

Motivations for Tax Compliance: The Case of Small Business Taxpayers in New Zealand

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Abstract

This study investigates small business taxpayers' psychological and social disposition towards taxation based on the motivational postures framework. Our findings show that small business taxpayers can adopt more than one posture towards taxpaying. Sometimes they cooperate and sometimes they defy, depending on the circumstances. In general, the perception of an authority's trustworthiness and fairness helps to close the perceived social distance between taxpayers and the authority. Resistant defiance is about grievance over the way an authority carries out its duties and could be reduced by treating people fairly, fostering trust and improving tax knowledge. Game playing and disengagement postures indicate that people are questioning why an authority exists. Such defiance is not necessarily reduced by justice. The results support the call for authorities to deal with taxpayers in a fair, respectful, and trustworthy manner before deep defiance sets in.

Keywords

Small business, motivational postures, tax compliance

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1. Introduction

The tax compliance literature provides evidence of numerous factors that have the potential to influence taxpaying behaviour. Economic factors primarily encompass the risk of detection and punishment, and non-economic factors relate to social and psychological variables such as tax morale, social norms of tax compliance, and personal attitudes.¹ Studies conducted predominantly in Europe, the US and the Asia Pacific region support the positive relationship between tax compliance and these variables. For instance, researchers have shown that taxpayers' compliance behaviour is related to their perception of the probability of being caught and sanctioned.² Also positively associated with compliance is taxpayers' morale (e.g., paying the correct tax is the right thing to do).³

Although prior studies⁴ shed some light into the tax compliance attitudes of small business taxpayers, less attention has been paid to how they distance themselves from tax authority, what drives this positioning, and how social distance changes in response to the authority's decisions and actions. Braithwaite⁵ suggests that the motivational postures adopted by different taxpayers reflect this social distance. Motivational postures are "sets of beliefs and attitudes that sum up how individuals feel about and wish to position themselves in relation to another social entity, in this case a tax authority".⁶ The postures that taxpayers adopt signal how much they like the tax authority or their willingness to defer to the tax authority's rules and processes. Motivational postures play an important role in tax compliance as research shows that the cooperative postures of commitment and capitulation are negatively associated

¹ See for e.g., E Kirchler, *The Economic Psychology of Tax Behaviour* (Cambridge University Press, UK, 2007).

² See for e.g., A Witte and D Woodbury "The Effect of Tax Laws and Tax Administration on Tax Compliance – The Case of the United States Individual Income Tax" (1985) 38(1) *National Tax Journal* 1; H Grasmick and R Bursik "Conscience, Significant Others, and Rational Choice – Extending the Deterrence Model" (1990) 24(3) *Law and Society Review* 837.

³ B Torgler, *Tax Compliance and Tax Morale: A Theoretical and Empirical Analysis* (Edward Elgar, UK, 2007); M Wenzel "Motivation or Rationalisation? Causal Relations Between Ethics, Norms and Tax Compliance" (2005) 8(2) *Journal of Economic Psychology* 215.

⁴ See for e.g. E Ahmed and V Braithwaite "Understanding Small Business Taxpayers: Issues of Deterrence, Tax Morale, Fairness and Work Practice" (2005) 23 *International Small Business Journal* 539; N Harris and J McCrae "Perceptions of Tax and Participation in the Cash Economy: Examining the Role of Motivational Postures in Small Businesses" (Centre for Tax System Integrity Working Paper No. 80, Canberra, July 2005).

⁵ V Braithwaite, *Defiance in Taxation and Governance, Resisting and Dismissing Authority in a Democracy* (Edward Elgar, Cheltenham, 2009).

⁶ *Ibid* at 20.

with tax avoidance and evasion,⁷ and positively associated with voluntary tax compliance.⁸ On the other hand, resistance, disengagement and game playing are positively associated with tax avoidance and evasion,⁹ and enforced tax compliance.¹⁰

Research on small business taxpayers in New Zealand has focused primarily on compliance, costs of compliance and attitudes to compliance¹¹. With a dearth of literature on how small business taxpayers in New Zealand position themselves in relation to tax authorities, this study draws from motivational postures theory and focuses on the owners of small businesses who are involved with the day-to-day decisions in running a business including making tax decisions. About 97% of all businesses in New Zealand are small (with fewer than 20 employees), and 89% of these small businesses are micro-small (zero to five employees). As such, they have limited resources to manage regulation and to meet taxpaying obligations. Examining motivational postures of the small business community and reasons for adopting these postures is expected to provide insight into how small businesses approach their tax compliance obligations. Drawing from the motivational posture framework, this study raises the following research questions (RQ):

RQ1: What are the motivational postures of small business taxpayers in New Zealand?

RQ2: What drives their postures in relation to the tax authority and the tax environment?

RQ3: Who do they turn to for help with tax matters?

2. Literature Review

2.1 Motivational Postures

⁷ V Braithwaite, "Dancing With Tax Authorities: Motivational Postures and Non-compliant Actions", in V Braithwaite (Ed.), *Taxing Democracy: Understanding Tax Avoidance and Evasion* (Ashgate, Aldershot, 2003) 15.

⁸ E Kirchler, E Hoelzl and I Wahl "Enforced Versus Voluntary Compliance: The Slippery Slope Framework" (2008) 29(2) *Journal of Economic Psychology* 210.

⁹ Braithwaite, above n 5.

¹⁰ Kirchler et al., above n 8.

¹¹ See for example LM Tan, V Braithwaite and M Reinhart "Why Do Small Business Taxpayers Stay with Their Practitioners? Trust, Competence and Aggressive Advice" (2016) 34(3) *International Small Business Journal* 329; LM Tan and X Liu "SMEs Tax Compliance: A Matter of Trust?" (2016) 31(3) *Australian Tax Forum* 527; R Gupta and A Sawyer "The Costs of Compliance and Associated Benefits for Small and Medium Enterprises in New Zealand: Some Recent Findings" (2015) 30(1) *Australian Tax Forum* 135.

The extant literature shows that people's compliance behaviour is complex; some comply voluntarily as they feel that it is their responsibility to pay tax, some need to be nudged into compliance and others need to be coerced. There is ample evidence indicating that economic factors such as tax rates, the probability of audit, and the severity of fines, all have the potential to influence taxpaying behaviour.¹² Although tax authorities have the power to impose sanctions on non-compliant taxpayers, this "command and control" strategy used by a tax authority may not always be effective as people react to and cope with regulation in different ways. For instance, it may evoke reactance in some taxpayers, a feeling of injustice, resistance and uncooperativeness to a tax authority.¹³ Braithwaite¹⁴ pointed out that there is a need to understand the process of compliance which incorporates a range of interconnected, measurable regulatory concepts including knowledge, capacity, willingness, motivations and motivational postures.

One way of looking at taxpayers' compliance attitudes and beliefs is to consider how they describe their engagement with regulatory authorities.¹⁵ In the process of testing a model of motivations to comply proposed by Kagan and Scholz¹⁶, Braithwaite empirically identified the motivational postures of commitment and capitulation, resistance, and disengagement.¹⁷ The fifth posture of game playing emerged in subsequent empirical work on taxation compliance.

Commitment and capitulation are postures that are accommodating to authority. Commitment is evident in the way in which taxpayers endorse the tax code and accept personal responsibility to pay tax. Commitment involves internalizing the code as the right thing to do. The posture of capitulation recognises the tax authority's power: Capitulating taxpayers "agreed to do what was being asked, driven by willingness to please and a desire to avoid trouble without stopping to think about ultimate goals".¹⁸ Those with a resistance posture reject regulatory authority that they perceive as being oppressive, unhelpful and unforgiving.

¹² See J Alm, B Jackson and M McKee "Estimating the Determinants of Taxpayer Compliance With Experimental Data" (1992) 45(1) *National Tax Journal* 107; Witte and Woodbury, above n 2; and Grasmick and Bursik, above n 2.

¹³ J Brehm and S Brehm *Psychological Reactance: A Theory of Freedom and Control* (Academic Press, San Diego, 1981)

¹⁴ Above, n 5 at 30.

¹⁵ Braithwaite, above n 5 at 101.

¹⁶ R Kagan and J Scholz, "The Criminology of the Corporation and Regulatory Enforcement Strategies" in K Hawkins and J Thomas (Eds.), *Enforcing Regulation* (Kluwer-Nijhoff, Boston, 1984).

¹⁷ See above, n 7.

¹⁸ Braithwaite, above n 7 at 78.

Taxpayers with this posture see regulators as untrustworthy and are likely to question their competence.

Disengagement involves a state of not caring or deliberately denying the regulators the satisfaction of believing that regulatory action matters. Rules and norms are perceived as pointless and hence not observed.¹⁹ Not only do taxpayers with disengaged posture not trust authority, they will not defer to authority. They are unwilling to cooperate. A posture of game playing involves dismissing, sidestepping and challenging authority. Those with a game playing posture enjoy tax minimisation games with tax authorities. Creative compliance is the name of the game and little respect is shown for the spirit of the law.

These different postures are relatively stable but are not mutually exclusive, i.e. holding one posture does not prevent regulatees from holding another. The postures vary in their salience, as circumstances change. When a taxpayer comes under attack, their posture of resistance is likely to come to the fore, while capitulation and commitment will fade into the background. When postures of commitment or capitulation dominate, cooperation is displayed, but when the postures of resistance, disengagement or game playing dominate, defiance drives out more cooperative responses.²⁰

Studies by Braithwaite²¹ and Kirchler et al.²² have shown that motivational postures are predictive of compliance outcomes. Postures of commitment and capitulation are more likely to be associated with compliance, while disengagement and resistance are linked with non-compliance. In examining the link between motivational postures and those involved in a cash economy,²³ Braithwaite et al.²⁴ found that disengagement was higher and commitment lower among suppliers of labour. Purchasers, on the other hand, appeared committed to the tax system but nevertheless were willing to pay for services in the cash economy.²⁵ This

¹⁹ Braithwaite, above n 7 at 78.

²⁰ Braithwaite, above n 7.

²¹ Above n 7.

²² Above n 8.

²³ i.e., cash money where tax has not been paid; see V Braithwaite, F Schneider, M Reinhart and K Murphy, "Charting the Shoals of the Cash Economy", in V Braithwaite (Ed.), *Taxing Democracy: Understanding Tax Avoidance and Evasion* (Ashgate, Aldershot, 2003) at 98.

²⁴ See Braithwaite et al., above n 7 at 96.

²⁵ See Braithwaite et al., above n 7 at 100.

suggests that the dominance of one posture over the other can change when there are changes in the situation faced by the taxpayer, for example, when the opportunity to evade presents itself.

The type of tax practitioner preferred by a taxpayer may also be linked to their adopted posture(s). Here there was evidence of matching of types. Aggressive tax practitioners were popular choices of those unwilling to defer or cooperate with authority. In contrast, those who were cooperative favoured an honest no-risk practitioner.²⁶

2.2 Attitudinal Factors: Tax Morale, Trust, Power and Justice

The concept of motivational postures appears to overlap theoretically with other widely investigated attitudinal factors that influence taxpayers' compliance behaviour: tax morale, trust, power and justice as well as attitudes to compliance costs and the competence needed to comply effectively.²⁷ These connections are likely to emerge in addition to the expected links with the kinds of advice received from tax practitioners.²⁸

Taxpayers' concern for social duty or personal responsibility has been shown empirically to shape compliance.²⁹ Some taxpayers pay taxes because they believe it is the right thing to do, irrespective of sanctions.³⁰ Individual moral beliefs have been found to be highly significant in tax compliance decisions.³¹ Torgler³² concluded that *tax morale* has indeed emerged as one of

²⁶ See above n 5; B Jackson and V Milliron "Tax Compliance Research: Findings, Problems and Prospects" (1986) 5 *Journal of Accounting Literature* 125; S Klepper, M Mazur and D Nagin "Expert Intermediaries and Legal Compliance: The Case of Tax Preparers" (1991) 34 *Journal of Law and Economics* 205; M Richardson and A Sawyer "A Taxonomy of the Tax Compliance Literature: Further Findings, Problems and Prospects" (2001) 16 *Australian Tax Forum* 137.

²⁷ See Kirchler, above n 1; Kristina Murphy "Aggressive Tax Planning: Differentiating Those Playing the Game From Those Who Don't" (2004) 25(3) *Journal of Economic Psychology* 307; M McKerchar "The Effect of Complexity on Unintentional Noncompliance for Personal Taxpayers in Australia" (2002) 17(3) *Australian Tax Forum*; and P Webley, C Adams and H Elffers "VAT Compliance in the United Kingdom" (Centre for Tax System Integrity Working Paper No. 41, The Australian National University, Canberra, 2002).

²⁸ See LM Tan "Taxpayers' Preference for Type of Advice From Tax Practitioner: A Preliminary Examination" (1999) 20 *Journal of Economic Psychology* 431; K Devos "The Impact of Tax Professionals Upon the Compliance Behavior of Australian Individual Taxpayers" (2012) 22(1) *Revenue Law Journal*; R Marshall, M Smith and R Armstrong "The Impact of Audit Risk, Materiality and Severity on Ethical Decision Making: An Analysis of the Perceptions of Tax Agents in Australia" (2006) 21 *Managerial Auditing Journal* 497. Y Sakurai and V Braithwaite "Taxpayers' Perceptions of Practitioners: Finding One Who is Effective and Does the Right Thing? 46 *Journal of Business Ethics* 375.

²⁹ See, P Reckers, D Sanders, and R Wyndelts "An Empirical Investigation of Factors Influencing Tax Practitioner Compliance" (1991) 13 *Journal of the American Taxation Association* 30; R Schwartz and S Orleans "On Legal Sanctions" 34(2) *The University of Chicago Law Review* (1967) 274; M Wenzel "The Impact of Outcome Orientation and Justice Concerns on Tax Compliance: The Role of Taxpayers' Identity" (2002) 87(4) *Journal of Applied Psychology* 629; and K Randlane "Tax Compliance as a System: Mapping the Field" (2016) 39(7) *International Journal of Public Administration* 515.

³⁰ See J Alm "A Perspective on the Experimental Analysis of Taxpayer Reporting" (1991) 86 *The Accounting Review* 577; Richardson and Sawyer, above n 26.

³¹ See Reckers et al., above n 29; B Torgler and K Murphy "Tax Morale in Australia: A Theoretical and Empirical Analysis" (2004) 7 *Journal of Australian Taxation* 298; I Wallschutzky "Possible Causes of Tax Evasion" (1984) 5 *Journal of Economic Psychology* 371; and Wenzel, above n 29; K Devos, "Factors Influencing Individual Taxpayer Compliance Behaviour" (Springer International Publishing, Netherlands, 2014).

³² B Torgler *Tax Compliance and Tax Morale: A Theoretical and Empirical Analysis* (Edward Elgar, UK, 2007)

the most consistent predictors of tax compliance. Tax morale is expected to be linked empirically to small business motivational postures, in particular, commitment.³³

Trust has been shown to play a critical role in societal functioning in many diverse and interesting contexts. Trust may be as important, if not more important, than theories of “command and control.”³⁴ In the context of tax compliance, people’s trust in the government and the tax authority is important for better cooperation in providing information about themselves to the government or in paying taxes or other types of charges or fees. A study in the US also has shown that small business taxpayers who expressed more trust in the government and tax authority were more compliant than those who expressed less trust.³⁵ Trust is expected to be empirically related to the postures of small business, in particular, to the cooperative postures of commitment and capitulation.³⁶

Using their two-dimensional slippery slope framework, Kirchler et al.³⁷ have shown that both *trust in authorities* (i.e., perception that the tax authority is operating fairly in the interests of the taxpayers) and *power of authorities* (i.e., perception of the authority’s capacity to detect and punish tax evaders) impact on compliance. These researchers differentiate two types of compliance: voluntary and enforced. Voluntary compliance originates from taxpayers’ trust in authorities, whereas enforced compliance is fostered through the power of authorities to effectively carry out audits and impose fines.³⁸

The difference between voluntary and enforced compliance is reflected in taxpayers’ motivational postures. Wahl et al.³⁹ have shown that voluntary tax compliance is positively related to commitment and capitulation, but negatively related to resistance, and disengagement. Enforced tax compliance shows a positive relation with resistance. Kirchler

³³ See Braithwaite, above n 5..

³⁴ See for e.g., R Kramer and K Cook, *Trust and Distrust in Organizations: Dilemmas and Approaches* (Russel Sage Foundation, New York, 2004).

³⁵ Taxpayer Advocate Service, *Factors Influencing Voluntary Compliance by Small Businesses: Preliminary Survey Results* (Annual Report to Congress, Washington, DC, Vol. 2, 2012).

³⁶ See above n 5.

³⁷ See above n 8.

³⁸ See above n 1.

³⁹ I Wahl, B Kastlunger and E Kirchler “Trust in Authorities and Power to Enforce Compliance. An Empirical Analysis of the “Slippery Slope Framework” (2010) 32 Law and Policy 383.

et al.⁴⁰ argue that the classical tools of economic deterrence, which comprise frequent tax audits and reasonably high fines for tax evaders, work best in an antagonistic climate between tax authorities and taxpayers. Furthermore, taxpayers may endorse enforced compliance when they perceive an authority detecting and punishing illegal tax evaders and proving its legitimacy. Recognising the legitimate power of an authority may be associated with cooperative postures, while perceptions of illegitimate power may characterise those who posture with resistance or disengagement.

The literature further indicates that cooperating with authorities and expressing trust in authorities is influenced by fairness information and self-regulation.⁴¹ People rely heavily on fairness information when judging the trustworthiness of others. There are three main aspects of *justice*: distributive, procedural, and retributive justice. Distributive justice refers to the fairness of the resource distributions, i.e. if the government is perceived to spend the tax revenue wisely, people may be more willing to comply. Procedural justice relates to the fairness of the decision making processes utilized in the resource distribution process. People are more likely to obey the law when they are treated fairly and with respect by regulators (Tyler, 1990).⁴² The relationship between procedural justice and increased compliance has been supported in a number of studies on tax compliance.⁴³ A study by Verboon and van Dijke⁴⁴ further indicates that severe sanctions were more effective than mild sanctions in enhancing compliance only when procedural fairness is perceived to be high. Retributive justice refers to the fairness of sanctions and reactions to the breaking of social rules and norms. The main issue involves whether those who violate the law are punished appropriately. Perception of this type of justice is closely linked to using power legitimately. Collectively, these different facets of justice feed into people's perception of fairness in a given context and play a role in people's taxpaying behaviour.⁴⁵ In general, people who experience fairness will be more trusting and more cooperative than those who experience unfairness.⁴⁶ Moreover, when people perceive procedures as fair, motivational postures of

⁴⁰ See above n 8.

⁴¹ D Cremer and T Tyler "Managing Group Behaviour: The Interplay Between Procedural Justice, Sense of Self, and Cooperation" (2005) 37 *Advances in Experimental Social Psychology* 151.

⁴² T Tyler, *Why People Obey the Law* (Yale University Press, New Haven, 1990).

⁴³ K Murphy "Procedural Justice and Tax Compliance" (2003) 38(3) *Australian Journal of Social Issues* 379; Wenzel, above n 29.

⁴⁴ P Verboon and M van Dijke "When Do Severe Sanctions Enhance Compliance? The Role of Procedural Fairness" (2011) 32 *Journal of Economic Psychology* 120.

⁴⁵ See Wenzel, above n 3.

⁴⁶ See Braithwaite, above n 5; E Kirchler and E Hölzl "Twenty-five Years of the Journal of Economic Psychology (1981-2005): A Report on the Development of an Interdisciplinary Field of Research" (2006) 27(6) *Journal of Economic Psychology* 793; and Murphy, above n 43.

cooperation (commitment and capitulation) increase, whereas motivational postures of defiance decrease (resistance, disengagement and game playing).⁴⁷

The social-psychological variables of tax morale, trust, power and justice are all expected to be related to the motivational postures of taxpayers. Before proceeding, it is important to consider briefly the literature on small business and ask if there are other factors that are likely to shape how small business taxpayers posture to authority.

2.3 Small Business Taxpayers: Contextual Relevant Evidence

Small businesses in many countries play a significant role in the economy as they represent the majority of all businesses. They are characterised by the OECD⁴⁸ as:

[. . .] any for-profit commercial entity other than those that exceed a given (high) asset threshold. Small businesses include sole proprietor, partnership and corporate forms of organisation. They also include individual return filers who have income from self-employment, even if self-employment income is not their primary source of income.

Statistics show that the smaller the firm, the less likely it will survive over many years, and for those that do survive, the more likely it is that they will grow bigger or smaller over time than larger enterprises.⁴⁹ The extant literature suggests that regulation has an impact on small business performance because in a regulated economy, small business taxpayers are not only concerned with running their business activities but also with complying with various government-imposed requirements.⁵⁰ Amongst these requirements, tax compliance is an area in which small businesses struggle. There is ample evidence that small business feels that the tax system imposes a heavy burden on them in terms of time and costs compared to large businesses that benefit from economies of scale and have dedicated tax planning and

⁴⁷ M Hartner, S Rechberger, E Kirchler and A Schabmann "Procedural Fairness and Tax Compliance" (2002) 38(1) *Economic Analysis and Policy* 137.

⁴⁸ Organisation for Economic Co-operation and Development, *Compliance Risk Management: Managing and Improving Tax Compliance* (Centre for Tax Policy and Administration, Organisation for Economic Co-operation and Development, Paris, 2004) at 10.

⁴⁹ Ministry of Business, Innovation and Employment, *Small Businesses in New Zealand – How Do They Compare With Larger Firms?* (March 2014) <www.mbie.govt.nz/what-we-do/business-growth-agenda/sectors-reports-series/pdf-document-library/small-business-factsheet-2014.pdf>

⁵⁰ See, J Kitching "A Burden on Business? Reviewing the Evidence on Regulation and Small Business Performance" (2006) 24(6) *Environment and Planning C: Government and Policy* 799.

compliance personnel.⁵¹ Ahmed and Braithwaite⁵² found that small business taxpayers could be distinguished from other groups of taxpayers in terms of not receiving tax refunds, paying less than their fair share of tax, feeling less competent to do their own tax returns, needing to consult others, and perceiving greater power of the tax authority. These results suggest ambivalence over the social distance between small business and tax authorities.

In the context of small business taxpayers' non-compliance, a number of explanations have been offered by various researchers which include: lack of knowledge,⁵³ perception of unfairness of the tax system,⁵⁴ opportunity to under-report or over-claim expenses,⁵⁵ and attitudes toward the tax system.⁵⁶ Webley's⁵⁷ study showed that lack of trust in the fairness of a tax system and the legitimacy of tax authorities increases the likelihood of tax evasion among small business owners. Further, a study by the Taxpayer Advocate Service⁵⁸ on small businesses in the US found that the low compliance group was more likely than the high compliance group to view tax law as unfair and the tax authority as disrespectful. Small business taxpayers as a group are also more likely to perceive their freedom to make financial decisions about their own income being threatened and this perception is associated with a tendency toward tax evasion or avoidance and low tax morale.⁵⁹ They are therefore perceived to be one of the high-risk taxpayer groups in terms of tax non-compliance as they are more likely not to comply, intentionally or unintentionally.⁶⁰ In the context of motivational postures, a qualitative study carried out by Harris and McCrae⁶¹ on small business used car dealers in Australia suggested that the dealers had multiple postures toward the tax system; they expressed commitment towards some aspect of the tax system but displayed resistance towards others.

2.4 Aim of this study

⁵¹ P Lignier and C Evans "The Rise and Rise of Tax Compliance Costs for the Small Business Sector in Australia" (2012) 27(3) Australian Tax Forum 615 at 616.

⁵² See Ahmed and Braithwaite, above n 4.

⁵³ M McKerchar "Understanding Small Business Taxpayers: Their Sources of Information and Level of Knowledge of Taxation" (1995) 12 Australian Tax Forum 25.

⁵⁴ See, P Noble *Qualitative Research Results: The New Zealand Cash Economy - A Study of Tax Evasion Amongst Small and Medium Businesses* (Paper presented at the Centre for Tax System Integrity Conference, Australian National University, 2000).

⁵⁵ C Coleman and L Freeman "The Development of Strategic Marketing Options Directed at Improving Compliance Levels in Small Business" (1994) 11 Australian Tax Forum 347.

⁵⁶ E Kirchler "Reactance to Taxation: Employers' Attitudes Towards Taxes" (1999) 28 Journal of Socio-Economics 131.

⁵⁷ P Webley, "Tax Compliance by Businesses", in H Sjögren and G Skogh (Eds.), *New Perspectives on Economic Crime* (Edward Elgar, Cheltenham, 2004).

⁵⁸ See above, n 35.

⁵⁹ See Kirchler, above n 56.

⁶⁰ See Kirchler and Hölzl, above n 46; OECD, above n 48; McKerchar, above n 27; and K Thomas "Presumptive Collection: A Prospect Theory Approach to Increasing Small Business Tax Compliance" (2013) 67 Tax Law Review 111.

⁶¹ See above Harris and McCrae above n 4, at 41

Small business taxpayers (SBTs) have a distinctive relationship with their tax authorities. This study examines the motivational postures of small business taxpayers in the New Zealand context, which is particularly interesting because of the work that numerous researchers and the Inland Revenue have done to better understand and reach out to the small business sector.⁶² We also examine whether procedural and distributive fairness, trust in tax authority, tax morale, power, and perceptions of being caught and fined are linked to the postures. Experience of sanctions (audit and fines) and tax knowledge are used as control variables because they may confound the relationship between motivational postures and social relational attitudes if not statistically controlled.

Experience with sanctions is used as a control variable because prior audits and fines increase subjective salience of audits and punishment, which in turn can increase compliance.⁶³ However, it might also lead to lower compliance if audits do not detect non-compliance, or if the taxpayer thinks that the chance of being audited again is low. Tax knowledge is used as a control variable, measured in terms of self-report of general knowledge. Although some studies⁶⁴ suggest that it is specific tax knowledge rather than general tax knowledge which plays an influential role on tax compliance, the more general form is used as it is expected to better reflect uncertainty about tax matters and influence social distance from the tax authority. Some studies suggest there is an association between poor knowledge and negative attitudes toward tax, with greater tax knowledge being linked to a higher compliance rate.⁶⁵ It could also be argued that taxpayers' lack of knowledge about audit rates or penalty rates leads to honest behaviour because of their uncertainty about enforcement prescriptions.⁶⁶ SBTs may have different experiences with sanctions in the past and may have different levels of tax knowledge that could potentially play a role in the postures they adopt.

⁶² See for example Inland Revenue full report on "Better for Customers: SMEs' compliance costs in 2016" and "SME Tax Compliance Cost: A Qualitative Investigation" at <http://www.ird.govt.nz/aboutir/reports/research/research-evaluation-reports.html>; Richardson and Sawyer above n 26; J Hasseldine, S Kaplan and L Fuller "Characteristics of New Zealand tax evaders: a note" (1994) 34 Accounting and Finance 79.

⁶³ See Alm et al., above n 10; J Andreoni, B Erard and J Feinstein "Tax Compliance" (1998) 36 Journal of Economic Literature 818; Kirchler, above n 1; Webley, above n 53.

⁶⁴ See for example above n 26; K Eriksen and L Fallan "Tax knowledge and attitudes towards taxation: a report on a quasi-experiment" (1996) 17(3) Journal of Economic Psychology 387; B Kamleitner, C Korunka and E Kirchler (2012). "Tax compliance of small business owners: a review" (2012) 18(3) International Journal of Entrepreneurial Behavior & Research 330.

⁶⁵ J Kasipillai and H Jabbar, "Tax compliance attitude and behavior: Gender and ethnicity differences of Malaysian taxpayers", (2003) 1 The Malaysian Accountant 1; see Kirchler et al., above n 56; McKerchar above n 53.

⁶⁶ See Kirchler, above n 1.

Once having examined the factors that predict the motivational postures of commitment, capitulation, resistance, game playing and disengagement among small business owners, the question is asked of whether postures are associated with the type of tax practitioner from whom taxpayers seek help and advice,⁶⁷ a question which has yet to be addressed in the New Zealand context.

3. Research Method

A self-administered mail survey was used to elicit perceptions and attitudes of a nationwide random sample of New Zealand small business taxpayers. The questionnaire was initially pilot tested and improved based on feedback.

3.1 Sample

A random sample of 1,200 small business taxpayer addresses was obtained from a commercial database supplier.⁶⁸ The questionnaire was addressed to the manager or business owners of the firm. Of the 1,200 questionnaires sent out, 254 respondents returned completed questionnaires. About 103 of the questionnaires sent out to businesses were identified as out of frame, meaning they were no longer in business, or not known at the address. This gave an effective sample size of 1,097, with a response rate of 23%.

The response rate, although not high, is comparable to many other tax surveys carried out in Australia, New Zealand and other countries.⁶⁹ As indicated by Neuman and Kreuger,⁷⁰ a response rate of 10 to 50% is common for a mail survey. The low response rate could also be affected by the time required to complete the questionnaire and the sensitivity of some of the questions asked.

⁶⁷ For discussion about the role tax practitioner plays in tax compliance, see Klepper, Mazur and Nagin above n 26; Tan above n 28; Devos above n 28; Marshall, Smith and Armstrong above n 28; R Gupta "Relational Impact of Tax Practitioners' Behavioural Interaction and Service Satisfaction: Evidence from New Zealand" (2015) 13(1) eJournal of Tax Research 76.

⁶⁸ The database supplier is Martins Ltd, a company which has been in business for nearly 30 years. The company has one of the largest up-to-date databases in New Zealand and can supply data with a number of selection criteria. To minimise potential sample bias, a random sample of small businesses' postal addresses were generated and provided by them at a cost.

⁶⁹ See C Sandford and J Hasseldine, *The Compliance Costs of Business Taxes in New Zealand* (Institute of Policy Studies, Wellington, 1992); J Hasseldine, S Kaplan and L Fuller "Characteristics of New Zealand Tax Evaders: A Note" (1994) 34 *Accounting and Finance* 79; Ahmed and Braithwaite, above n 4; and S Eichfelder and C Kegels "Compliance Costs Caused by Agency Action? Empirical Evidence and Implications for Tax Compliance" (2014) 40 *Journal of Economic Psychology* 200.

⁷⁰ L Kreuger and L Neuman, *Social Work Research Methods Qualitative and Quantitative Approaches* (Allyn and Bacon, Boston, 2003).

The majority of the business taxpayers were from firms that employed not more than 20 full-time employees. About 98% of taxpayers were from small businesses (fewer than 20 employees). In terms of turnover, the vast majority (93%) of business taxpayers came from firms with an annual turnover of not more than \$5 million. The majority of the respondents (98%) were either directors or owners/managers of the firm. Overall, the questionnaires were completed either by the owner of the business or the person who made or helped to make tax decisions for the business organisation. This profile shows that respondents were largely small businesses. As the focus of this study is small businesses, five respondents who had more than 19 employees were removed and only 249 responses were subject to further analysis. Most respondents' businesses (76%) were structured as companies.

About 80% of the respondents' firms relied on a local or regional Chartered Accountant (CA) firm for help with their tax work and only about 8% used a Big 4 CA firm. There was variation in the sample in terms of experience with Inland Revenue Department (IRD) audit and penalty. About 36% of the respondents' firms admitted to being audited at least once by the IRD, and about 36% admitted to being penalised at least once. Interestingly, 75% of the respondents had at least a medium level of tax knowledge and just over half (51%) were reasonably familiar with tax penalties.

3.2 Measures

3.2.1 Motivational Postures

This study adapts Braithwaite's⁷¹ motivational posture measures and respondents were asked to indicate the extent of their agreement with each motivational posture statement (using strongly disagree=1 to strongly agree=5). A principal component factor analysis with varimax rotation was used to identify the main underlying dimensions. One item was removed as it had comparable loadings on two factors.⁷² A five factor rotated solution of the 23 items was used (see Table 1). The principal components analysis with a varimax rotation

⁷¹ See above n 5.

⁷² The item is "The IRD is encouraging to those who have difficulty meeting their obligations through no fault of their own" (abbreviated as "encouraging those not at own fault.")

accounted for 51% of the variance in the item set. Appendix 1 shows the five factors, with the highest loading items being used to label the factors as resistance, commitment, game playing, capitulation and disengagement.⁷³ This result is consistent with Braithwaite's work.⁷⁴ The items with highest loadings on the factors (see Table 1) were used to form scales to represent the five postures. The item responses were averaged to form a scale score for each respondent. A higher score (approaching 5) represents stronger agreement with the posture being measured. Means, standard deviations and Cronbach alpha reliability coefficients for the 5 scales appear in Table 1.

⁷³ Three items behaved differently to expectations in this study, although all made sense and were consistent with the correlations that Braithwaite has observed among the postures, see above n 4. First, "No matter how cooperative or uncooperative the IRD is, the best policy is to give them only as much cooperation as the law requires" (abbreviated as "cooperate even if IRD are not") appeared as an indicator of game playing rather than resistance in Braithwaite's study. Second, "I don't really know what the IRD expects of me and I'm not about to ask" (abbreviated as "don't care don't ask") was part of disengagement in Braithwaite (2009) but part of resistance here. Third, "Once the IRD has you branded as a non-compliant taxpayer, they will never change their mind (reversed) (abbreviated as "black listed by IRD") formed part of capitulation, but was part of resistance in Braithwaite. Other items related to factors in exactly the same way as Braithwaite's study.

⁷⁴ See above n 5.

Table 1. Statements Representing Motivational Postures

Commitment (M=3.94, SD=0.49; alpha reliability coefficient=0.64)

Paying tax is the responsibility that should be willingly accepted by all New Zealanders.
I think of taxpaying as helping the government do worthwhile things for the citizens.
I feel a moral obligation to pay tax.
I resent paying tax (reversed).
I accept responsibility for paying my fair share of tax.

Capitulation (M=3.28, SD=0.61; alpha reliability coefficient=0.67)

Even if the IRD finds that I am doing something wrong, they will respect me in the long run as long as I admit my mistakes.
If you cooperate with the IRD, they are likely to be cooperative with you.
Once the IRD has you branded as a non-compliant taxpayer, they will never change their mind (reversed).
The tax system may not be perfect, but it works well enough for most of us.

Resistance (M=2.95, SD=0.59; alpha reliability coefficient=0.70)

No matter how cooperative or uncooperative the IRD is, the best policy is to give them only as much cooperation as the law requires.
It's impossible to satisfy the requirements of the IRD completely.
The IRD is more interested in catching you for doing the wrong thing, than helping you do the right thing.
If you don't cooperate with the IRD, they will get tough with you.
As a society we need more people willing to take a stand against the IRD.
I don't really know what the IRD expects of me and I'm not about to ask.

Game playing (M= 2.38, SD=0.67; alpha reliability coefficient=0.70)

I enjoy talking and sharing ideas about loopholes in the tax system.
I like the game of finding grey area of tax law.
I enjoy the challenge of minimising the tax I have to pay for my business.
I enjoy spending time working out how changes in the tax system will affect me.

Disengagement (M=1.92, SD=0.54; alpha reliability coefficient=0.60)

If I find out that I am not doing what the IRD wants, I'm not going to lose any sleep over it.
If the IRD gets tough with my business, I will become uncooperative with them.
I don't care if I am not doing the tax right for my business.
I personally don't think that there is much the IRD can do to me to make me pay tax if I don't want to.

An analysis of the Pearson product-moment correlation coefficients shows that commitment and capitulation were compatible postures and those who adopted these accommodating postures were less likely to exhibit disengagement or resistance (see Table 2). Resistance was compatible with game playing and disengagement, supporting the idea that these three postures are the defiant postures. The non-significant correlation between game playing and the accommodating postures is both important and interesting. In past research, game playing was in opposition to commitment in particular. These findings raise two possibilities. Commitment may not be a valid measure, although this is unlikely given that it shows the expected pattern of correlations with the other postures. Second, game playing, associated with aggressive tax minimisation in past research, has assumed an air of tax respectability as

it has made its way into mainstream financial planning.⁷⁵ Whereas tax planning was once the province of the privileged few, there is now a vibrant market that offers a suite of measures for reducing the tax a person needs to pay legally. The sensibility of “I will only pay what I have to pay” is now more widespread and has a games-like quality through which taxpayers may feel entitled to challenge the system.

Table 2. Pearson Product-Moment Correlation Coefficients Among Motivational Postures Scales

Postures	1	2	3	4	5
1.Commitment	-				
2.Capitulation	0.265***	-	-		
3.Resistance	-0.311***	-0.508***	-		
4.Game playing	-0.091 NS	-0.010NS	0.170**	-	
5.Disengagement	-0.256***	-0.189**	0.347***	0.201**	-

*p<0.05; ** p<0.01; *** p<0.001

Figure 1 shows the level of endorsement for each posture by small business taxpayers (SBTs). The percentages were calculated for each posture by using scores that were greater than the 1 to 5 Likert-rating scale midpoint of 3. The results suggest that most SBTs accepted the authority of the IRD and their obligation to respond cooperatively to the goals of the tax system. Commitment and capitulation were therefore the dominant postures. About 97% of SBTs endorsed commitment and 65% of SBTs endorsed capitulation.

The next most strongly endorsed posture was resistance with about 39% of SBTs willing to question and criticise the IRD openly. This suggests that slightly more than a third of SBTs had negative views of the IRD and how it went about exercising its authority. The two least supported postures were game playing and disengagement which denote a degree of generalised contempt for taxation. About 11% related to the game playing posture, taking the initiative to capitalise on loopholes and grey areas of tax law. A very small group (2%) of SBTs identified with the disengagement posture. This is the most difficult group to encourage to comply as they tend to have a “don’t care attitude” and place themselves outside the

⁷⁵ E Wurth and V Braithwaite, “Tax practitioners and tax avoidance: gaming through authorities, cultures and markets” in Nigar Hashimzade and Yulia Epifantseva (Eds.), *The Routledge Companion to Tax Avoidance Research*, (Routledge, London, 2017).

regulatory institution. This pattern of posture preferences decreasing in strength from commitment to capitulation to resistance and finally to game playing and disengagement is consistent with other studies.⁷⁶

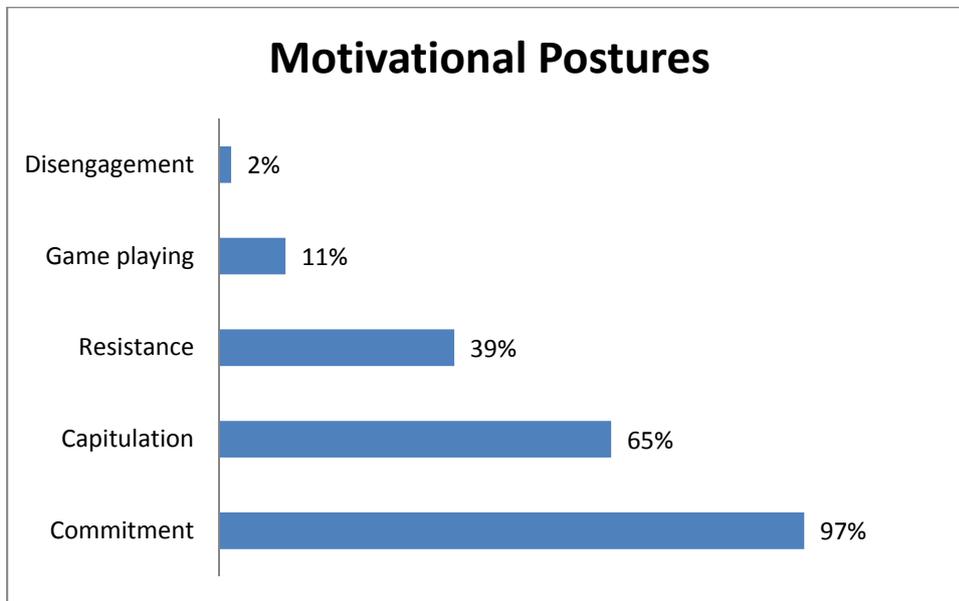


Figure 1. Percentage of SBT Displaying the Five Postures

3.2.2 Socio-psychological predictors of motivational posturing

3.2.2.1 Procedural and Distributive Fairness. A four-item scale was used to measure perception of procedural justice based on the measures of Murphy⁷⁷ (see Table 3 for items and scale statistics). Respondents were asked to indicate the extent of their agreement (1=strongly disagree to 5=strongly agree) with each of the statements. The mean for the four-item scale of 2.95 was just below the midpoint, suggesting that SBTs did not have an overall favourable impression of the IRD in terms of delivering procedural justice. When individual items were examined, most respondents judged the IRD as trying to be fair when making their decisions. When focus moved to the broader issue of empathy and respect for a taxpayer’s circumstances, IRD was judged less favourably.

⁷⁶ V Braithwaite, “Closing the gap between regulation and the community”, in P Drahos (Ed.), *Regulatory Theory: Foundations and Applications* (ANU Press, Canberra, 2017) at 25.

⁷⁷ K Murphy “Regulating more effectively: the relationship between procedural justice, legitimacy, and tax non-compliance” (2005) *Journal of Law and Society* 562.

To gauge perceptions of distributive justice, SBTs were asked to indicate (using 1 = almost never to 5 = almost always) the extent to which they regarded decisions from the IRD as favourable to them.⁷⁸ The mean for these two items was just above the midpoint, 3.05, indicating that respondents appeared to view distributive justice more favourably than procedural justice (see Table 3 for items in the scale and scale statistics).

Table 3. Items and Descriptive Statistics for Procedural Justice, Distributive Justice, Trust, Power and Perceived Deterrence Measures, and Tax Morale

Procedural justice (M=2.95, SD=0.72; alpha=0.84)

The IRD cares about taxpayers' position.
 The IRD tries to be fair when making their decisions.
 The IRD considers the concerns of the average citizens when making decisions.
 The IRD gives equal consideration to the views of all New Zealanders (neutrality).

Distributive justice (M=3.05, SD=0.79; alpha=0.61)

How often do you agree with the decisions made by IRD?
 How often are the decisions of the IRD favourable to you?

Trust (M=3.30, SD=0.63; alpha=0.83)

The IRD has turned its back on its responsibility to New Zealanders (distrust) (reversed).
 The IRD has acted in the interests of all NZ taxpayers.
 The IRD has caved in to pressure from special interest groups (distrust) (reversed).
 The IRD is trusted by you to administer the tax system fairly.
 The IRD is open and honest in its dealings with citizens.
 The IRD takes advantage of people who are vulnerable (distrust) (reversed).

Power (M=2.69, SD=0.74; alpha=0.84)

The IRD does not take action to make sure non-compliant taxpayers pay their tax.
 The IRD does not keep on top of information on who is and who is not paying their tax.
 The IRD fails to deal effectively with taxpayer defiance.
 The IRD is not very good at enforcing the tax laws and making people pay the tax they owe.

Perceived chance of being caught (M=3.58, SD=1.03)

What do you think the chances are that you will get caught if you under declare your business income?

Perceived chance of legal consequences (M=3.61, SD=1.36)

If you did get caught, what are the chances that you would have to face legal consequences?

Tax morale on cash earnings (Mean=3.83; SD=0.83)

Do YOU think you should honestly declare all cash earnings on your tax return?

Tax morale on deductions (Mean=4.00; SD=0.56)

Do YOU think it is acceptable for you to overstate tax deductions on your tax return? (reversed).

⁷⁸ Ibid n 77.

3.2.2.2 Trust. Six items were used to reflect trust in the tax authority with respondents indicating their agreement on a five-point scale (1=strongly disagree to 5=strongly agree) (see Table 3 for items and scale statistics⁷⁹). The mean for the six-item scale was 3.30 indicating that SBTs placed more trust in the IRD than one might have expected from the procedural justice scale statistics. Possibly the procedural justice measure represents a more personal view of SBTs relationship with the tax authority, while trust reflects a more institutional view. The procedural justice items included concern and consideration for the position of individual taxpayers. The trust items, on the other hand, tapped into the important institutional theme of consistency and due process which can mean less responsiveness to the needs of individual taxpayers. This interpretation is speculative and is not one that has been replicated elsewhere to our knowledge. It may reflect the background experiences of New Zealand small business taxpayers at the time the study was conducted.

3.2.2.3 Power of Tax Authority. Four questions were asked to gauge perceptions of IRD's use of power⁸⁰ (see Table 3 for items and scale statistics). The items were worded in such a way that a high score of 5 on the strongly disagree (1) to strongly agree (5) scale indicated that IRD was not doing a good job of using its power to detect non-compliance and enforce the law. The mean score of 2.69, just below the midpoint, suggested that overall, SBTs viewed IRD as exercising its power to ensure compliance.

3.2.2.4 Perceptions of likely deterrence by the tax authority. Perceptions of deterrence from a social-psychological perspective were assessed using two questions. SBTs were asked to indicate what they thought were: (a) the chances of getting caught if the SBT under declared its business income; and (b) the chances of facing legal consequences if caught⁸¹ (see Table 3 for items and statistics). The same response scale of 1 to 5 was used for each question. The descriptor for 1 was 0% (almost zero), for 3 it was 50/50, and for 5 it was 100 % (almost certain). The means for chance of being caught and facing legal consequences were 3.58 and

⁷⁹ See above n 5.

⁸⁰ See B Kastlunger, E Lozza, E Kirchler and A Schabmann "Powerful authorities and trusting citizens: The slippery slope framework and tax compliance in Italy" (2013) 34 Journal of Economic Psychology 36.

⁸¹ See above n 29.

3.61 respectively, suggesting that SBTs perceived a reasonably high chance of being caught and fined.

3.2.2.5 Tax Morale. To gauge participants' moral thinking, they were asked to respond to two questions (using a scale of 1=absolutely no to 5=absolutely yes) about ethical taxpaying on cash earnings and on deductions⁸² (see Table 3 for items and statistics). The means for income and deductions were 3.83 and 4.00 respectively, suggesting most SBTs perceived themselves as ethical.

3.3 Multiple Regression

To examine the effects of procedural and distributive fairness, trust in IRD, power of tax authority and perception of sanctions, and tax morale on the five motivational postures, ordinary least squares multiple regression analyses were carried out. The effects of the tax social-psychological variables were assessed after controlling for tax knowledge and experience of being penalised or audited in the past. SBTs were asked if they had ever been penalised or fined by the IRD (0 = never, 1 = at least once) (M = 0.36, SD =0.48) and if their business had ever been audited or investigated by the IRD (0 = never, 1 = at least once) (M = 0.32, SD =0.47). Tax knowledge was measured through combining responses to two items:

(a) How do you rate your level of tax knowledge?

(b) How do you rate your familiarity with tax penalties?

The correlation between the items was .54 ($p < .001$), producing a Cronbach's alpha of 0.69. Responses were given on a 5 point scale and were scored 1 = very high to 5 = very low. Responses were reverse scored before being averaged to form the scale so that a high score reflected high knowledge. When responses were averaged the scale mean was 2.73 (SD = .76).

Preliminary analyses revealed two pairs of predictor variables with high inter-correlations which were competing for significance in the regression models. Procedural justice and trust

⁸² Michael Wenzel "An analysis of norm processes in tax compliance" (2004) 25 Journal of Economic Psychology 213.

correlated .70 ($p < .001$). Tax ethics around honestly declaring cash income and not over claiming deductions correlated .44 ($p < .001$). To remove risk of multicollinearity in the final analyses⁸³, trust was included in the regression models and procedural justice was omitted. In the case of the two tax ethics variables, an average score of the responses to the two items was calculated and called tax morale ($M = 3.92$, $SD = 0.60$, Cronbach's alpha reliability coefficient = 0.58).⁸⁴

Table 4. Standardised Beta Coefficients and Adjusted R² Predicting the Five Motivational Postures

	Commitment	Capitulation	Resistance	Gameplay	Disengage
Fined before	0.024	-0.153*	0.151**	-0.040	0.059
Audited before	0.006	0.185**	-0.017	0.069	0.099*
Tax knowledge	0.045	0.050	-0.114*	0.163*	0.051
Distributive Justice	0.322***	0.182**	-0.154**	0.033	-0.187**
Trust	0.124	0.467***	-0.501***	-0.060	-0.005
Power	0.086	-0.020	0.073	0.090	0.134*
Chance of being caught	0.015	0.012	-0.043	-0.004	-0.195**
Chance of being fined	-0.061	-0.041	0.015	0.011	-0.157*
Tax morale/ethics	0.206**	-.091	-0.083	-0.211**	-0.059
Adj R square	19%	35%	44%	5.0%	16%

*** $p < .001$; ** $p < .01$; * $p < .05$.

Table 4 shows that distributive justice had the most notable significant positive association with the commitment posture. Next was tax morale. These results show that taxpayers with a committed posture were high on ethics, particularly on declaring cash earnings, and believed that they had received favourable outcomes in their dealings with the tax authority.

The capitulation posture was associated positively with being audited or investigated. Perceptions of distributive justice and trust had significant positive associations with capitulation. Small business taxpayers appear more likely to capitulate and go along with the tax authority if they are treated favourably, if they trust the authority, and if they have been audited but not fined (aware of IRD authority).

⁸³ Ideally, in a multiple regression analysis predictors are independent, that is, their correlation approximates zero. When two variables are significantly and highly correlated with each other, there is a possibility that one will dominate the other or that accounted variance will split between the two variables. Given the earlier discussion suggesting that procedural justice may be the less robust measure, only trust was included in the regression model.

⁸⁴ The alpha reliability coefficient is affected by the number of items in the scale. Two item scales tend to have lower alpha coefficients than multi-item scales (see A Field *Discovering Statistics, using SPSS* (Sage, Los Angeles, 2009). For the sake of consistency, the alpha reliability coefficient is presented here rather than the correlation coefficient.

The posture of resistance was associated with being penalised previously, that is, those who had experienced fines appeared more resistant towards tax authority. In addition, the lower the perception of distributive justice and trust, the stronger the posture of resistance. Those who generally felt unsure of their tax knowledge were also likely to score higher on the posture of resistance. In sum, the posture of resistance expressed grievance about low trust in the tax authority, a general sense of having poor tax knowledge, poor tax outcomes from the authority, and past penalties.

In contrast, more tax knowledge was associated with a stronger game playing posture. Game playing was also associated with poor ethical stance on declaring cash income and not over claiming deductions. In contrast to other postures, the low adjusted R-square suggests that there could be other contributing factors not considered in the regression model. Recent research suggests that game playing may be less of an individual form of engagement with the tax authority and rather an organized social form of engagement that depends on social networks and social capital involving sophisticated tax expertise. Wurth⁸⁵ has identified market segments of tax practitioners who appear to specialise in tax work that engages “game-ready” clients in aggressively pushing the boundaries of tax law.

For the posture of disengagement, a stronger pattern of significant predictors emerged. Those who were disengaged were more likely to have been audited, were unimpressed by the tax authority’s enforcement efforts, did not believe they were treated favourably by the tax authority (low distributive justice), and did not rate their chances highly of either being caught or penalised for understating income. The small business taxpayers who expressed disengagement appeared to have placed themselves outside the controls of the tax authority and the tax system, with little stopping them from evading tax. Deterrence was not working effectively to move them into compliance.

3.4 Are postures related to choice of a tax practitioner?

85 E Wurth “A Will and a Way: An Analysis of Tax Practitioner Preparation Compliance” A thesis submitted for the degree of Doctor of Philosophy of the Australian National University” (2012).

The majority of small businesses resort to tax practitioners for help with their tax affairs.⁸⁶ In this section, we test for links between the postures and their choice of types of practitioners.

Drawing from Braithwaite’s study,⁸⁷ participants were asked to rate the priority that they would assign to 7 qualities in choosing a tax practitioner. A rating scale of 1 = low, 2 = medium, 3 = high, 4 = top was used for each quality. A principal components factor analysis with varimax rotation was undertaken to reduce the item set. One item⁸⁸ was left out as it loaded on more than one component. Two factors with eigenvalues of more than 1.00 were extracted and accounted for 63% of the variance. The first factor accounting for 39% of the variance was labelled aggressive tax practitioner. The second factor accounting for 24% of the variance was labelled as honest no-risk tax practitioner (see Appendix 2). Responses to items that defined each factor were averaged to produce scales that represented prioritising having an aggressive tax practitioner (M=2.14, SD=0.68, Cronbach alpha reliability coefficient = 0.75) and prioritising having an honest no-risk practitioner (M=3.12, SD=0.61, Cronbach alpha reliability coefficient = 0.56).⁸⁹

Table 5. Pearson product-moment correlation coefficients between motivational postures and choice of tax practitioner type

	commitment	capitulation	resistance	disengagement	game playing
Honest no-risk	.198**	.193**	-.107 NS	-.233**	-.224**
Aggressive	-.163*	-0.50 NS	.243**	.031 NS	.351**

** p< 0.01 level; *p<0.05.

The Pearson correlation coefficients showed that those with commitment and capitulation postures preferred an honest no-risk practitioner whereas those who adopted resistance and game playing postures preferred an aggressive tax practitioner (see Table 5). There were

⁸⁶ See above n 11 and n 28.

⁸⁷ See above n 5.

⁸⁸ The item was “someone who is well networked.”

⁸⁹ The alpha reliability coefficient is affected by the number of items in the scale. Two item scales (such as the honest no-risk practitioner scale) tend to have lower alpha coefficients than multi-item scales (see Field above n 84). For the sake of consistency, the alpha reliability coefficient is presented here rather than the correlation coefficient. The scale has been validated in previous studies (see Sakurai and Braithwaite above n 28; Braithwaite n 5)

three correlations that were not significant. Those expressing high capitulation preferred an honest no-risk adviser, but did not rule out the use of an aggressive practitioner who might help them save tax within the letter of the law. Those expressing high resistance, although favouring an aggressive practitioner, did not rule out an honest no-risk practitioner, perhaps concerned about being on the wrong side of the law. Of interest was that those expressing a disengagement posture were more likely to reject having an honest no-risk practitioner, but were neither more nor less likely to choose an aggressive adviser. This perhaps is a reflection of their “don’t care” attitude. Not surprisingly, game players rejected an honest no-risk practitioner and preferred an aggressive practitioner who could help them exploit tax loopholes to their advantage.

The SBT’s preference for different types of tax practitioners appears to be an expression of the motivational postures SBTs adopt in relation to the tax authority. Where the accommodating postures are strong, an honest no-risk tax practitioner is attractive. Where the defiance postures are strong, SBTs will prefer an aggressive tax adviser or at the very least they will shy away from an honest no-risk one. The themes of these findings are generally consistent with prior work carried out in Australia by Braithwaite, Wurth, and Murphy.⁹⁰

4. Discussion

The majority of SBTs endorsed the postures of commitment and capitulation with fewer adopting the stance of resistance, game playing and disengagement. Thus, SBTs are willing to cooperate or acquiesce to authority most of the time; however, they are also capable of defiance and feeling angry with how the tax system is working. Supporting other studies carried out in Australia,⁹¹ the implication of there being multiple postures held by taxpayers is that there will be a range of contributing factors driving the different postures as they wax and wane over time depending on the context.

So what are the factors contributing towards cooperating with or defying a tax authority’s rules? In this study of small business taxpayers in New Zealand, distributive justice or

⁹⁰ Braithwaite, above n 5; Wurth, above n 85 and Murphy above n 27.

⁹¹ See Harris and McCrae above n 4; Braithwaite above n 5.

receiving favourable outcomes from the tax authority played a significant role in the accommodating postures of commitment and capitulation. Small business taxpayers were happy and willing to pay their taxes and work with the tax authority when they perceived the outcomes arising from the tax authority's decisions positively. As both commitment and capitulation are the strongest postures, it is important that the government continuously instil taxpayers' confidence that decisions made by the tax authority and the intended outcomes are fair. Consistent with this assertion, loss of confidence in such decisions, that is the perception of unfairness in outcomes, was linked with the defiant postures of resistance and disengagement.⁹²

Along with distributive justice, trust in the tax authority was important for greater capitulation and less resistance. The use of power by the tax authority to enforce compliance was significant for only one posture. Those who had disengaged thought the tax authority weak and ineffective in its enforcement activities.

In sum, for commitment, capitulation, resistance and disengagement, the relational social-psychological variables contributed significantly to understanding posture meanings. When IRD was perceived as an authority that used its power firmly and fairly, it was likely to have taxpayer cooperation and defiance was more likely to be kept at bay much of the time. This was not the whole story. For the posture of game playing, the relational social-psychological predictors were not important. Game playing was defined among these small business taxpayers in terms of low tax ethics and high tax knowledge. Those who subscribed to game playing engaged with the tax system opportunistically, with a view to having a win.

While the absence of tax morale or tax ethics was important for defining game playing, high tax morale or tax ethics defined the posture of commitment. For capitulation, resistance and disengagement, internal constraints were replaced by external constraints. Being audited or investigated and fined was associated with the posture of capitulation, while being fined or penalised was associated with the posture of resistance. Those who expressed resistance also complained of poor tax knowledge. Those who were disengaged reported being audited. Interestingly they were among those who assessed their chances of being caught or sanctioned for understating their income as being relatively low.

⁹² Ibid n 91; V Braithwaite, K Murphy and M Reinhart "Taxation Threat, Motivational Postures and Response Regulation" (2007) 29 Law and Policy 137.

These findings demonstrate that for those wishing to improve tax cooperation and compliance one size does not fit all. With different postures come different demands on authority – to provide explanation and knowledge, to review the fairness of outcomes, to ensure trustworthiness, to investigate and audit, and use sanctioning powers appropriately. Those who display a disengaged posture may need a firmer hand.⁹³ Also those who favour a game playing posture may need to have their options for playing the system curtailed. Most small business taxpayers, however, do not display these postures. They are sensitive to the authority's power and for the most part sympathetic to the mission of tax collection. They need to be able to trust their tax authority and believe that it delivers fair outcomes to them.

Of particular interest is that the resistant posture was more evident where tax knowledge was lacking and a fine or penalty had been imposed by the authority. Such taxpayers can be expected to resist what authority tells them to do because they feel that they have been treated unreasonably and unfairly. Sanctions do not always work when they are considered unjust and create further resistance to compliance.⁹⁴ Resistance takes the form of expressions of grievance as to how authorities have used its power.⁹⁵

Does it matter if small business taxpayers adopt the posture of resistance, or any other posture for that matter? Isn't it the case that they have to obey the law at the end of the day? Perhaps so, but not without considerable cost to other taxpayers as the tax authority invests heavily in assessing what a business owes and then pursues taxpayer debts. Cooperation is a cheaper option for tax authorities than contestation, particularly contestation through the courts. Perhaps more importantly in the context of this paper, however, is the finding that postures are related to choice of a tax practitioner and small business taxpayers overwhelmingly turn to tax practitioners for assistance with tax matters. This paper demonstrates that commitment and capitulation posturing is linked with preference for an honest, no risk tax practitioner. Resistance and game playing posturing is linked with finding an aggressive tax practitioner.

⁹³ This suggestion is consistent with the IR's compliance model which suggests different compliance strategies can be used for those who try or do comply and those who do not (see <http://www.ird.govt.nz/technical-tax/prosecution-guidelines/>)

⁹⁴ See above n 11.

⁹⁵ The broader literature on deterrence in taxation has tended to consider the taxpaying population as a whole (see for example Richardson and Sawyer above n 26; Verboon and van Dijke above n 44; Devos above n 31; Kirchler above n 1; R Schwartz and S Orleans "On Legal Sanctions" (1967) 34 *University of Chicago Review* 274). Segmenting by postures suggests that deterrence may have differential effects, working more successfully to achieve compliance with some groups than others (see V Braithwaite, and M Reinhart. "Deterrence, Coping Styles and Defiance" (2013). *FinanzArchiv/Public Finance Analysis*, 69(4), 439.

And the disengaged follow a path of their own, staying away from the honest, no-risk option, seeking assistance beyond the known-networks of advice perhaps. Given the dangers that tax avoidance poses to tax systems, managing postures in a bid to discourage flight to aggressive tax practitioners appears likely to be cost effective approach to follow.

5. Conclusion

To enhance the efficacy of tax regulation, authorities need to understand how taxpayers position themselves in relation to authority and what drives them to respond in such a way. Understanding the factors driving the various postures would help authorities reduce the social distance between themselves and small business taxpayers and to enhance their compliance with law more generally, and tax law in particular. Some may require being pointed in the direction of outside assistance, others may need a management plan imposed on them; some may require threat of a sanction, others may require the firm hand of the law. The specific tax problem in large part will determine the appropriate response from the tax authority, but the effectiveness of that response is likely to be influenced by the posturing of the taxpayer to tax authority.

This study provides some insights into the various ways in which small business taxpayers' responses to tax regulations and enforcement are reflected in the motivational postures they adopt. The results show that deterrence does not always explain why small business taxpayers react in different ways, as they also assess the fairness of outcomes and processes as well as their trust in authorities.

The results suggest that small business taxpayers can adopt more than one posture towards taxpaying. Sometimes they cooperate and sometimes they defy depending on the circumstances. The distance they place between themselves and the tax authority can be influenced by their perceptions of justice, trust, power, sanctions and experience with authorities. Perceptions of trust and fairness in authority in general help to reduce the social distance that taxpayers use to safely position themselves in relation to the authority. Resistant defiance is about grievance over the way authority carries out its duties and could be reduced

by treating people fairly, fostering trust and improving tax knowledge. The postures of game playing and disengagement signal that people are questioning why an authority exists and hold little hope for its future legitimacy. Such postures are not so easily changed by procedural justice. An important agenda for future work is to investigate the kinds of reforms needed to contain game playing and overcome disengagement.

This study explores the contributing factors to the postures adopted by one subset of taxpayers only, that is, small business taxpayers in NZ. Furthermore, the study did not investigate the association between postures and the taxpayers' compliance behaviour. Future studies could consider the motivational postures of other subsets of taxpayers and the links between the postures and compliance outcomes. In addition, other variables that might impact small business taxpayers' motivational postures could be explored, in particular, the "game playing" posture which continues as the most poorly explained posture, and the least well theorised.

Appendix 1. Factor Analysis – Motivational Postures

Rotated Component Matrix

	Component				
	1resistance	2commitment	3gameplayin g	4capitulation	5disengage
Cooperate even if IRD are not	.630	.012	.217	-.044	.155
Impossible to satisfy IRD wholly	.611	-.041	.082	-.268	.207
IRD keen in catching than helping	.593	-.179	.073	-.450	.074
IRD tough if you're uncooperative	.555	.084	-.182	.035	-.318
People need to stand against IRD	.517	-.292	.209	-.161	.096
Don't care and don't ask	.480	-.205	-.044	-.195	.355
Paying tax accepted by all NZ	.078	.809	.003	.081	-.135
Tax help govt to do worthwhile things	-.272	.680	.077	.132	.125
Moral obligation to pay tax	.150	.624	-.218	.164	-.225
Resent paying tax	.279	-.498	.045	-.110	.127
Accept responsibility for paying tax	-.087	.438	.022	-.345	-.078
Enjoy share ideas on tax loopholes	.148	-.007	.790	-.113	.072
Game of grey areas	.198	-.191	.714	.032	.037
Enjoy challenge of minimise tax	.043	-.014	.704	-.052	.108
Enjoy working out tax system changes	-.138	.113	.690	.241	.007
IRD respect if admit to mistakes	-.041	.060	.058	.761	-.075
Mutual coop with IRD	-.352	.074	.005	.681	-.175
Black listed by IRD once non compliant	.360	-.092	.028	-.532	-.108
Tax system works well though not perfect	-.082	.375	.035	.451	.074
Won't lose sleep if not doing right	-.036	-.009	.166	-.127	.715
Uncooperative if IRD gets tough	.241	.008	.046	-.316	.650
Don't care if not doing right	.349	-.093	-.034	.230	.592
Not much IRD can do if don't pay tax	-.002	-.247	.058	.179	.513
% variance	11.48%	10.40%	10.17%	10.12%	8.84%

Appendix 2. Factor Analysis – Type of Tax Practitioners

Component Matrix^a

	Component	
	1	2
Creative accountant	.804	.066
One who can deliver on aggressive advice	.753	.236
One takes advantage of grey areas of law	.750	-.028
One knows how to minimise tax	.679	.144
One does job honestly and minimum fuss	-.055	.858
One who does not take risks	-.338	.770
% variance	38.7%	24.05%

Extraction Method: Principal Component Analysis.

a. 2 components extracted.