs. It would also be interesting to compare these two groups of taxpayers to see if there is evidence of different group norms or attitudes that impact on compliance attitudes.

Drawing from the framework proposed by Kamleitner, Korunka & Kirchler (2012), a range of questions that relate to opportunities for non compliance with GST, GST knowledge and decision frames (and mental accounting) were included in our mail questionnaire which achieved a response rate of 15%.

The results generally supported the findings by Woodward and Tan (2015). There is some evidence of taxpayers from both sectors keeping different ‘mental accounts’ for GST. They also felt compliance cost as an ongoing burden with many making use of accounting software packages to record transactions and seeking help from their accountant when necessary. Risk of audit and tax penalties appeared to play a role in small business taxpayers’ attitudes toward compliance. Furthermore, they displayed mixed experiences with regard to their interactions with Inland Revenue and their trust in them. Interestingly, GST morale with respect to proper invoicing and correct classification of expenses appeared positive. For many issues like cash jobs, underreporting income, or misclassification of private expenses as business related, there was little difference in views provided by taxpayers in the two sectors. Instead they perceived it is other taxpayers who engaged more in those types of behaviour. Perhaps those who were “non-compliant” chose not to participate in the survey and if this is the case, the results could be biased towards taxpayers who were more compliant.

Lastly, a number of tradespeople expressed frustration with clients who asked for cash prices recognising that they have to bear the risk of audit and penalties while the client obtained the advantage of cheaper price. This issue indicates that education could be a valuable tool not just to change the thinking of tradespeople with respect to cash jobs but the general population. A more extreme approach would be to penalise both parties to the transaction but changing society's thinking through innovative advertising campaigns and education programmes may be a more viable option in enhancing taxpayers' commitment to voluntary compliance.

1.0 Introduction

The impact of non-compliance with taxation law on the New Zealand government's tax revenue is unknown. Non-compliance can be unintentional due to errors in calculations and interpretation of the tax law. It can also be deliberate by intentionally over claiming deductions through falsifying invoices or misclassifying personal expenses as business related. Non-compliance, intentional or unintentional is an area of concern as it affects the amount of income tax and goods and services tax (GST) collected by Inland Revenue on behalf of the government.

For more than three decades, a large body of research has been devoted to investigating and understanding the factors that influence compliance with taxation. The modern literature is seen as commencing with Alingham and Sandmo's (1972) seminal study based on an economics-of-crime model. Studies then expanded to include a range of non economic factors that influence compliance. The earlier studies focused on individuals and income tax and recent comprehensive reviews of the literature (Alm, 2012; Torgler, 2008) have identified that groups of taxpayers and compliance with other tax types, such as consumption taxes, remain under-explained. To contribute to the extant literature this study follows on from works that have investigated the compliance attitudes of small business taxpayers and looks particularly at factors that influence their compliance with New Zealand's Goods and Services Tax (GST).

This paper focuses on the compliance attitudes of small businesses (defined in this study as those who have 20 or less full-time equivalent employees). New Zealand's 460,000 small businesses are a significant part of the economy accounting for nearly 30% of GDP (Ministry of Business, Innovation and Employment, 2014). Furthermore, small businesses owners (SBOs) differ from individual taxpayers in that they self report their income and are likely to have greater opportunities to evade taxation (Joulfaian and Rider, 1998). Factors that contribute to tax compliance attitudes and behaviours are therefore of particular interest.

Consumption taxes, known as goods and services tax (GST) or value added tax (VAT), are employed in many tax jurisdictions around the world. While New Zealand's GST is recognised as being a good example of a relatively simple broad based consumption tax there are nevertheless multiple ways the tax can still be evaded (Agha & Haughton, 1996). SBOs are a large part of the New Zealand economy and they act as agents for Inland Revenue by collecting GST from customers and remitting it to the tax authority. With respect to GST, they are

expected to file all GST returns on time and make payment of the correct amount of GST, as calculated under New Zealand's GST legislation, by the due date. They are also expected to correctly issue GST 'tax invoices' to other registered businesses as required by the legislation. However, not all meet their tax obligations in this manner. There is therefore a need to better understand SBOs' attitudes toward GST as factors that influence compliance with GST by SBOs are underexplored. A greater understanding of these factors could be valuable in designing strategies to improve compliance.

This study extends the exploratory study carried out by Woodward and Tan (2015) on GST compliance attitudes. More specifically, it aims to investigate: (i) if there is a link between decision frames, including mental accounting, and compliance with GST in New Zealand; and (ii) there are industry specific differences in compliance attitudes towards GST. The two industries selected for comparison are the primary sector and trades sector. The primary sector was selected as it has particular opportunities for non-compliance and is an important contributor to the New Zealand economy. The trades sector was selected as it also has particular opportunities for non-compliance and is the current focus of an Inland Revenue compliance programme which stated that: "In May and June 2015, we ran an advertising campaign to remind tradespeople to declare all of their income.....The reaction was fast, with tax agents reporting a large number of calls from people looking to add cash jobs to the information they had submitted to us" (Inland Revenue, 2015, p. 18).

In order to collect comparative information on factors that impact on compliance with GST by small business taxpayers, a self-administered questionnaire was distributed to 600 (300 per sector) small business taxpayers with 89 valid responses (15%) returned for analysis. The trades sector accounted for 49 valid responses and 40 were returned from the primary sector.

The remainder of this paper is structured in the following manner. Section 2 contains an overview of the tax compliance literature, with particular reference to the framework developed by Kamleitner, Kornuka and Kirchler (2012) that this study is based on. Section 3 details the methodology utilised in the study and cites the limitations. The fourth section discusses the results and section 5 contains conclusions and avenues for further research. Summary results for the postal survey questions and further analysis of the responses are shown in tables contained in appendices to the report.

2.0 Literature Review

2.1 Overview

This study draws on the framework of factors influencing small business owners' tax compliance developed by Kamleitner, Kornuka and Kirchler (2012). SBOs play a large part in many economies and earlier research had shown that they are more likely to cheat on their taxes than other groups of taxpayers (e.g. Joulfaian and Rider, 1998). Kamleitner et al. (2012, p. 334) noted that there are three main characteristics of small business taxpayers that emerged from the literature which can be used to develop a compliance framework. They are: (i) opportunity for non-compliance due to self-reporting and limited control over underlying monetary flows, (ii) due to self reporting and facing multiple taxes (e.g. income tax and VAT) they require substantial knowledge to understand the various rules to comply, and (iii) due to receiving gross sums, a portion of which have to be passed on to tax authorities (e.g. VAT), they face different possibilities for framing taxes. The implication of their framework is the need "for strategies that aim to influence taxpayers' perceptions of their own evasion opportunities, their level of legislative and procedural knowledge, and their sense of ownership of tax money" (p. 330).¹

2.2 Opportunities for Non-compliance

There are a number of studies which show that people evade or avoid tax because they have there is opportunity to do so. Clearly, there is more opportunity for noncompliance when taxpayers have to self-assess the tax they have to pay than when the tax is deducted at source. For instance, the self-employed would have a greater propensity to underreport income than salary earners (Joulfaian and Rider, 1998, p.678). Similarly, those involved in the cash economy would have more opportunity to under-declare the income than those with transactions that leave a paper trail. A US study on tax evasion in the cash economy carried out by Morse, Karlinsky and Bankman (2009, p.38),² indicates that "evasion seems best explained by opportunity, including the low perceived likelihood of detection and penalty, and

¹ See Appendix 1, for a diagrammatic representation of the framework.

² information was collected by conducting 273 field study interviews (92 with small business owners, 149 with CPAs and 32 with bankers). A non random sample was used as participants were sourced from businesses that typically had a high level of cash income and bankers who had experience of cash business clients.

by peer norms” (p. 67). Perceived equity of the tax system was observed as being less important and complexity of the tax law was not a significant factor.

The nature of consumption taxes (VAT and GST) also gives rise to a range of non-compliance opportunities for the collectors of such taxes on behalf of tax authorities. Agha and Haughton (1996, p. 304) noted the following common methods taxpayers may use to evade a VAT include: (i) understate sales, (ii) inflate claims for VAT paid on inputs, (iii) claim credit for tax paid on inputs used in producing goods that are exempt from VAT, (iv) non remission of VAT collected to the authority, (v) claim VAT on non-creditable (e.g. private) purchases, (vi) non-registration for VAT, (vii) divert zero-rated exports to the domestic market, and (viii) claim the transaction as not taxable. Their investigation on whether the level of VAT rates, the number of VAT rates and the administration of the VAT impacted on compliance indicates that “VAT compliance improves with a lower VAT rate, fewer rates, a smaller population, more learning time, and greater spending on administration” (p. 307).³

2.3 Knowledge Requirements

An interesting study was carried out in Australia by Ahmed and Braithwaite (2005, p.539) to investigate “how the self-employed define themselves and their business in relation to taxation issues, and whether there is evidence that this segment engages with taxation in ways that are different from other segments of the population”. Data was collected from 2040 randomly selected Australian taxpayers and the study found that the distinguishing features of small business taxpayers included their perceptions of themselves as not paying their fair share of tax and having less tax competence and independence. Their results further show that “those taxpayers who had their own business were more likely to acknowledge that they evaded tax, as well as expressing a keen interest in tax effective planning” (Ahmed and Braithwaite p. 554). There were fewer studies on VAT/GST and small businesses. Faridy, Copp, Freudenberg and Sarker carried out their study on the complexity, compliance costs and non-compliance with VAT by small and medium enterprises in Bangladesh. The overarching aim of the research was to determine why some SME’s comply with the VAT and others do not. Their results show

³ For a further discussion of major types of VAT non-compliance see Baer (2013).

that compliant taxpayers⁴ generally indicated complexity and compliance costs as important factors influencing non-compliance while the non-compliant group emphasized a positive relationship with authorities for compliance. Their study further indicated that “the likelihood of audits, penalties and sanctions were found to have less effect on VAT non-compliance for non-compliant VAT payers (Faridy, Copp, Freudenberg and Sarker, p. 315).

In New Zealand, Woodward and Tan (2015) investigated attitudes towards compliance with GST. Evidence was gathered from a postal survey and interviews with a small sample of small business owners (SBOs). Their findings suggest that compliance cost was seen as a burden by participants and not all SBOs regarded the GST system as simple to understand or fair. The authors observed that the increased use of accounting software to prepare GST returns, combined with an assumption that tax practitioners will pick up any errors at the end of the year, may have resulted in unintentional noncompliance. Tax penalty and audit were also observed as factors that contributed to compliance with this group and their GST morale appeared positive. Evidence of taxpayers keeping separate mental accounts for GST and turnover was also observed (see discussion below).

Overall, it appears that small business owners find the tax system complex suggesting that they do not have a good understanding of the tax requirements of the income tax or GST/VAT requirements.

2.4 Decision Frames – Prospect Theory and Mental Accounting

Overview

The concept of mental accounting is developed from prospect theory. Prospect theory (Tversky & Kahneman, 1981; Tversky & Kahneman, 1986) distinguishes between gains which are associated with risk aversion behaviour and losses which are associated with risk seeking behaviour. Based on this theory, a given decision problem can be framed in more than one way. The term ‘decision frame’ refers “to the decision-maker’s conception of the acts, outcomes, and contingencies associated with a particular choice” (Tversky & Kahneman, 1981, p. 453).

⁴ Focus groups were held followed by the administration of a postal survey to two groups, complying and non-complying SME taxpayers. They received 240 responses, 152 from compliant taxpayers and 88 from the non-compliant group.

Framing a decision problem in different ways can lead to different outcomes which violates the concept of rational choice (consistency and coherence in choices). Prospect theory is “designed to explain preferences, whether or not they can be rationalized” (Tversky & Kahnemann, 1986, p. 272).

Thaler (1985, p.199) introduced the concept of mental accounting explained in a marketing context with the goal of developing “a richer theory of consumer behaviour than standard economic theory.” Thaler’s (1999) further offered a definition of mental accounting as “the set of cognitive operations used by individuals and households to organize, evaluate, and keep track of financial activities” (p. 183). With respect to keeping separate mental accounts Thaler observed (p. 193):

Money is commonly labelled at three levels: expenditures are grouped into budgets (e.g. food, housing etc.); wealth is allocated into accounts (e.g. checking, pension, ‘rainy day’); and income is divided into categories (e.g. regular or windfall). Such accounts would be inconsequential if they were perfectly fungible (i.e. substitutable) as assumed in economics. But they are not fungible, and so they “matter”.

Thaler (1999, p. 202) concluded that mental accounting can help answer a wide range of questions including from “why do firms pay dividends?” to “why do sales contests have luxuries (instead of cash) as prizes?”

Henderson and Peterson (1992) discussed mental accounting and categorisation theory and took an alternative view of the topic. They argued that “mental accounting is not a unique process occurring only when a decision has monetary features. Rather it is an instance of categorisation.....mental accounts are nothing more than a type of category, one that includes the advantages and disadvantages of the element being categorized” (p.114). The authors concluded that categorisation theories can be extended to cover events with monetary features and it is therefore appropriate to “use these existing theories when attempting to explain mental accounting processes than to develop a separate (additional) theory to describe the consequences of processing elements with monetary features” (p. 114).

Tax Compliance

The interesting aspect of mental accounting has also been examined in several tax compliance studies, although there are not many. Maciejovsky, Kirchler, and Schwarzenberger (1981, p.10) investigated whether the 72 student participants in their study formed different and separate

mental accounts for income from selling assets and dividend income when trading on an experimental asset market. They also considered whether increases in tax penalty and audit frequency increased tax compliance. After periods of trading participants had to decide whether, and to what extent, they wanted to declare their income. Separate tax returns were completed for the two types of income. Based on mental accounting theory the authors expected declared income would differ for the two income sources but their results did not support their expectation. Instead increases in both tax penalty and audit frequency were found to lead to higher tax compliance in the study.

In an experimental study, Boylan and Sprinkle (2001), investigated whether the way income was obtained (earned or endowed) affected the relationship between tax rates and compliance in terms of the amount declared. Their results show that “the effect of an increase in tax rate on participants’ compliance decisions depends on whether income is earned or endowed” (p. 83). The study indicated that participants treated their income differently depending on the amount of time and effort that went into obtaining it. When income was endowed the participants appeared to view the income as prior gain and exhibited risk-seeking behaviour. “To offset the negative impact (on wealth) of a tax rate increase, participants, on average, report less income in what appears to be an attempt to maintain the desired expected return” (p. 87). Alternatively when income was earned the participants appeared “to focus on ensuring they left the experiment with some minimum amount of money.....they did not appear to want to risk walking away with a trivial payoff in the event that their tax return was audited” (p. 87). This study links to mental accounting theory as the way income was earned appeared to result in it being placed in different mental accounts which in turn then affected compliance decisions.

Adams and Webley’s (2001) exploratory research focused on the attitudes of small business owners on VAT compliance in the UK. A grounded theory approach was used to analyse the responses from 27 semi-structured interviews that were conducted with small business owners from three occupational groups; restaurateurs, builders and flooring/furnishing proprietors. Four major themes in common with income tax compliance were observed; equity, views on the authoritative body, sanctions and morality. An additional theme observed “of some importance would also seem to be the psychological phenomenon of mental accounting” (p. 195). There was some evidence that participants in the study viewed the VAT money collected by them in two different ways. Some interviewees viewed the VAT collected as part of their turnover and therefore belonging to their business. Others recognised it had been collected on

behalf of, and belonged to the tax authority. Of interest is whether these two different views are then linked to different compliance behaviour.

The above preliminary study was extended by Webley, Adams and Effers (2002). This larger study on VAT compliance involved the distribution of 3200 questionnaires to UK business owners from either the catering or flooring/furnishing industries. Valid responses were received from three hundred and fifty nine participants. With respect to mental accounting findings showed that a high level of participants strongly agreed that VAT collected was part of their business funds, appearing to place VAT collected and business turnover in the same mental account. However, whilst mental accounting was observed a significant link was not established with compliance behaviour. The authors noted that such a result could be due to the measure used in the study which might need to be refined in future research.

The study by Ashby and Webley (2008a) on the taxpaying culture of the hairdressing/beauty industry suggests that these taxpayers relied on accountants/tax advisors and the notion that a level of cash payments was acceptable. Some interviewees demonstrated the concept of mental accounting with respect to different types of income. For instance, tips tend to be seen as a gift and were thought of differently to ordinary taxable income indicating that tips were viewed as theirs to spend as they wished and separate from their regular takings which would be declared as taxable income.

Mental accounting was further explored by Ashby and Webley (2008b) by conducting focus group discussions with two separate occupational groups for comparison. They found that taxi operators tended to conceptualise their fare income and any tips as together being part of their total daily income. Hairdressers once again demonstrated a difference in the way they viewed different types of income with tips being seen as a 'gift' or 'bonus', not as part of their daily taxable income. The authors concluded that "importantly, the findings also indicate that the way in which sources of extra income are conceptualised (and the mental account they are placed in) is tied to occupational group membership" (p. 6). Further interviews with 15 Australian hairdressers showed similar results with evidence that participants placed tip money and money from 'out of hours' haircuts in a separate mental account. It appeared they were less likely to declare this income "because it was placed in a different mental account to their ordinary income" (p. 9).

In their 2013 study Muehlbacher and Kirchler extended the findings of previous studies by investigating the impact of mental accounting on income tax compliance. The authors observed that mental accounting seems to matter in the context of paying taxes and that some taxpayers seem to keep a separate mental tax account to put aside money for their tax due. Others tend to integrate taxes and other costs and revenues, resulting in the feeling of ownership of the whole gross income, the VAT, etc. The authors also noted that it is not surprising that taxpayers who view taxes in this way might find it harder to pay taxes as their perception is that the payment is out of their own pocket.

Muehlbacher, Hartl and Kirchler (2015) further investigated the concept of mental accounting using a laboratory experiment. This study represented the first experimental approach to study the role of mental accounting in tax compliance. One hundred and twenty eight subjects were sourced from university announcements and social networks on the internet. The study simulated nine business years of self employed taxpayers. The authors found that (i) framing of income, mental tax accounting, and the interaction of both are related to tax compliance, and (ii) compliance was higher when income was displayed as net income and when the measure for mental tax accounting indicated mental segregation of the tax due.

Bhattacharjee, Moreno and Salvador (2015) investigated reporting behaviour when taxpayers are filing multiple returns (state and federal). The authors contended “that when taxpayers are preparing multiple tax returns, they will combine their federal and state taxes into one mental account” (p. 104). Using an experimental study with 270 participants the study compared behaviour “in a single net refund or single net payment due condition versus a multiple refund (larger refund and smaller payment due) or multiple payments due condition (larger payment due and smaller refund)” (p. 99). The results showed that aggressiveness altered depending on whether the equivalent economic situation was presented as a single amount (e.g. single refund) or a larger amount with an offset (e.g. larger refund with smaller payment). In this equivalent gain situation, aggressiveness shifted up (more risk taking) when the same net refund was presented as multiple returns compared to a single amount. On the other hand the opposite behaviour (less risk taking) was observed when an equivalent net payment position was presented. Bhattacharjee et al. (2015, p. 112) noted, “Consistent with the mental accounting proposition, their findings support the idea that the multiple payment group is less aggressive due to their propensity to hold on to the silver lining gain embedded in the multiple payment condition.”

In their 2015 preliminary study of New Zealand small business owners' attitudes towards GST compliance Woodward and Tan observed some evidence of mental accounting with respect to GST collected.⁵ Some participants viewed GST collected as being part of their business turnover (including both regular turnover and GST collected in the same mental account) while others clearly recognised that GST was collected on behalf of Inland Revenue and was separate from income. The authors observed that if business owners considered GST collected as "theirs" as opposed to it being held on behalf of Inland Revenue then there was the potential for this to impact on their compliance behaviour with respect to GST. However, and in common with Webley, Adams and Effers (2002) findings above, their findings were derived from very small samples.

2.5 Decision Frames – Reactance Theory

In his 1989 paper Brehm explained the theory of psychological reactance. "People become motivationally aroused by a threat to or elimination of a behavioural freedom. This motivational state is what is called psychological reactance. It impels the individual to restore the particular freedom that was threatened or taken away" (p. 72). Brehm's discussion was set in the context of consumer behaviour as was Clee and Wicklund's (1980) who explained "the more important the freedom, the more reactance is generated due to personal or impersonal threats" (p.391).

Drawing from the reactance theory, Kirchler's (1999, p. 135) hypothesised that

...perceived loss of freedom through tax obligations would result in reactance, that is, attitudes accepting tax evasion, lower morality and higher tendencies to avoid taxes.....Second, it was assumed that entrepreneurs who had been running their enterprise for only a short time would experience intense loss of freedom and show higher reactance than those who had been running it for an extended period of time and who had experienced profits despite tax obligations and/or who had adapted to the tax system.

⁵ The study consisted of a postal survey, from which 37 valid responses were received, and interviews with eight small business owners.

Using data from 117 Austrian employers running small or medium-sized enterprises, employing one or more workers for his study, the results support the two hypotheses.

Overall prior research suggests that opportunity, knowledge and decision frames help to explain why people do not always comply with their tax obligations.

3.0 Research Method

3.1 Samples

A postal survey was selected as only postal addresses for the primary sector is available. The sample was selected from a farm location map book⁶ which covers Southland and West Otago and was updated in 2015 (Combined Lions Farm Location Map Committee, 2015). Due to budget constraints, a sample size to 600 (300 each sector)⁷ was obtained. The trades' sector sample was selected from the online version of the yellow pages. While the trades sector extends to other industries (e.g. automotive repairs) it was decided for practical reasons to limit the search parameters to trades within the construction industry (builders, plumbers, electricians etc.). In total, a sample size of 600 was obtained (300 for each sector).⁸

3.2 Questionnaire Design

The study uses the framework proposed by Kamleitner, Korunka & Kirchlers (2012) to investigate the factors that influence SBOs compliance with GST. A range of questions focused on opportunities for non compliance with GST, GST knowledge and decision frames including mental accounting. Questions relating to group norms, gender, age, fairness and trust perceptions were also elicited.

The survey instrument was six pages in length and was split into six sections. The first five sections contained 48 questions categorised as follows: A) GST knowledge, B) Accounting for GST, C) Fairness of New Zealand's GST system, D) GST compliance – Invoicing, E) GST compliance – Other Issues. Section A contained questions relating to both overall knowledge

⁶ A non-profit group prepares and sells a farm location map book for \$35.

⁷ The researcher was permitted by her employer to use her professional development budget for the year to cover the cost of the survey so this was the constraining factor.

⁸ Due to budget constraints, the sample size was restricted to 600.

of GST rules and more specific knowledge on tax invoices and penalties. Section B focused primarily on decision frames including mental accounting. Section C concentrated on fairness of the GST system and also contained questions related to trust in, and treatment by, Inland Revenue. The next two sections covered a range of compliance issues with respect to GST. Respondents were asked about both their own attitudes with respect to compliance and their perceptions of compliance by other business owners. The final section of the survey sourced a range of demographic information on the respondents.

The majority of the questions, in the first five sections of the questionnaire required the respondent to record their level of agreement with a statement using a five point Likert scale, with a response of one corresponding to 'strongly agree' and five with 'strongly disagree'. The remaining six questions required respondents to record their answer by ticking a box or boxes. At the conclusion of each section the respondents were provided space to make additional comments if they wished to.

In the final stages of development, the survey was pilot tested and based on feedback received minor adjustments were made to the survey instrument.

The initial mail-out contained four pieces of information: an introductory letter, an information sheet, the survey, and a post-paid reply envelope. The letter included advice to disregard the survey if the recipients were outside the desired population (GST registered small businesses). After two and a half weeks a further mail-out was undertaken. A reminder letter was posted along with a new copy of both the information sheet and questionnaire. A further reply paid envelope was also included. Between the initial mail-out and reminder a number of recipients had advised they were outside the population and some envelopes had been returned as they were undeliverable. These businesses were removed from the second mail-out.

In total seventeen surveys were undeliverable for various reasons e.g. "gone no address" and "no delivery point". One recipient notified that their business was not small as defined and eight recipients notified that their businesses were not registered for GST. Ninety surveys were returned with one invalid, leaving eighty nine⁹ valid responses (14.7%). Forty valid responses

⁹ Between 10 and 13 days after all other surveys had been received, data entry had taken place, and tables had been prepared an additional three completed valid surveys were returned. It was not feasible at this point to include these responses. Their inclusion would have raised the valid response rate to 15.3%.

were received from the primary sector (13.3%) with the remaining forty nine (16.3%) received from the trades sector. The returned surveys were allocated a number to assist with data entry and tracking comments (e.g. P1, T2¹⁰). Included in the 89 valid responses were 65 individual written comments on a range of issues.

An overall valid response rate of 14.7% is low but is not outside the experience of taxation surveys which generally have a poor response rate. For example Woodward and Tan's (2015) preliminary study on GST compliance in New Zealand had a valid response rate of 12.3% while Saad's (2011) New Zealand survey obtained a valid response rate of 10%.

The gender breakdown of the respondents was 64 (72%) male and 23 (26%) female with two (2%) respondents not selecting a gender. They had an average age of 53 years and had been in business an average of 23 years. With respect to ethnicity a large majority of respondents, 81 (91%), identified with NZ European. 83% operated their business in either a partnership or company structure and 80% of the businesses had a per annum turnover between \$60,000 and \$2 million. In total 53 (59%) indicated some level of secondary schooling as their highest level of education, 21 (24%) had some kind of trade qualification or diploma while 12 (13%) held a degree or post-graduate qualification (See Appendix 8).

4.0 Findings and Discussion

4.1 GST Knowledge

Fifty four (61%) of the total respondents completed their own GST returns, 11 (12%) indicated their spouse completes the return while 18 (37%) have their accountant completed their businesses' GST return. Of the 65 total where one of the spouses completed the return 57 confirmed an accounting software package was used. Four respondents from the trades sample have a staff member, using accounting software, complete GST returns. The details of who completed the returns and used accounting software were basically similar for trades and primary sector (see Appendix 8). One respondent commented:

¹⁰ An alpha numeric system was used for the coding. Primary sector participants were coded with the letter "P" followed by a number and trades sector were coded "T" followed by a number.

“I have my accountant do my GST (at a cost!). Saves a lot of time and hassle, that I don't have!”. T46

The majority of respondents (76%) agreed that GST rules in New Zealand are relatively simple (Mean = 2.25; SD = .74) and a similar percentage (75%) indicated the same with respect to confidence in their own ability to complete their GST returns correctly (Mean = 2.18; SD = .85). All eight respondents who disagreed that they felt confident in their own ability to complete returns had either their accountant (7) or a staff member (1) complete the returns. Less agreement was recorded with regard to whether most business owners have a good understanding of the GST returns (Mean = 2.49; SD .79) where a larger percentage (36%) felt neutral towards the statement. This feeling was also reflected in the respondents' views on whether most business owners are able to complete their GST returns correctly (Mean = 2.63; SD = .73). For the full summary of responses, including breakdown by sector see Appendix 2).

Many respondents used accounting software packages to complete their returns and those that felt uncomfortable with respect to completing their GST return correctly assigned the responsibility to another party (in most cases their accountant). Comments included:

“It is assumed if you use an accounting software system a lot of the guess work is eliminated. Granted the system does need to be set up correctly”. P29

“The grey areas tend to be things where you can claim a % of GST”. P5

“Pretty confident in working out sales vs costs but do have to think about a few like bank charges etc. and usually have an adjustment at end of year”. T42

As noted in Woodward and Tan's (2015) preliminary study the reliance on accounting software packages does raise issues with respect to unintentional non-compliance. Forty two percent of respondents to this study agreed that most business owners would need some help to ensure they have worked out their GST returns correctly recognising that there may be transactions that are more difficult to record correctly (Mean = 2.82; SD .82).

With respect to getting help with a GST query 99% of respondents confirmed they would go to their tax accountant for help. The next most popular option (31%) was the Inland Revenue

website and while 19% would also use the Inland Revenue 0800 phone line a level of frustration with this service was expressed through the respondents' feedback. For example:

"It's impossible to get through to the IRD so that option is a waste of time". P11

"To ring a phone line service there is nearly always a significant wait to get to talk to someone who can help". P23

Thirty percent of respondents disagreed that Inland Revenue had provided them with good information to help them complete their GST returns when they first registered for GST (Mean = 2.91; SD = 1.04). It needs to be recognised that the average length of time the respondents had been in business was 23 years so this may not be indicative of the current situation with respect to information provided to SBOs registering for the first time. However, when looking specifically at the ten businesses that had been operating less than ten years, three (30%) disagreed that they had been provided with good information. Although a sample of ten is too small to draw conclusions from but the percentage is consistent with the total sample indicating Inland Revenue may not be reaching all taxpayers with good educational information on GST registration. Having a good understanding of GST from the beginning may impact on 'decision frames' as discussed in the next section. If a taxpayer does not clearly understand the nature of GST from the commencement of their business operations then this may result in them placing the GST in a different mental account than a taxpayer who is clear that GST has been collected on behalf of Inland Revenue and is not part of business turnover.

'Tax invoices' are a key component of the GST system, evidencing the right to claim an input tax credit. Those registered for GST are required to provide other registered entities with tax invoices. As part of the 2016 national rollout of a compliance programme targeting the construction sector, officers of Inland Revenue are currently undertaking compliance visits in the Southland region, with one of the focuses of these visits being correct preparation of tax invoices (Inland Revenue, 2016). The majority (82%) of respondents in this study agreed that they were clear about all the information that needed to be recorded on a tax invoice. Results were very similar for both the trades and primary sector samples. Some of those that disagreed or were neutral did not complete GST returns themselves so may also have assistance with invoice preparation. Buyer-created tax invoices are common in the primary sector so this issue is of less significance to this group:

“We very rarely give out invoices in our business as we are a primary producer”. P26

As discussed in the literature review previous studies have shown that penalties are a factor that influences compliance with taxation rules (the current study finds further evidence, see below). A question was included asking if the SBOs had a good understanding of the different penalties that Inland Revenue could impose if their business did not comply with GST requirements. Thirty three percent of respondents disagreed with the statement (Mean 2.85; SD = 1.13). It is interesting that while penalties are a factor influencing compliance a third taxpayers admitted they were not clear on what all those penalties may be.¹¹

4.2 Decision Frames including Mental Accounting

Section B of the survey focused on decision frames and how respondents think and feel about the GST they are collecting. Questions were asked linked to prospect theory, mental accounting and reactive theory. Do they think of their business income as inclusive or exclusive? Do they use inclusive or exclusive figures when preparing quotes? Are they in the situation of usually having to pay GST to Inland Revenue? How do they feel when they have to make a payment of GST to Inland Revenue? Do they keep track of GST collected either through a separate bank account or mentally, or is it not segregated from income in any way? Do they feel watched by Inland Revenue’s control of information and do they feel obligations to pay GST limit their ability to spend business funds as they would like? A final question explored if respondents felt it was necessary to pay the correct amount of GST to support society. (For a full summary of responses see Appendix 4).

With respect to preparing a quote for a client job 82% of the trades sector indicated they do all the calculations using GST exclusive amounts. Interestingly a lower percentage (49%) think of the income their business earns exclusive of GST while 51% think of the amount inclusive of GST. As expected for the primary sector a significant number (63%) recorded the issue of

¹¹ When reviewing Appendix 2 it is notable that the results appear similar for the two sectors. There is minimal variation in the means and standard deviations of the two samples. T-Test’s run on the samples using Excel show that for all questions there is no statistically significant difference (using .05 level of significance) when comparing the means of the samples.

quoting for clients was not applicable to them. Only 28% of this sample thinks of the income their business earns inclusive of GST with 67% thinking of it exclusive and 5% thinking of it both inclusive and exclusive.

For the primary sector sample 73% were in the situation of 'usually making a payment of GST to Inland Revenue with the occasional refund' while 25% indicated a 'roughly even mix of payments and refunds' and only 2% 'always have a payment'. Given the cyclical nature of farming it is expected that these taxpayers would more often be in receipt of a GST refund than those involved in the trades sector and this is confirmed by the respondents. Seventy one percent of the trades sample indicated they always pay GST, while 27% usually pay but have an occasional refund and only 2% recorded a roughly even mix of payments and refunds. No respondents from either sample indicated that they were usually or always in receipt of a refund of GST from Inland Revenue.

Twelve percent of the total sample felt unhappy when they have to make a payment of GST to the Inland Revenue while 62% are neutral indicating that while the payment impacted on their cash flow it has to be paid. Twenty six percent of respondents are completely accepting recognising they have collected the GST on behalf of Inland Revenue and it is time to pay it over. There are differences between the sectors but for both the largest percentage is neutral and the smallest percentage were unhappy (refer appendix 4, page 60). Comments representing the two extremes of feeling included:

"GST helps with cash flow - Can use GST earned for a couple of months till it needs to be paid". P26.

"It always seems that when you have a large sum "in profit" in your bank account, the GST payment comes along every 2nd month and completely wipes out any profits and puts the bank account back into the negative again. It's about time wages were included in GST as well". T46.

Question 5 specifically focused on whether the respondents segregate the GST collected but not yet paid over to Inland Revenue from their business income. Nine percent of the total sample keeps the GST collected in a separate bank account and all of these respondents are from the trades sector. Forty seven percent banks the GST in the businesses' main bank account

but keep track of the GST component mentally while 44% indicated they do not keep track of the GST collected in any particular way. The total percentages that track GST in some way (separate bank account or mentally) versus those that do not are very similar when comparing the two sectors.

Eighteen percent of total respondents show a level of agreement with respect to Inland Revenue's control of GST information making them feel watched while 47% are neutral and 35% disagree (Mean = 3.17; SD = .84). The issue of whether obligations to pay GST limits the respondent's ability to spend business funds as they would like records an almost identical mean and standard deviation (Mean 3.16; SD = .97) though the spread of the responses is different. Twenty eight percent agree with the statement, 28% are neutral and 44% disagree. There is 61% agreement that it is necessary to pay the correct amount of GST to support society, 12% disagreement, and 27% are neutral towards the statement (Mean = 2.49; SD = .92). Reasons for not agreeing with this statement may be varied. For example taxpayers may feel that overall they pay too much total tax or they may believe that government does not spend the tax dollar wisely. For all these questions the means of the two samples are obviously similar and are not statistically significantly different (using T-test, .05 significance).

An analysis was completed on several of the questions from this section to see if there was any apparent link between these responses and individual tax morale as investigated in Section D and E of the survey. Links to how the respondents answered the final three questions of this section were also examined. The first factor investigated was how the respondents feel when they have to pay GST to the Inland Revenue. The total sample was sorted into 'unhappy (11)', 'neutral (55)' and 'completely accepting (23)' groups and responses to a series of questions were reviewed with means and standard deviations calculated for each new group for comparison. (See Appendix 9 for a full summary of results).

The results are not significantly different, but for every question, when the mean of the 'completely accepting' and 'unhappy' samples are compared the means of both smaller samples move away from one another the way you would expect given the respondents' feelings about GST. For example the 'unhappy' group feel 'more watched', were less in agreement that it is necessary to pay the correct amount of GST to support society, disagreed less that it is acceptable to alter invoices to claim more GST or claim personal expenses as business etc. when compared to the 'completely accepting' group. The largest differences are

recorded for the questions related to circumstances when it might be acceptable not to declare cash earnings and previously having asked a tradesperson to do a job for cash. While these results are of interest and indicate that it is possible the way taxpayers think about GST impacts on compliance it is not possible to draw conclusions as the sample sizes are small. Outliers could be affecting the means of the small samples significantly.

A similar analysis was completed to compare the taxpayers who were always paying GST with those that were equally likely to be in a refund position in order to see if there was any link between a taxpayer who framed the GST payment as a 'loss' and issues linked to individual tax morale and compliance. Means did not in all cases show the differences you would expect in this case (assuming those that frame the payment as a "loss" would have lower tax morale and be less compliant). Once again there was an issue with sample size. The 'always pay' sample had 36 respondents, 'usually pay occasional refund' accounted for 42 respondents but 'roughly even' had a sample size of 11.

The total sample was then reviewed in terms of whether or not GST collected but not yet paid to Inland Revenue was segregated from business income in the minds of the respondents. Thirty nine respondents did not keep track of the GST collected in any particular way while the remaining 50 did segregate the GST either by keeping it in a separate bank account (8) or tracking the amount mentally (42). Means for questions linked to individual tax morale were once again calculated. (See Appendix 10 for a full summary of the results). Once again, for all questions, the means do move away from one another in the expected direction if the assumption is that those who segregate the GST, recognising they are holding it on behalf of Inland Revenue, are more compliant and have higher levels of tax morale. The sample sizes are larger in this analysis but the differences in the means are generally smaller than observed in Appendix 9. The results indicate that it is possible, at least for some taxpayers, that a clear separation of GST collected from income may be a factor in increased compliance with GST.

4.3 Fairness GST System

A significant proportion of respondents (81%) agreed that GST is fair because it applies to most goods and services at a flat rate so people who consume more pay more (Mean = 2.12; SD = .56). There was less overall agreement (53%) that the registration level of \$60,000 is set at a reasonable level (Mean 2.55; SD = .78) and less again with respect to the rate of GST.

Reasonably even proportions agreed (36%), were neutral (30%) and disagreed (34%) that the 15% GST rate is set at a reasonable level (Mean = 2.97; SD = .94). (For the full summary of results see Appendix 4). Comments showing alternative views with respect to these issues included:

“Completely fair - the best tax as everyone contributes”. P4

“Consider putting GST to a level where no other taxes are necessary. Hence the more you spend the more you pay”. T17.

“I think it is most unfair for GST to be on all medical services / when I pay my own medical exs / the Govt win both ways”. P13

“I don't mind GST as a system but would prefer it to be lower - say 10% (easy to work out and they do tax income as well so feel they get enough out of us)”. T42.

Results indicate administration costs are of more concern to SBOs. The statement that “although an administration cost falls on the GST registered business it is not significant” is the only question in the section to result in a Mean higher than 3 for the total sample (Mean= 3.15; SD = .97) and for both two sectors (PMean =3.3; PSD = 1.02 and TMean = 3.02; TSD = .92). Forty four per cent of the sample shows a level of agreement with respect to being GST registered providing other benefits including better record keeping. Twenty two percent record a level of disagreement with the statement (Mean 2.76; SD = .98). A number of comments were recorded related to administration including:

“Adds more administration time for which we get little thanks and means we are putting off doing other hands on things”. P23.

“GST returns are another time commitment in our business which does not benefit our business - feel like an unpaid tax collector”. P35

“Regardless of how long it takes to do the GST there is a cost attached to it for every business”. T17.

Sixty four percent agreed that being GST registered did not affect the competitiveness of their business (Mean = 2.32; SD = .85). No primary sector respondent disagreed with this question. This is not unexpected given the majority of sales would be to primary producer cooperatives and companies on set payment schedules. Eighteen percent of the trades sector disagreed with the statement. This may reflect the fact that some of the businesses in the sample are aware they are competing with very small businesses that are not registered for GST so do not have to charge the additional 15%. It could also be reflective of these SBOs believing that other businesses were doing cash jobs. Reviewing those that indicated an issue with competitiveness there was not a consistent link to the belief that other businesses made cash sales and underreported income (Appendix 7, question 7).

Only 8% percent disagreed while 71% of respondents agreed that the risk of getting audited does result in business owners correctly complying with GST rules (Mean = 2.25; SD = .82). From the demographic information it is apparent that a significant proportion of both samples have been audited for at least one tax type at some time in the past. Fifteen participants (38%) from the primary sector and 24 (49%) from the trades sector had been audited previously. These percentages appear high given audit rates in New Zealand but may be affected by the length of time the sample has been in business and that the trades sector is seen as high risk by Inland Revenue.

There is also a high level of agreement (93%) with the statement that business owners that are caught for evasion are subject to penalties (Mean = 1.69; SD = .65). Agreement was lower (74%) with respect to the question of whether business owner's that deliberately under pay GST to Inland Revenue are likely to be caught (Mean 2.14, SD = .77) and lower again (41%) when considering the issue of whether Inland Revenue applies penalties consistently (Mean = 2.54; SD = .78). When considering how they are personally affected by penalties 91% of respondents agreed that the potential cost of incurring penalties results in them always trying to correctly meet their GST obligations (Mean = 1.82; SD = .67).

Statements related to the way Inland Revenue deals with taxpayers' record lower levels of agreement. Forty seven percent agree or strongly agreed that Inland revenue treated all taxpayers in a fair and consistent manner (Mean = 2.61; SD = .76) while the statement relating to whether the SBO would trust Inland Revenue to deal with them personally in a fair and

reasonable manner records 68% total agreement (Mean 2.25; SD = .82). Comments show different experiences with Inland Revenue:

“Sometimes IRD go after people and keep hounding them. Others get off with little or no penalty”. P25.

“IRD are always reasonable around payment plans being set up. Difficult when genuine errors or mistakes have been made which have meant delays or over/under payments have been made”. T3.

Once again there are no apparent significant differences between the two sector samples and T-Tests do not result in rejection of the null hypothesis that the means of the two samples are different for any question. Results from this section are very consistent with those obtained from the earlier preliminary study into GST compliance in New Zealand (Woodward & Tan, 2015).

4.4 GST Compliance - Invoicing Issues

In this section questions that related to the respondents' personal tax moral showed stronger levels of agreement or disagreement. In the total sample 33% disagreed and 63% strongly disagreed that they would alter a tax invoice if someone requested they do so (Mean = 4.56; SD = .66). Similar results (38% disagree, 55% strongly disagree) were recorded with respect to SBOs personally believing that there were circumstances when it might be acceptable to alter a tax invoice to allow another business owner to claim more GST (Mean 4.45; SD = .72). Linked to this issue 92% agreed that they would not feel good if they altered a tax invoice to allow someone to claim more GST (Mean = 1.54; SD = .76). Significant disagreement (95% disagree or strongly disagree) was also recorded with respect to circumstances when it was appropriate to ask another business to alter a tax invoice so the respondent could claim more GST (Mean 4.51; SD = .76). The means and standard deviations for the two separate samples were almost the same for all these questions indicating no discernible difference between the tax moral of respondents in the two sectors. (For the full summary of responses and details for the two samples see Appendix 6). Comments from respondents showed some definite feelings on these issues:

“All these examples are fraud and if you do this, you need to go to jail”. P25.

“Simply GST is a fact of life. I do not agree with altering invoices to allow people to claim additional GST”. T1.

While there was still significant disagreement with respect to personally thinking it was acceptable to alter a tax invoice so that private expenses appear to be business related in order to claim more GST, it was not quite as pronounced with 44% disagreeing and 38% strongly disagreeing (Mean = 4.15; SD = .86). When compared to other SBOs there are additional areas where the farming sector may be able to claim an amount of personal expenditure as being business related (for example farm building versus dwelling repairs and maintenance and private garden versus farm shelter). The results do record a small difference between the sectors with respect to this issue (PMean = 3.95; PSD = .93 and TMean = 4.31; TSD = .77).

Interestingly the statements that related to the respondents' perceptions of the morale of other business owners did not show results with as strong a level of agreement or disagreement. Means are nearer the neutral option for all these questions. When asked if most business owners always correctly record the details of a sale on the GST tax invoice 9% strongly agreed and 73% agreed (Mean = 2.15; SD = .65). In total disagreement was 83% (65% disagree, 18% strongly disagree) with the statement that most business owners generally believe it is acceptable to alter a tax invoice to allow another business to claim more GST (Mean = 4.13; SD = .62). With respect to perception of whether most business owners believe it is acceptable to include private expenses as business for GST the mean result is again nearer the neutral option than when taxpayers were answering for themselves personally (Mean = 3.94; SD = .93). The comments lend some insight in that respondents recognise there are areas where there may be opportunities to claim additional expenses as the line between business and private it not always clear (in their minds anyway). Comments included:

“Sometimes borderline - business or private. Probably most people claim as business”. T11.

“Grey areas - claim what you can”. T29

“People who run businesses already are able to deduct elements of personal expenses in order to pay a smaller income tax (i.e. home office) so I do not believe that this should be pushed (i.e. Family vacations etc.) as it is not good for your business (cash flow anyway)”. T42.

Overall the results from this section are very consistent with the findings of the earlier preliminary study (Woodward & Tan, 2015) and once again there are no statistically significant differences between the two samples under review. Given that two sectors with potentially increased opportunities for non-compliance were selected for this study it is interesting that there is no significant difference in results for this section when compared to the preliminary study which surveyed a range of small businesses. This result may be affected by the limitation that non-compliant taxpayers chose not to participate in the study as discussed in section 3.4 above.

4.5 GST Compliance – Other Issues

The final section of questions focused primarily on the cash economy and declaration of cash earnings. Two quite different sectors were included in the study when one considers opportunities to earn cash income or complete “cash jobs”. The majority of farming income would be earned through large primary producer cooperatives or companies and paid from schedule by direct credit under buyer-created tax invoices. Those in the trades sector, particularly smaller operators dealing directly with homeowners, have more opportunities to engage in the cash economy. For this reason some results in this section might evidence differences in attitudes between the two samples. This is not the case. The results are very consistent across all questions in the section. (See Appendix 6 Summary Results – GST Compliance Other Issues).

Once again there is a stronger level of disagreement with respect to whether the respondent personally finds anything wrong with purposely misclassifying goods or services as exempt or zero-rated (Mean 4.24; SD = .74) than their perception of whether other business owners sometimes misclassify income in this way (Mean = 3.77; SD = .81). Levels of disagreement were lower, Mean 3.75 (SD = .95), with respect to perceptions of whether most business owners make cash sales and keep the income for private spending. There was 50% agreement that business owners correctly record cash income for GST purposes (Mean = 2.65; SD = .91).

There was some agreement (16%) with the statement related to whether there are circumstances when the respondent believes it might be acceptable not to declare cash earnings (Mean = 3.76; SD = 1.07). When considering if unrecorded cash income means that underreporting of income is common in their type of business 17% agreed, 25% are neutral and 58% disagreed (Mean 3.57; SD = 1.05). Nine percent of respondents agreed they felt obliged to offer a 'lower price for cash' if a client asks for one (Mean = 3.8; SD = .87) while 23% were neutral rather than in disagreement with the statement. Several respondents from the trades sector expressed a degree of frustration over being asked to provide lower cash prices:

“Some clients ask for a cash price - they want the job cheaper. Don't seem to realise they asking us to break law or have to eat the loss”. T11.

“Some Kiwis regardless of ethnicity think cash will get the job cheaper. We are not interested. They become the worst clients you ever get”. T17.

A respondent from the primary sector indicated that how they felt about underreporting cash income depended on the amount involved:

“Depends on what \$ value we are talking about?” P29.

The final three questions related specifically to transactions with trades people. Once again there is a difference between the respondents perceptions of what other taxpayers do and their personal attitudes. In total 39% record agreement that New Zealanders think it is acceptable to ask a trades person to do a job for cash (Mean = 2.92; SD = 1.00) while 44% agreed that it is “Kiwi culture” to negotiate cash jobs with trades people to save some money (Mean = 2.82; SD = 1.02). However only 12% of the sample agreed that they had in the past asked a tradesperson to do a job for cash knowing that it may not be included in GST returns (Mean = 3.84; SD = 1.03). Some SBO's from the trades sector did make comments distinguishing between small jobs and larger jobs or between larger established businesses and smaller operators with respect to cash jobs. Comments included:

“I believe the so called cash culture is not happening in established businesses as most payments are by direct credit to our account”. T14.

“We do occasionally get asked for a 'cash job' but it is very rare and for small jobs. I think it used to be part of kiwi culture but most people know it is wrong and feel uncomfortable asking or don't ask”. T15.

“It's hard to record \$50-\$100 jobs as it requires more paperwork than the revenue the job offers. Apart from that, requests for cash jobs annoy me as at the end of the day I get the same amount only the consumer wins and society loses”. T42.

I think it is the smaller guys that are still doing cash jobs. Clients do ask (or some do) for cash price - we just say no now. Too much risk for us”. T48.

Several themes are of particular interest from this section. One is that the sample believes other taxpayers are engaged in the cash economy to a greater degree than the sample overall admits to itself. The same result was observed in the author's preliminary study. This could be due to non-compliant taxpayers not responding to the invitation to participate in the study. SBO's may be anecdotally aware of others that are involved in the cash economy, but these taxpayers are absent from the sample. Also the questions in this section that relate to individual compliance and tax morale do not generally record as extreme levels of agreement or disagreement (depending on which way the question was worded) as those from the earlier section C of the survey. This again, in line with the earlier study, indicates that taxpayers view cash earnings and cash jobs with tradespeople differently, at least to some degree, than other compliance issues.

5.0 Conclusions

One of the aims of this study was to extend the study on small business owners' attitudes toward GST compliance carried out by Woodward and Tax (2015) using a larger sample and focusing on the trades and primary sectors. The results of this study are consistent with their findings that i) taxpayers kept different 'mental accounts' for GST; ii) compliance cost is an ongoing burden with many using accounting software packages to record transactions and seeking help from their accountants; iii) risk of audit and tax penalties are significant factors when considering attitudes toward compliance; iv) SBOs have mixed experiences with regard to their

interactions with and trust in the tax authority; and v) GST morale with respect to proper invoicing and correct classification of expenses appears positive.

Although there is some evidence of decision frames impacting on compliance with GST, it is not conclusive. It also appears that there are no differences in attitudes/perceptions about GST compliance between taxpayers from the trades and primary sector. However, the owners viewed that it is other taxpayers who underreport income and misclassify private expenses, alter tax invoices, ask other tradespeople to complete a cashjob knowing that the income may not be included in the GST return. It is also of interest that in line with the preliminary study there is evidence that taxpayers do not regard cash jobs with tradespeople in quite the same way as they do other types of non-compliant behaviour. Responses are not as strong with respect to this issue when compared to other examples such as altering tax invoices to claim more GST. A number of tradespeople expressed frustration with clients asking for cash prices recognising that the risk of audit and penalties lay with themselves while the client obtained the advantage of the cheaper price. This issue indicates that education could be a valuable tool not just to change the thinking of tradespeople with respect to cash jobs but the general population. A more extreme approach would be to penalise both parties to the transaction but changing society's thinking through innovative advertising campaigns and education programmes appears a more viable option in the first instance. Inland Revenue recently trialled an advertising campaign directed primarily at Auckland based trades people and believe it has been successful at reducing unreported cash earnings (Inland Revenue, 2015). This campaign could be adapted and aimed at the general population.

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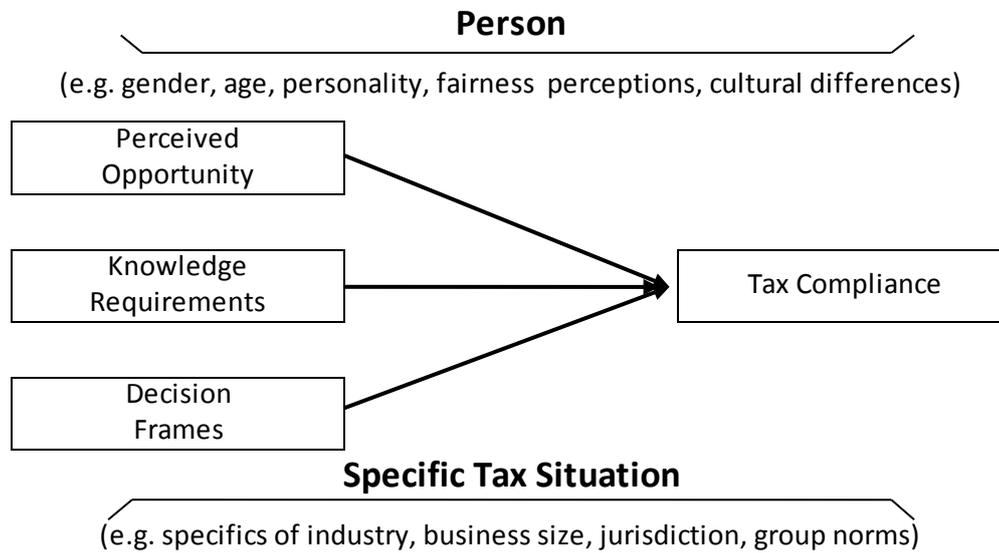
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7.0 Appendices

7.1 Appendix 1 A framework of factors influencing small business owners' tax compliance (Kamleitner, Korunka & Kirchler, 2012, p. 334).



7.2 Appendix 2 Summary Results GST Knowledge

	Strongly Agree ▼	Agree ▼	Neutral ▼	Disagree ▼	Strongly Disagree ▼	Mean	Std. Dev.
1. GST rules in New Zealand are relatively simple.	8%	68%	16%	7%	1%	2.25	.74
	7%	63%	20%	7%	3%	2.35	.83
	8%	74%	12%	6%	0%	2.16	.66
2. I am confident in my ability to complete GST returns correctly.	17%	58%	16%	8%	1%	2.18	.85
	15%	60%	15%	7%	3%	2.23	.89
	19%	57%	16%	8%	0%	2.14	.82
3. Most business owners have a good understanding of the GST rules.	8%	46%	36%	10%	0%	2.49	.79
	5%	45%	38%	12%	0%	2.58	.78
	11%	46%	35%	8%	0%	2.42	.79
4. Most business owners are able to complete their GST returns correctly.	5%	38%	47%	10%	0%	2.63	.73
	3%	37%	43%	17%	0%	2.75	.78
	7%	38%	51%	4%	0%	2.53	.69
5. Most business owners would need some help from a tax accountant to ensure that they have worked out their GST returns correctly.	1%	41%	33%	25%	0%	2.82	.82
	3%	50%	22%	25%	0%	2.70	.88
	0%	33%	42%	25%	0%	2.92	.77
6. I am clear about all the information that needs to be recorded on a GST tax invoice.	17%	65%	12%	5%	1%	2.08	.76
	20%	62%	12%	3%	3%	2.05	.82
	14%	68%	12%	6%	0%	2.10	.71
7. When my business first registered for GST Inland Revenue provided good information to help with correct completion of GST returns.	7%	33%	29%	26%	5%	2.91	1.04
	5%	30%	30%	32%	3%	2.96	.97
	8%	35%	29%	20%	8%	2.86	1.10
8. I have a good understanding of the different penalties that Inland Revenue can impose if my business does not comply with GST requirements.	9%	37%	21%	25%	8%	2.85	1.13
	5%	38%	22%	25%	10%	2.98	1.12
	12%	37%	20%	25%	6%	2.76	1.15

7. If I needed help with a GST query I would go to the following:

My tax accountant	99%	100%	98%
Inland Revenue:			
Guides	9%	8%	10%
Website	31%	28%	35%
Phone line (0800 service)	19%	25%	14%
Other	0%	0%	0%

7.3 Appendix 3 Summary Results – Accounting for GST

1. When I think of the income my business earns and the costs my business incurs, I think of the amount as:

Inclusive of GST.	41%	28%	51%
Exclusive of GST.	57%	67%	49%
Inclusive and Exclusive of GST (2 respondents ticked both options)	2%	5%	0%

2. When my business has to prepare a price/quote for a client job :

I do all the calculations using GST inclusive amounts.	11%	5%	16%
I do all the calculations using GST exclusive amounts.	60%	32%	82%
I do all the calculations using GST exclusive and inclusive amounts.*	1%	0%	2%
Not applicable to my business.	28%	63%	0%

* I respondent ticked both options.

3. When my business GST return is completed the end result is:

Always a payment to Inland revenue.	41%	2%	71%
Usually a payment to Inland Revenue, with an occasional refund.	47%	73%	27%
A roughly even mix of payments and refunds to/from Inland Revenue	12%	25%	2%
Usually a refund from Inland Revenue, with an occasional payment.	0%	0%	0%
Always a refund from Inland Revenue.	0%	0%	0%

4. Which of the following best describes the way you feel when you have to make a payment of your business GST to Inland Revenue?

Unhappy. It has a significant impact on my cash flow and I object to having to make the payment.	12%	10%	14%
Neutral, It impacts on my cash flow but I accept it has to be paid.	62%	70%	55%
Completely accepting. I have collected the GST on behalf of the Inland Revenue and it is time to pay it over.	26%	20%	31%

5. Which of the following describes the way you account for any GST your business has collected but not yet paid over to Inland Revenue?

I keep it in a separate bank account.	9%	0%	16%
It is banked in the businesses' main bank account but I keep track of it mentally.	47%	55%	41%
I do not keep track of the GST collected in any particular way.	44%	45%	43%

	Strongly Agree ▼	Agree ▼	Neutral ▼	Disagree ▼	Strongly Disagree ▼	Mean	Std. Dev.
6. Inland Revenue's control of the GST information I need to provide makes me feel watched.	3%	15%	47%	32%	3%	3.17	.84
	0%	13%	50%	35%	2%	3.28	.72
	6%	16%	45%	29%	4%	3.08	.93
7. Obligations to pay GST to Inland Revenue limit my ability to spend business funds as I would like.	5%	23%	28%	41%	3%	3.16	.97
	3%	5%	38%	51%	3%	3.46	.76
	6%	37%	20%	33%	4%	2.92	1.06
8. It is necessary to pay the correct amount of GST to support society (for funding health, education etc).	7%	54%	27%	6%	6%	2.49	.92
	5%	64%	18%	5%	8%	2.46	.97
	8%	47%	35%	6%	4%	2.51	.89

7.4 Appendix 4 Summary Results – Fairness GST System

	Strongly Agree ▼	Agree ▼	Neutral ▼	Disagree ▼	Strongly Disagree ▼	Mean	Std. Dev.
1. New Zealand's GST system is fair as:							
a. GST applies to most goods and services at a flat rate so people who consume more pay more GST.	9%	71%	19%	1%	0%	2.12	.56
	10%	75%	15%	0%	0%	2.05	.50
	8%	67%	23%	2%	0%	2.18	.60
b. The rate of GST (15%) is reasonable.	3%	33%	30%	32%	2%	2.97	.94
	5%	38%	30%	25%	2%	2.83	.96
	2%	29%	30%	37%	2%	3.08	.91
c. The GST registration threshold (\$60,000 turnover) is set at a reasonable level.	5%	48%	36%	10%	1%	2.55	.78
	2%	58%	30%	8%	2%	2.50	.78
	6%	41%	41%	12%	0%	2.59	.79
d. Although an administration cost falls on the GST registered business it is not significant.	2%	26%	35%	29%	8%	3.15	.97
	2%	20%	35%	30%	13%	3.30	1.02
	2%	31%	34%	29%	4%	3.02	.92
e. Being GST registered does provide other benefits such as better record keeping.	7%	37%	34%	18%	4%	2.76	.98
	7%	48%	25%	13%	7%	2.65	1.05
	6%	29%	41%	22%	2%	2.86	.91
f. Business owners that deliberately under pay GST to Inland Revenue are likely to be caught.	18%	56%	20%	6%	0%	2.14	.77
	15%	68%	15%	2%	0%	2.05	.64
	20%	47%	25%	8%	0%	2.21	.87
g. The risk of getting audited by Inland Revenue results in business owners correctly complying with GST rules.	14%	57%	21%	7%	1%	2.25	.82
	5%	68%	15%	10%	2%	2.38	.84
	20%	49%	27%	4%	0%	2.14	.79
h. Business owners that are caught for evasion of GST are subject to penalties.	38%	55%	7%	0%	0%	1.69	.60
	38%	60%	3%	0%	0%	1.65	.53
	39%	51%	10%	0%	0%	1.71	.65
i. The penalties imposed are applied consistently by Inland Revenue.	11%	30%	52%	7%	0%	2.54	.78
	8%	25%	60%	7%	0%	2.68	.73
	14%	35%	45%	6%	0%	2.43	.82
j. Being GST registered does not affect the competitiveness of my business i.e. having to add 15% to my prices does not affect my businesses' sales volume.	15%	49%	26%	10%	0%	2.32	.85
	10%	60%	30%	0%	0%	2.20	.61
	18%	41%	23%	18%	0%	2.41	1.00
2. With respect to GST Inland Revenue treats all taxpayers in a fair and consistent manner.	3%	44%	44%	7%	2%	2.61	.76
	2%	43%	43%	7%	5%	2.70	.85
	4%	45%	45%	6%	0%	2.53	.68
3. If a problem was identified with my business GST return I would trust officers of Inland Revenue to deal with me in a fair and reasonable manner.	16%	52%	24%	8%	0%	2.25	.82
	15%	50%	28%	7%	0%	2.28	.82
	16%	53%	23%	8%	0%	2.22	.82
4. The potential cost of incurring penalties results in me always trying to correctly meet my GST obligations.	29%	62%	8%	0%	1%	1.82	.67
	18%	75%	5%	0%	2%	1.95	.68
	39%	51%	10%	0%	0%	1.71	.65

7.5 Appendix 5 Summary Results – GST Compliance Invoicing Issues

	Strongly Agree ▼	Agree ▼	Neutral ▼	Disagree ▼	Strongly Disagree ▼	Mean	Std. Dev.
1. Most business owners always correctly record the details of a sale on the GST tax invoice.	9%	73%	12%	6%	0%	2.15	.65
	7%	73%	13%	7%	0%	2.20	.69
	10%	73%	13%	4%	0%	2.10	.63
2. Most business owners generally believe it is acceptable to alter a GST tax invoice to allow another business owner to claim more GST.	0%	1%	10%	64%	25%	4.13	.62
	0%	2%	15%	65%	18%	3.98	.66
	0%	0%	6%	63%	31%	4.25	.57
3. If someone requests a tax invoice be altered so they can claim more GST I will do it for them.	0%	2%	2%	33%	63%	4.56	.66
	0%	0%	5%	33%	62%	4.58	.59
	0%	4%	0%	33%	63%	4.55	.71
4. Personally I believe there are circumstances when it might be acceptable to alter the details on a tax invoice to allow another business owner to claim more GST.	0%	3%	4%	38%	55%	4.45	.72
	0%	2%	5%	50%	43%	4.33	.69
	0%	4%	2%	29%	65%	4.55	.74
5. If I altered a tax invoice to allow someone to claim more GST I would not feel good about it.	57%	35%	6%	1%	1%	1.54	.76
	55%	40%	5%	0%	0%	1.50	.60
	59%	31%	6%	2%	2%	1.57	.87
6. There are circumstances when I find it is justifiable to ask another GST registered business to alter a tax invoice so that I can claim more GST.	1%	2%	2%	34%	61%	4.51	.76
	2%	2%	3%	40%	53%	4.38	.87
	0%	2%	2%	30%	67%	4.61	.64
7. Most business owners believe it is acceptable to alter a tax invoice to include private expenses as business expenses for GST purposes.	0%	9%	18%	42%	31%	3.94	.93
	0%	12%	23%	48%	17%	3.70	.91
	0%	6%	15%	37%	42%	4.15	.90
8. Personally I think it is acceptable to alter a tax invoice so that private expenses appear to be business related in order for me to make a GST claim.	1%	3%	14%	44%	38%	4.15	.86
	2%	5%	15%	50%	28%	3.95	.93
	0%	2%	12%	39%	47%	4.31	.77

7.6 Appendix 6 Summary Results – GST Compliance Other Issues

	Strongly Agree ▼	Agree ▼	Neutral ▼	Disagree ▼	Strongly Disagree ▼	Mean	Std. Dev.
1. Most business owners sometimes purposely misclassify goods or services as exempt or zero-rated.	0%	6%	29%	47%	18%	3.77	.81
	0%	7%	33%	50%	10%	3.63	.77
	0%	4%	27%	44%	25%	3.90	.83
2. I do not find anything wrong in sometimes misclassifying goods or services as exempt or zero-rated.	0%	3%	8%	51%	38%	4.24	.74
	0%	2%	10%	60%	28%	4.13	.69
	0%	4%	6%	43%	47%	4.33	.77
3. Most business owners generally think it is acceptable to make cash sales, keep the cash for private spending, and not declare the sales/income in GST returns.	1%	9%	26%	41%	23%	3.75	.95
	0%	5%	35%	48%	12%	3.68	.76
	2%	13%	19%	35%	31%	3.81	1.09
4. Most business owners correctly record any cash sales/income for GST purposes.	6%	44%	33%	14%	3%	2.65	.91
	5%	43%	37%	13%	2%	2.65	.86
	6%	46%	29%	15%	4%	2.65	.96
5. Personally I believe there are circumstances when it might be acceptable not to declare cash earnings in the GST return.	2%	14%	17%	40%	27%	3.76	1.07
	2%	15%	20%	43%	20%	3.63	1.06
	2%	12%	14%	39%	33%	3.88	1.07
6. If someone purchasing goods or services from my business requests a 'lower price for cash', I feel obliged to offer one.	0%	9%	23%	48%	20%	3.80	.87
	0%	10%	35%	38%	17%	3.63	.90
	0%	8%	12%	57%	23%	3.94	.83
7. Unrecorded cash income means that underreporting of sales/income in GST returns is common in my type of business	3%	14%	25%	39%	19%	3.57	1.05
	2%	8%	22%	53%	15%	3.70	.91
	4%	18%	27%	29%	22%	3.47	1.16
8. New Zealanders generally think it is acceptable to ask a tradesperson to do a job for "cash" knowing that the tradesperson may not include the cash sales in their GST return.	3%	36%	34%	19%	8%	2.92	1.00
	5%	33%	42%	13%	7%	2.85	.98
	2%	39%	26%	25%	8%	2.98	1.03
9. I have in the past asked a tradesperson to do a job for "cash" knowing that he/she may not include the cash sales in their GST return.	3%	9%	15%	46%	27%	3.84	1.03
	2%	5%	20%	48%	25%	3.88	.94
	4%	12%	10%	45%	29%	3.82	1.11
10. It is part of "kiwi culture" to negotiate cash jobs with trades' people to save some money.	4%	40%	32%	16%	8%	2.82	1.02
	5%	40%	43%	5%	7%	2.70	.94
	4%	41%	22%	25%	8%	2.92	1.08

7.7 Appendix 7 Summary Results – Demographic Data (89 Responses)

I personally complete the **GST returns** for my business:

48	25	23	Yes. Using an accounting software package.
6	3	3	Yes. Using a manual record keeping system.
35	12	23	No. Please specify who completes them. (majority of responses were accountant or spouse)

IRD Audits: (adds to more than sample sizes as some business had experienced more than one type of audit)

23	9	14	My business has been audited by the Inland Revenue for GST purposes before.
21	7	14	My business has been the subject of some other type of Inland Revenue audit before.
48	23	25	My business has not been audited by the Inland Revenue before.
2	2	0	No response to individual question.

Business Structure*:

15	5	10	Sole Trader.
20	16	4	Partnership.
54	17	37	Company.
5	5	0	Trading Trust.

* two structures involved with some businesses.

Business Turnover (Sales \$):

4	2	2	< \$60,000 (GST Exclusive)
38	16	22	\$60,001 – \$500,000 (GST Exclusive)
33	18	33	\$500,001 – \$2,000,000 (GST Exclusive)
10	3	7	> \$2,000,000 (GST Exclusive)
4	1	3	No response to question.

Employees: (please indicate the number of people employed by your business)

	Full time employees.	} Various, some did not complete or indicated Y (yes) rather than a number. The majority were micro businesses (under 5 employees).
	Part time employees.	

Additional detail of business you are in?

Primary sector sample:

9	Sheep Farming
7	Sheep & Beef Farming
2	Sheep, Beef & Dairy Farming
1	Beef Farming
12	Dairy Farming
9	Farming (no specific details or other)

Trades sector sample:

12	Building
9	Electrical
5	Joinery
5	Painting/Decorating
5	Plumbing
4	Roofing
4	Tiling/Bricklaying/Masonry
5	Trades (not specified)

How many years have you owned/managed this business?

23	27	20	Average years.
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Your gender is:

64	29	35	Male
23	10	13	Female
2	1	1	No response to individual question.

Which ethnic group do you belong to? (Three respondents identified with two ethnic groups)

81	37	45	New Zealand European
3	0	3	Maori
1	0	1	Samoan
5	3	2	New Zealander (respondents amended standard ethnicity table)
1	0	1	No response to individual question

Your highest level of education?

53	25	28	Secondary (High) School.
21	5	16	Trade Qualification or Diploma.
12	10	2	University Degree or Post Graduate.
3	0	3	No response to question.

Your age in years?

53	56	51	Average years.
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7.8 Appendix 8 – Analysis Mental Accounting (Feeling toward payment of GST)

Which of the following best describes the way you feel when you have to make a payment of your business GST to Inland Revenue?

- **Unhappy.** It has a significant impact on my cash flow and I object to having to make the payment (11 Respondents).
- **Neutral.** It impacts on my cash flow but I accept it has to be paid (55 Respondents).
- **Completely accepting.** I have collected the GST on behalf of the Inland Revenue and it is time to pay it over (23 Respondents).

		Total Sample		Unhappy		Neutral		Compl. Accepting
Inland Revenue's control of the GST information I need to provide makes me feel watched.	M	3.17	M	2.64	M	3.16	M	3.43
	SD	.84	SD	.81	SD	.71	SD	1.04
Obligations to pay GST to Inland Revenue limit my ability to spend business funds as I would like.	M	3.16	M	2.18	M	3.13	M	3.70
	SD	.97	SD	.87	SD	.83	SD	.97
It is necessary to pay the correct amount of GST to support society (for funding health, education etc).	M	2.49	M	3.27	M	2.43	M	2.26
	SD	.92	SD	1.10	SD	.81	SD	.92
If someone requests a tax invoice be altered so they can claim more GST I will do it for them.	M	4.56	M	4.45	M	4.49	M	4.78
	SD	.66	SD	.93	SD	.66	SD	.42
Personally I believe there are circumstances when it might be acceptable to alter the details on a tax invoice to allow another business owner to claim more GST.	M	4.45	M	4.45	M	4.33	M	4.74
	SD	.72	SD	.93	SD	.67	SD	.69
If I altered a tax invoice to allow someone to claim more GST I would not feel good about it.	M	1.54	M	1.73	M	1.62	M	1.26
	SD	.76	SD	1.01	SD	.78	SD	.45
There are circumstances when I find it is justifiable to ask another GST registered business to alter a tax invoice so that I can claim more GST.	M	4.51	M	4.36	M	4.44	M	4.74
	SD	.76	SD	.92	SD	.79	SD	.54
Personally I think it is acceptable to alter a tax invoice so that private expenses appear to be business related in order for me to make a GST claim.	M	4.15	M	3.64	M	4.07	M	4.57
	SD	.86	SD	1.36	SD	.77	SD	.59
I do not find anything wrong in sometimes misclassifying goods or services as exempt or zero-rated.	M	4.24	M	3.91	M	4.16	M	4.57
	SD	.74	SD	1.14	SD	.69	SD	.51

Continued.

		Total Sample		Unhappy		Neutral		Compl. Accepting
Personally I believe there are circumstances when it might be acceptable not to declare cash earnings in the GST return.	M	3.76	M	3.00	M	3.71	M	4.26
	SD	1.07	SD	.89	SD	1.08	SD	.86
If someone purchasing goods or services from my business requests a 'lower price for cash', I feel obliged to offer one.	M	3.8	M	3.73	M	3.67	M	4.13
	SD	.87	SD	1.01	SD	.82	SD	.87
I have in the past asked a tradesperson to do a job for "cash" knowing that he/she may not include the cash sales in their GST return.	M	3.84	M	3.18	M	3.78	M	4.30
	SD	1.03	SD	1.33	SD	.98	SD	.82

7.9 Appendix 9 – Analysis Mental Accounting (Segregation of GST)

Which of the following describes the way you account for any GST your business has collected but not yet paid over to Inland Revenue?

- **GST is not segregated from income.** I do not keep track of the GST collected in any particular way. (39 Respondents).
- **Segregate the GST.** Either by banking in a separate bank account or tracking mentally. (50 Respondents).

		Total Sample		Not Segregated		Segregated
Inland Revenue's control of the GST information I need to provide makes me feel watched.	M	3.17	M	3.13	M	3.20
	SD	.84	SD	.77	SD	.90
Obligations to pay GST to Inland Revenue limit my ability to spend business funds as I would like.	M	3.16	M	3.13	M	3.18
	SD	.97	SD	.93	SD	1.00
It is necessary to pay the correct amount of GST to support society (for funding health, education etc).	M	2.49	M	2.61	M	2.40
	SD	.92	SD	1.08	SD	.78
If someone requests a tax invoice be altered so they can claim more GST I will do it for them.	M	4.56	M	4.51	M	4.60
	SD	.66	SD	.50	SD	.64
Personally I believe there are circumstances when it might be acceptable to alter the details on a tax invoice to allow another business owner to claim more GST.	M	4.45	M	4.38	M	4.50
	SD	.72	SD	.78	SD	.68
If I altered a tax invoice to allow someone to claim more GST I would not feel good about it.	M	1.54	M	1.59	M	1.50
	SD	.76	SD	.64	SD	.84
There are circumstances when I find it is justifiable to ask another GST registered business to alter a tax invoice so that I can claim more GST.	M	4.51	M	4.46	M	4.54
	SD	.76	SD	.76	SD	.76
Personally I think it is acceptable to alter a tax invoice so that private expenses appear to be business related in order for me to make a GST claim.	M	4.15	M	4.13	M	4.16
	SD	.86	SD	.77	SD	.93
I do not find anything wrong in sometimes misclassifying goods or services as exempt or zero-rated.	M	4.24	M	4.15	M	4.30
	SD	.74	SD	.78	SD	.71

Continued.

		Total Sample		Not Segregated		Segregated
Personally I believe there are circumstances when it might be acceptable not to declare cash earnings in the GST return.	M	3.76	M	3.69	M	3.82
	SD	1.07	SD	1.03	SD	1.10
If someone purchasing goods or services from my business requests a 'lower price for cash', I feel obliged to offer one.	M	3.8	M	3.56	M	3.98
	SD	.87	SD	.88	SD	.88
I have in the past asked a tradesperson to do a job for "cash" knowing that he/she may not include the cash sales in their GST return.	M	3.84	M	3.62	M	4.02
	SD	1.03	SD	1.14	SD	.91