Understanding migrant businesses

A baseline measure of their characteristics, compliance attitudes, behaviours, and drivers

National Research & Evaluation Unit
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Executive summary

New Zealand is a settler society with a long history of immigration. It is also becoming increasingly culturally diverse with a quarter of the population now being overseas-born. In recognition of this, the Migrant Businesses Research Project was initiated to gain insight into Inland Revenue’s migrant business customers, and in particular, to develop an understanding of: their compliance attitudes, behaviours, and drivers; their interface with Inland Revenue; and to identify factors that would facilitate compliance. It is understood to be the first “large-scale” research that has been conducted to understand the tax compliance characteristics of migrant businesses in New Zealand.

The Project comprised of three phases:

(Phase 1) Interviews (n=28) with internal/external subject matter experts;
(Phase 2) Literature review; and computer-assisted telephone interviews (n=400) (with UK, Australian, Chinese, and Indian business owners);
(Phase 3) n=14 face-to-face in-depth interviews (with those from China and India).

More differences than similarities were found between migrant business owners.

Some similarities included:

- more than eight in ten being “sole traders” or “companies”;
- having a similar number of employees;
- the majority having run their New Zealand business for up to 5 years;
- more than six in ten not being affiliated with any business/industry group.

Differences were found, however, in a number of other areas. For example:

- Indian and Chinese business owners tended to rely more on their accountant/tax agent (who was usually from the same ethnic background as themselves) to manage their tax affairs and provide tax advice.
- The UK and Australian business owners, however, were more likely to seek tax information through Inland Revenue channels, and used a wider suite of business systems to manage their accounts and paperwork. They were also more likely to receive overseas income.

Consistent with the literature, the UK and Australian business owners appeared to have integrated better into New Zealand society. For example, a higher proportion of UK and Australian business owners earned household income that was greater than $100,000 while a higher portion of Chinese and Indian respondents reported that they were struggling financially. Chinese and Indian respondents tended to feel that they were being treated “differently” because of their ethnicity and reported lower levels of life satisfaction than their UK and Australian counterparts.

Regarding tax compliance attitudes, Chinese and Indian business owners reported higher levels of trust, generally held more positive perceptions of Inland Revenue, and were more likely to believe that Inland Revenue would be effective in “catching” tax cheats.

Believing that others were not necessarily honest with their tax obligations was one of the strongest predictors of Hidden Economy participation. Other predictors included: specific demographic characteristics (e.g., age, gender, ethnicity); having received cash payments; seeking tax information from one’s own migrant/ethnic/industry group; and having received overseas income (refer to Figure i).
To facilitate customer compliance, greater customer engagement, and the provision of tax information through multi-modal and multi-lingual channels was suggested by ethnic migrant business owners (refer to Figure ii).

In conclusion, as Inland Revenue embarks on its journey to develop a tax system for the 21st Century, it is important that Inland Revenue understands and is able to respond to the evolving needs of New Zealand society and the implications for the tax system. Research such as this goes some way towards ensuring that Inland Revenue continues to effectively contribute to the economic and social well-being of New Zealanders and achieves its long-term vision of being a world class revenue organisation that is recognised for service and excellence.
Figure ii. Suggestions on how Inland Revenue could further engage with ethnic migrant business owners.

- Engagement of ethnic migrant business owners
- Assistant packages for new migrants
- IR’s website to be multilingual, contain more information, provide relevant links
- More seminars, workshops, training programmes
- Increased face-to-face interactions to inform, educate, and assist customers
- More multilingual brochures/pamphlets
- Increased use of print and broadcast media to reach customers (e.g., newspaper, television)
- Industry specific tax information to be provided
- Phone service to be multilingual, more efficient, and for consistent advice to be given
Section 1. Introduction

New Zealand is a settler society with a long history of immigration, however, it was not until changes to immigration policy approximately three decades ago\(^1\) which saw significant alterations to New Zealand’s demography (Yuan, Cain, Spoonley, 2013).

Since then, New Zealand’s population has become increasingly culturally diverse\(^2\). According to the 2013 Census, a quarter of the population is now overseas-born, with Asia being the most common region of birth for those born overseas (Statistics New Zealand, 2013b). Of the overseas-born, the four most common countries of birth were: England (22%); the People’s Republic of China (9%); India (7%), and Australia (6%).

This recognition of the diversity of our customers is outlined as a principle in Inland Revenue’s Charter: “We will be responsive to individual, cultural, and special needs” (Inland Revenue, 2009). These concepts are also captured under the “cultural statement” of “valuing people” in Inland Revenue’s strategic document, IR for the Future (Inland Revenue, 2012).

Despite this commitment to our customers, however, there appears to be a gap in knowledge of the growing “minority segment” of the customer base, namely, those born overseas (migrants), or those from the ethnic minority groups (such as the Pacific and Asian peoples)\(^3\). While Inland Revenue does have some ethnic information about its customers, there is potential for further work to be completed.

Gaps in knowledge

Little is known about the compliance characteristics of Inland Revenue’s migrant business customers. This is an important knowledge gap to be filled, if Inland Revenue is to be able to appropriately respond to the changing nature of New Zealand’s population.

Objectives

The specific objectives of the research were as follows:

- Develop an understanding of the general characteristics of migrant businesses.
- Investigate how they interact with the tax system.
- Establish a measure of their tax compliance attitudes, behaviours, and drivers (with particular focus on the Hidden Economy).
- Explore the concept of “cultural distance” and its influence on migrant business tax compliance.
- Identify factors that would facilitate migrant business tax compliance.

It is believed that this project is the first known “large-scale” research that has been conducted in New Zealand to better understand the tax compliance issues of migrant businesses. This research is a project within Inland Revenue’s Hidden Economy Research & Evaluation Programme.

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\(^1\) In 1986/87, a points-based system was introduced whereby immigrants were selected on the basis of merit rather than birthplace (Yuan et al., 2013).

\(^2\) Refer, for example, to Our Futures report by The Royal Society of New Zealand, 2014

\(^3\) In addition to these groups, the need to better understand New Zealand’s indigenous Maori population is also acknowledged.
Purpose and structure of document

The purpose of this document is to report on findings from the Migrant Businesses Research Project. The Project comprised of:

- (Phase 1) Interviews with n=28 subject matter experts;
- (Phase 2) A literature review; computer-assisted telephone interviews (CATI) with n=400 migrant business owners (from the UK, Australia, China and India);
- (Phase 3) Further in-depth face-to-face interviews with n=14 from China and India.¹

This report represents a synthesis of the key findings from all three phases of the Project.

In terms of the sections to this report, the results are presented in Section 2; discussed in Section 3; and the report concluded in Section 4.

Additionally, the following is provided in the Appendices:

A  Description of the research methodology;
B  Phase 1 key informant interview schedule;
C/D Phase 3 pre-notification letters for the fieldwork;
E  Phase 3 CATI survey questions;
F  Material from the Phase 3 in-depth qualitative interviews;
G  Demographic profile of Phase 3 respondents;
H  Tables from the Phase 3 CATI survey;
I  Themes from the Phase 3 in-depth interviews.

¹ Refer to Appendix A for a more detailed description of the research methodology.
Section 2. Results

The purpose of this section is to synthesise findings from Phases 1 to 3 of the *Migrant Businesses Research Project* and provide insight on: the characteristics of migrant businesses and their owners; how they operate their business; their interaction with the tax system; their compliance attitudes and behaviours; and suggestions on how Inland Revenue can better the needs of this segment of the customer base.

Characteristics of migrant businesses and their owners

The majority (76%) of Phase 3 migrant business owners were “recent” migrants who had lived in New Zealand between 6 to 10 years. There was a higher portion of males (63%) to females (37%). Most (90%) were between the ages of 25 to 54 years. Most (83%) had some form of tertiary qualification, with a quarter reporting that they had a postgraduate certificate or a higher qualification.

Retail trade (17%); accommodation and food services (11%); and rental, hiring and real estate services (10%) were the three most common industries that migrant businesses belonged to (refer to Figure 1). Half (50%) operated as sole traders, while 34% were companies (refer to Figure 2).

Reflective of the number of years they had lived in New Zealand, 96% had their business for nine years or less, with 42% having had their business between 3 to 5 years (refer to Figure 3). Thirty-eight percent had not previously run a business before migrating to New Zealand (refer to Figure 4). Those from the UK and Australia were more likely to have had experience running a business prior to migrating (48% cf. 32% Indian and Chinese respondents).
Figure 2. Entity type of the business (n=400)

*multiple response

Figure 3. Number of years running a business in New Zealand (n=400)
The first type of New Zealand visa that 44% of migrant business owners applied for was the Visitor visa (refer to Figure 5). Under half of those on Visitor, Resident, and Work visas had previously run a business in their country of origin (refer to Figure 6). Those on student visas were the least likely to have had previous business experience.

In terms of the current visa status of respondents, the majority (92%) were either on Resident (61%) or Permanent Resident (31%) visas.

The first type of New Zealand visa that respondents applied for was the Visitor visa (n=329) and the current visa details (n=241) were sourced from Immigration New Zealand’s database.
Sixty-six percent of respondents reported that their gross household income was between $20,000 to $100,000 (refer to Figure 7). Eleven percent earned more than $140,000.

Three-quarters (75%) of Chinese and Indian business owners earned up to $100,000 (cf. 60% UK and Australian respondents). A higher portion of UK and Australian respondents, however, earned more than $100,000 (33% cf. 15% Chinese and Indian respondents).
In terms of what portion of their annual income came from the business, three in ten reported that up to a quarter of their household income came from the business, while 38% reported that over three-quarters of their income was from the business (refer to Figure 8). The majority (88%) did not receive income from outside New Zealand (refer to Figure 9). Of those who did receive overseas income, a slightly higher proportion from the UK and Australia reported this (19% cf. 8% Chinese and Indian respondents).

Regardless of the level of business contribution to household income, the proportion of those who received income from overseas remained consistent across these levels, and ranged from 5% to 15% (refer to Figure 10).
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Figure 8. Proportion of the household income which came from business (n=400)

Figure 9. Whether overseas income was received
Figure 10. Contribution of the business to the household income cross-tabulated by whether respondents received supplementary overseas income

Over half (55%) currently provided financial support to family members (refer to Figure 11). Most of this was to support family members in New Zealand (48%), while 15% also reported supporting family members who were based overseas.

A higher proportion of respondents from the UK and Australia were more likely to support family members within New Zealand (61% cf. 41% Chinese and Indian respondents). Chinese and Indian respondents were, however, more likely to support family members outside New Zealand (22% cf. 3% respondents from the UK and Australia).

Figure 11. Whether respondents provided financial support to family members within and outside New Zealand
How migrant businesses operate

Number and types of employees

Under half (48%) of Phase 3 respondents were the sole employee in their business, while 29% had one other employee (in addition to themselves) (refer to Figure 12). Of those who had more than one person working in the business, 33% had unpaid employees working for them (refer to Figure 13).

Figure 12. Total number of employees in the business, including the respondent (n=400)

* Total may not sum to 100% due to rounding

Figure 13. Number of paid employees in the business (n=400)

* Total may not sum to 100% due to rounding
Forty-two percent had family members, and 20% had students working in the business with them (refer to Figure 14). Approximately one-third (32%) had at least one family member working in the business, while 12% had one student working with them. Of those who had family members working for them, 23% were not paid an income.

**Professional affiliation**

Sixty-five percent did not belong to any business or industry association (refer to Figure 15). When migrant businesses did belong to a business/industry association, it tended to be either through a New Zealand industry group (17%) or a migrant/ethnic specific one that was based here (12%).

*Figure 15. Membership in business/industry associations (n=400)*

* multiple-response
Sources of tax information

In the past year, contacting an accountant/financial advisor was the most common means of sourcing tax information (77%); followed by seeking information through Inland Revenue (59%) (refer to Figure 16). Interestingly, 31% reported seeking tax information from family and friends.

A higher portion of respondents from the UK and Australia sought tax information via Inland Revenue channels than their Chinese and Indian counterparts (74% cf. 50% Indian and Chinese respondents).

Figure 16. Sources used to get information about tax in the past 12 months

Management of accounts and paperwork

Sixty-six percent of migrant business owners had an accountant who managed their business accounts and paperwork for them (refer to Figure 17). Over one-third (36%) had no particular filing system but kept records of their accounts/paperwork.

A higher proportion of Chinese and Indian respondents reported that their accounts and paperwork were managed by their accountant (82% cf. 41% of those from the UK and Australia). Those from the UK and Australia were, however, more likely to have a paper-based filing/accounting system (52%) or to use an accounting software package (36%).

Almost all (99%) reported that they kept their business records in English (refer to Figure 18). Ninety-eight percent of Chinese and Indian respondents reported that their records were kept in English.
Figure 17. How accounts and paperwork have been managed

Figure 18. Whether business records were kept in the English language (n=400)
Tax agent usage

Just under three-quarters (72%) reported having an accountant or tax agent to manage the business finances (refer to Figure 19). Chinese and Indian respondents were more likely to use an accountant/tax agent, and to have one who was from the same ethnic community or migrant group as them (refer to Figure 20).

Figure 19. Whether an accountant or tax agent was used to help manage business finances

* Total may not sum to 100% due to rounding

Figure 20. Whether the tax agent is from the same ethnic community or migrant group

* Tax agent from own ethnic community/migrant group
* Tax agent not from own ethnic community/migrant group
* Don’t know
Payment methods

The three most common means of payment by customers was via internet banking (71%), cash (40%), and eftpos (37%) (refer to Figure 21).

For respondents from the UK and Australia, internet banking was the most common form of payment (94%). For Chinese and Indian respondents, however, while internet banking still remained the most popular form of payment (57%), payment by eftpos (48%) and cash (46%) followed closely behind. These differences could be reflective of the diversity in the types of businesses that migrant business owners are involved in.

Figure 21. Customer payment methods in the last three months
Migrant experience

Migrant business owners generally reported finding it easy to run a business in New Zealand (refer to Figure 22). Among the different aspects of running a business, keeping business records was rated the easiest aspect (65%), followed by learning what tax their business needed to pay (58%), employing and paying staff (55%), and setting up the business (55%).

The experiences of migrant business owners were similar, with the exception of setting up a business. Chinese and Indian business owners found this more challenging than their counterparts from the UK and Australia (46% cf. 70% UK and Australian respondents who rated this as very easy/easy).
**Figure 22. Experience of the different aspects of running a business in New Zealand**

* Sub-sample based on those who had employees
** Total may not sum to 100% due to rounding
One potential contributing factor to the reported ease in running a business could be because some business owners had bought existing businesses. As reported by two respondents from the Phase 3 in-depth interviews:

“...it’s an existing business I bought over from previous owner, I think I am the third owner.”
Chinese business owner (Interview 11)

“...the first one we bought as a running business so we learned from it, and last year we opened another one on our own.”
Indian business owner (Interview 4)

The assistance business owners received from others was also mentioned as a contributory factor.

“Some help was given by the previous owner [New Zealander], but then I am in the industry for so long so I knew what to do and what has to be done and everything. Some of the things which I wasn’t pretty sure, then the owner helped me. The agent who I bought the business, he helped me a lot.”
Indian business owner (Interview 1)

“I have my accountant, mostly my accountant takes care of all goods so he helped me out in setting out the company, okay, so yeah, I think he deals with other organisations in Auckland as well. So, he is pretty well versed with how to do that, so setting up a company wasn’t a hassle for me.”
Indian business owner (Interview 3)

New Zealand culture and the business environment were also commented on by some as factors contributing to ease of running a business.

“During the years I’ve been in New Zealand, I find that the environment for doing business is really good, it’s very transparent and open, New Zealand culture is very free... and you don’t have to have a very good connection with governments.”
Chinese business owner (Interview 11)

“Pretty much easy to set up business, also very impressive how easy to set up business compared to mainland China.”
Chinese business owner (Interview 12)

“...it’s pretty easy here. Just need the right information and then it’s pretty easy.”
Indian business owner (Interview 14)

“Setting up business in New Zealand is much easier, just register that’s OK. I think in China you have more procedures to do.”
Chinese business owner (Interview 8)
In terms of respondents’ perceptions and experiences of being a migrant, 73% felt that they were part of New Zealand society (refer to Figure 23). Despite this, however, 38% felt that they were being treated “differently” because of their ethnic background. Just under 1 in 3 (28%) reported that they were struggling financially.

A higher portion of business owners from the UK and Australia reported that they felt like they were part of New Zealand society (79% cf. 70% Chinese and Indian respondents). A higher portion of Chinese and Indian respondents, however, felt that they were being treated “differently” by others (45% cf. 28% UK and Australian respondents) and were struggling financially (32% cf., 22% UK and Australian respondents).

Three-quarters of all respondents (76%) were either “very satisfied” or “satisfied” with their life in New Zealand (refer to Figure 24). This satisfaction rating was higher than their self-assessment of life before the migration. The lowest period of satisfaction was after first arriving in New Zealand.

Across the different migrant groups, those from the UK and Australia were less satisfied with their life before the migration, but were more satisfied on first arrival and in their current situation than their Indian and Chinese counterparts.
Figure 23. Perceptions and experiences of being a migrant

* Totals may not sum to 100% due to rounding
Figure 24. Satisfaction with life

* Totals may not sum to 100% due to rounding
Not surprisingly, a higher proportion of those from the UK and Australia felt that they spoke English “very well” (90% cf. 25% Chinese and Indian respondents) (refer to Figure 25). Twenty-two percent of Chinese and Indian business owners felt that they generally did not speak English well.

Figure 25. Self-assessment of English proficiency

* Totals may not sum to 100% due to rounding
Challenges faced

Phase 3 in-depth interviewees reported a number of challenges that ethnic migrant business owners faced in New Zealand. Thematic analyses of the data revealed six primary challenges – an overview of these is provided in Figure 26.

Lack of proficiency in the English language was a challenge reported by seven out of the fourteen interviewees.

“If there’s a person who comes from India who’s English is not good, he will struggle. He will either have to go to an accountant, here you can’t get direct information from IRD, nobody is sitting there to help you out.”

Indian business owner (Interview 4)

For some migrant business owners, finding employment after migration was another challenge reported. As outlined in the Phase 2 literature review, one factor which “pushed” ethnic migrants towards entrepreneurship was because of negatives experiences in the labour market (Yuan et al., 2013).

“Yes, people take time so when he came here he started struggling first to for survive, getting some job, he takes him many months. He get that job only for a few hours, here few hours is not much money. That was not sufficient for him, but he just continued with that and slowly, slowly his hours increased.”

Indian business owner (Interview 6)

For non-ethnic migrants, however, “pull factors” (such as personal desire ‘to be their own boss’, wanting greater financial rewards, and it being a lifestyle choice) were stronger drivers for entrepreneurship (Yuan et al., 2013).

Difficulty in establishing and maintaining appropriate business networks was also mentioned by Phase 3 in-depth interviewees.

“Main thing will be contacts, say for example construction, it took me 6-7 years to do the networking, to know people then I could start construction business. I could not have started because I don’t know anyone, who is going to give me a job.”

Indian business owner (Interview 9)
According to the Phase 2 literature review, one common challenge which all migrants faced, regardless of ethnicity, was being able to secure start-up capital for the business, as immigrant entrepreneurs often lacked local credit histories (Yuan et al., 2013). This was supported by Phase 3 in-depth interviewees – below is an example given by one interviewee.

“… he has not sufficient funds so he cannot do any big business like for example running a restaurant, he liked that. But, for the funds problem, so he thought maybe doing this business he can save some money and go for another business.”

**Indian business owner (Interview 6)**

Cultural differences in the business practices of migrant business owners, and in particular, for those from countries with different infrastructural systems to New Zealand, was reported as a challenge by some Phase 3 in-depth interviewees.

“The way they do business, they think still doing business the way in Taiwan and bring it here, it just doesn’t really work.”

**Chinese business owner (Interview 5)**

“It would be for all the people, not just Indian migrant. If you think Chinese people [they] might not be that good at English. Most overseas countries especially Asian countries, it’s basically more face to face rather than on the phone. If you go to China, India, Malaysia or Philippines, for example, people would love to go and find out more rather than on the phone, then the language becomes an issue as well.”

**Indian business owner (Interview 14)**
Not surprisingly, general lack of awareness of the regulatory requirements of running a business was reported as a challenge by other Phase 3 in-depth interviewees.

“Yes, I think so because if you’re born here and if you live here you know most of the rules and everything. Employment Act, my staff knows better than me!”

Indian business owner (Interview 1)

“Third thing is for the system understanding. If you’re born here it’s much easier understanding. Also department should be going well but overseas people maybe don’t know [how to get] the right people to find out [the] direction for getting [the] correct information. That’s why [when] you read a map if you can’t read English you can’t get right direction to find your destination. If you find correct people and speak the same language you can find directions straight away.”

Chinese business owner (Interview 12)

“I think the whole concept of GST payments, the whole concept of provisional tax, all of those things aren’t immediately obvious. I suppose that’s a potential area of where you might fall over. The other area which may not be clear is... the areas where you’re eligible for a tax deduction.”

Indian business owner (Interview 2)

**Perceptions of the tax system**

Respondents’ generally had positive perceptions and interactions with Inland Revenue.

Approximately seven in 10 respondents felt that the “amount of time spent on tax matters was acceptable to them”; that Inland Revenue treated people “fairly”; and they felt “confident” when dealing with Inland Revenue (refer to Figure 27). Chinese and Indian respondents generally rated Inland Revenue more positively on these attributes than those from the UK and Australia.

The majority of respondents (80%) trusted Inland Revenue more than they trusted the tax department in their country of origin (30%; refer to Figure 28).

Chinese and Indian business owners were more trusting of Inland Revenue (89% cf. 66% UK and Australian respondents) and less trusting of the tax department in their country of origin (18% cf. 51% UK and Australian respondents). They were also more likely to report that they did not know whether they trusted the tax department in their country of origin (37% cf. 3% UK and Australian respondents).
Figure 27. Perceptions of Inland Revenue

* Totals may not sum to 100% due to rounding
The negative perception of the tax department in migrants’ country of origin (and in particular those from the Asian continent) echoed some of the comments provided by subject matter experts interviewed in Phase 1 of the project. Their descriptions were supported by commentary provided by Phase 3 in-depth interviewees who discussed about the corruption, and the power differential between government and the general public in China and India.

“...in China the tax department or [the] government they have people coming to ask under table money from you... If [the] business owner [acts] according to [the] tax rules you [will] have no profit... People will come to you, say if everything [is] according to the law, doing business in China is very difficult, now [it is] already difficult. Some people pay under table money to [the] government just to release them, [to] give [them a] chance to survive.”

Chinese business owner (Interview 13)

“It’s very difficult, you have to move the files from table to table, it’s still a developing country, it’s very corrupt and in India it’s not what you do, it’s who you work with, who you know rather than what you know.”

Indian business owner (Interview 4)

“...as they say in China if you want to do something you have to have some sort of connection to start with. There are too many people, too much competition. It’s not like India though it’s very corrupt, you have to pay money, a lot of under table, but you have to have some sort of connection otherwise it’s very hard for you to start.”

Chinese business owner (Interview 11)
“The other thing I think people need to understand is that in many third world countries, the government is the big bad wolf. The smart person just keeps his head down and stays under the radar. You stick your head over the parapet you’re probably going to get shot. There is an underlying fear of engaging with any government agency.... If I was in India, I certainly wouldn’t willingly go to the nearest income tax department.”

Indian business owner (Interview 2)

“Because we come from Asian countries, the people who work for the government, you feel they’re at [a] different level with normal people. It’s not easy to get close to them and they’re always in charge of things and difficult to deal with because they do have some kind of power.”

Chinese business owner (Interview 10)
Compliance/HE attitudes

Four in ten (40%) believed that most small businesses declared all their income (refer to Figure 29). Most (84%) felt that they would get caught if they cheated on their taxes. Just under a quarter (23%) reported being worried about Inland Revenue auditing them.

A higher portion of Chinese and Indian respondents felt that they would get caught if they cheated on their taxes (87% cf. 78% UK and Australian respondents). However, a higher portion of those from the UK and Australia reported having anxieties about being audited (28% cf. 20% Chinese and Indian respondents).

Getting fined and facing financial penalties was the consequence most commonly perceived by respondents (76%) (refer to Figure 30). Chinese and Indian business owners generally perceived more consequences to non-compliance than their counterparts from the UK and Australia.

Concern was expressed by Phase 1 subject matter experts that migrant business owners from countries which had dissimilar and/or less established tax systems than New Zealand were at risk of being more non-compliant because of differing beliefs/values around tax. This was supported by Phase 3 in-depth interviewees’ descriptions of the general absence of a “tax culture” and “norms” around the payment of tax in China and India.

“…there’s a heck of a lot of people in India who have never paid taxes in their entire lives, have no concept of paying taxes and do not really believe that it’s a hugely important thing. Sometimes yes they’re aware somewhere in the back of their minds it’s probably illegal, but I don’t think they understand or quite comprehend it’s a pretty serious deal, in a western country to get caught not paying taxes.”

Indian business owner (Interview 2)

“…when they are in Taiwan or China they don’t feel like they need to be part of society, pay equal tax for everyone because they reckon tax was so low, they don’t even need to worry about tax.”

Chinese business owner (Interview 5)

“At a very deep cultural level for a lot of people paying tax is not an obligation. It’s something at the risk of sounding really bad, it’s almost a protection racket. For a lot of people it is so the mafia come and whack you over the head if you don’t cough up a bit of money, the tax man comes and whacks you over the head if you don’t cough up a bit of money, it’s the same thing. Guess what you come to New Zealand the tax man never comes around and knocks you over the head.”

Indian business owner (Interview 2)

“…if you have a good enough connection you can avoid tax completely, you can gain benefits. That’s a whole different story, in China everything is driven by hierarchy structure, driven by what power you have.”

Chinese business owner (Interview 11)
Figure 29. Compliance attitudes and beliefs

- Most small businesses declare all their earnings
- If I cheat on my taxes, it is very likely I will get caught
- I sometimes worry that Inland Revenue will audit me

* Totals may not sum to 100% due to rounding
Figure 30. Perceived consequences of being caught for not complying

- Get fined and financial penalties imposed
- Taken to court and have a criminal record
- Loss of business reputation
- Audited by IR
- Targeted in future years for similar audits
- Other organisations (e.g., MBIE) would also target them for audits (e.g., Health & Safety)
- Other
- There are no consequences - IR would never know
- Don't know
- Refused

Overall (n=400)
Native English speakers (n=150)
Non-Native English speakers (n=250)
Crosswalk}


towards the payment of tax in New Zealand, Phase 3 in-depth interviewees generally held positive views towards tax. Some were motivated to comply because they recognised the value of the social goods/benefits brought by tax.

“\textit{I think it’s very clear cut. People understand it’s not a corrupt culture. People understand that you pay taxes you get it back. It’s a beautiful country. You have somebody else to pay to maintain it, your roads, education is free, childcare parents only pay about 40\% of the fees, medical is free, you’ve got good roads. All of that costs money and people understand you have to pay for it.}”

\textbf{Indian business owner (Interview 4)}

“\textit{Here the tax system is good, I quite like it the thing is it is really good, I quite like it here you see where your money is going. There is a fair tax system I think here.}”

\textbf{Indian business owner (Interview 14)}

“\textit{It all depends on the people. Objectively speaking there is huge benefit to paying tax and doing things according to the rules, huge benefits.}”

\textbf{Chinese business owner (Interview 11)}

For others, however, an underlying fear of the tax system/Inland Revenue appeared to have had an influence on their compliance attitudes and behaviours.

“\textit{I fall into the category of people who put the whole tax saving thing into the too hard basket, so I think you know what I’ll just pay whatever it is, I don’t want to know about it. Cynically or otherwise, I’m a strong believer in the fact that you can only lose an argument with the government. Even when you win you lose. Which is why I told my accountant just pay whatever I have to pay. Death and taxes you can’t avoid so just pay it.}”

\textbf{Indian business owner (Interview 2)}

“\textit{Everyone scared of them, no one wants to get in trouble with them because some of the, not because they try to hide something, sometimes too complicated, we just don’t know, have no idea how to do the things right. That’s why we hire tax agent, an expensive tax agent to do that.}”

\textbf{Chinese business owner (Interview 13)}

To gain further insight into respondents’ personal and social norms towards tax compliance, Phase 3 in-depth interviewees were asked to rate on a ten-point scale (where 1= non-compliant businesses and 10=compliant businesses) where they believed: migrants businesses; New Zealand businesses; and where they were on this scale (refer to Appendix F2 for the material used ).

On averaging interviewees' ratings, they consistently rated themselves as being the most compliant (9 out of 10), followed by New Zealand businesses (8 out of 10), and other migrant businesses (6 out of 10). Of interest was the general perception that other migrant businesses were not as compliant.
Compliance/HE behaviours

The Phase 2 literature review found that Hidden Economy activity was prevalent within the SME sector and that this varied across different cultural groups (Yuan et al., 2013).

For Phase 3 in-depth interviewees, cash jobs were a common Hidden Economy activity reported. This included, for example, being offered cash jobs, under-the-table payment of employees, and being advised not to declare cash income.

“A story would be like if I don’t want [an] invoice, can you not charge me 15%? Can I not pay GST for it? And for me I would be like OK how do I put it in my book, I still want the business, but how can I not do that…. I think in terms of you buy stuff and sell stuff, it’s really hard for this situation. But I heard a lot of stuff like if I’m doing a painting job, if I don’t want any invoice [it means] just paint my roof, I don’t pay GST for it, that’s the most common thing.”

Indian business owner (Interview 3)

“I have a couple of experiences in the past for painting. I ask them for a quote and he said we can do it for $6000 but if you pay me cash I can do it for $5,500. That’s the wrong attitude.”

Indian business owner (Interview 14)

“I think for small business especially migrant business, they hire their own people and it’s like a compulsory thing to have cash jobs, so they can avoid tax. They maybe pay tax to pay certain amount of tax to make sure IRD doesn’t notice, but very minimal and the workers work much more. The employees get same amount of salary, they just try to avoid tax.”

Chinese business owner (Interview 11)

“I won’t ask say for example the wages, I won’t ask directly. I won’t ask them if they want to have normal payment with tax and everything. I’m fine with that. If they, for some reason they may be charged too much tax, maybe they don’t have enough, the visa don’t allow them to work long time, they want cash jobs. It’s all up to them. If I like the employee and the employee likes me its fine. I just want my job to be done, salary I just want to be fair, whatever you want to do.”

Chinese business owner (Interview 11)

“My accountant say it depends how much you get cash. Sometimes maybe less than $100 maybe you don’t put [it] in[the] book. Most things because my customer mostly transfer all the money to my account straight away, I can’t get cash in my hand. I don’t know exactly if I get cash how to deal with that. My accountant said if it’s less than $100 you can a bit lower, if you’re less than $100 you can ignore that or you have to write down under your book.”

Chinese business owner (Interview 12)
Others reported that they knew people who were not fully declaring their income.

“I know some people who work in like marine industry, oil rigs and everything so they get $3 million American dollars and stay out of the country, but the family stay here. So by law they should be declaring all that income here, which they don’t. They can put it in any bank, whatever they need they bring it here. When you put the money in a bank it doesn’t grow. The amount of interest the bank can pay you, inflation and the New Zealand dollar goes up so your money has actually gone down, more than you would have paid taxes, but they keep doing it.”

Indian business owner (Interview 4)

“From day one I know a lot of people here, all are Indians. They will come into the millionaires’ rich list also if they disclose everything. They said just do enough whatever you can do on your own, if you try to become more you have to earn more money for them also.”

Indian business owner (Interview 9)

Another gave the example of how they manipulated the tax system.

“We have two books, the good book we give to IRD, we fully fill our obligations just there’s so many small tricks we can do. Also maybe sometimes you won’t get that much, but try to legally as possible avoid, you can always find a way.”

Chinese business owner (Interview 11)

Three of the fourteen migrant business owners interviewed were from the taxi industry. Of interest was that each of those respondents was able to provide examples of non-compliant activity which they had observed in their industry. These examples included the falsifying of the GST number and underreporting of income.

“Maybe customer you know asks for a GST number so some drivers who have no GST number they just write that number. The wrong number. The wrong GST number…. Yeah [they make up the GST number], if any customer asks.”

Indian business owner (Interview 6)

“Sometime I think they don’t declare. I think because if they are getting cash directly from the business, they might keep that money separately.”

Indian business owner (Interview 7)

“They [other drivers] give me some advice not only to decrease the tax, but also to decrease the payment for the company. The office, the call centre each time give you a job you have to pay, sometimes $8 sometimes $3 to the company. They tell me how to avoid the payment. Everything including tax.”

Chinese business owner (Interview 8)
Drivers of compliance

A logistic regression\(^4\) was run with the Phase 3 survey data to investigate factors that were predictive of Hidden Economy participation. In the analyses, the independent variables were the survey questions and selected administrative data. The dependent variable was Hidden Economy participation.

Following the regression, these variables were ranked\(^7\) according to their level of contribution to the predictive model and is summarised in Table 1. Cross-validation\(^8\) of the model found that it was able to predict cash job participation with 72% accuracy. The final R-square value of the model was: 0.28.

A logistic regression\(^6\) was run with the Phase 3 survey data to investigate factors that were predictive of Hidden Economy participation. In the analyses, the independent variables were the survey questions and selected administrative data. The dependent variable was Hidden Economy participation.

Table 1. Predictors of Hidden Economy participation/non-participation

<table>
<thead>
<tr>
<th>Variable Type</th>
<th>Significant Variables</th>
<th>Variable Category</th>
<th>Significance</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demographic</td>
<td>Nationality</td>
<td></td>
<td>****</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>How customers have paid in the past three months</td>
<td>Cash</td>
<td>****</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Age</td>
<td>35-54 Years</td>
<td>***</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Gender</td>
<td>Male</td>
<td>****</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Proportion of household income generated by business</td>
<td>51-75%</td>
<td>**</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Talked to people from own migrant/ethnic/industry group for information about tax</td>
<td>Yes</td>
<td>**</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Receive income from overseas</td>
<td>Yes</td>
<td>*</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Holds a New Zealand Student Loan</td>
<td>Yes</td>
<td>*</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>Uses an accountant or a tax agent</td>
<td>Yes</td>
<td>*</td>
<td>9</td>
</tr>
<tr>
<td></td>
<td>Member of NZ industry group</td>
<td>Yes</td>
<td>*</td>
<td>9</td>
</tr>
<tr>
<td>Attitudinal</td>
<td>Most small businesses declare all their earnings</td>
<td>Disagree</td>
<td>****</td>
<td>1</td>
</tr>
</tbody>
</table>

\(^4\) Logistic regression is a statistical technique used to determine the impact of multiple independent variables presented simultaneously to predict the dependent variable (Burns & Burns, 2008). This particular regression technique was selected as it suited the survey data type collected (i.e., categorical data).

\(^7\) To obtain the ranking of the variables, the goodness of fit of the statistical model was measured by calculating the Akaike Information Criterion (AIC) values (refer to Wikipedia, 2013). Following this, the following criteria were applied in the ranking of the variables: 1= low AIC, low (highly significant) p-value; 2= low AIC, medium p-value; 3= low AIC, high p-value; 4= medium AIC, low p-value; 5= medium AIC, medium p-value; 6= medium AIC, high p-value; 7= high AIC, low p-value; 8= high AIC, medium p-value; and 9= high AIC, high p-value. The smaller the ranking, the stronger the contribution of the variable to the model.

\(^8\) Cross-validation is a statistical technique used to estimate how accurately a predictive model will perform (Wikipedia, 2012). For this research, five rounds of cross-validation were performed to account for data variability, following which the results were averaged.
Table 2. Predictors of Hidden Economy participation/non-participation (cont.)

<table>
<thead>
<tr>
<th>Variable Type</th>
<th>Significant Variables</th>
<th>Variable Category</th>
<th>Significance</th>
<th>Ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demographic</td>
<td>Nationality</td>
<td></td>
<td>****</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Business type</td>
<td>Company</td>
<td>**</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Proportion of household income generated by business</td>
<td>76-100%</td>
<td>*</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>Business type</td>
<td>Sole trader</td>
<td>*</td>
<td>9</td>
</tr>
<tr>
<td>Attitudinal</td>
<td>I am struggling financially</td>
<td>Disagree</td>
<td>***</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Believe fines and financial penalties would be imposed if caught not fully declaring all income</td>
<td>Yes</td>
<td>**</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Inland Revenue treats people fairly</td>
<td>Agree</td>
<td>*</td>
<td>6</td>
</tr>
</tbody>
</table>

*p<0.1; **p<0.05; ***p<0.01; ****p<0.001

As both Table 1 and Figure 31 illustrate, there were specific attitudinal and demographic predictors of Hidden Economy participation.

Of particular interest was that those who did not believe that other businesses declared all their earnings was one of the strongest predictors of Hidden Economy participation. Specific demographic characteristics of respondents (such as their nationality, gender, and age) were also strong predictors.

Not surprisingly, migrant business owners who tended to be paid in cash by their customers; those who sought tax information from members of their own ethnic/migrant/industry group; and those who received income from overseas were also more likely to have engaged in Hidden Economy activity.

In terms of the predictors of non-Hidden Economy participation, those who were not struggling financially; had particular beliefs around the consequences of tax cheating; and perceived Inland Revenue to be fair, were less likely to engage in Hidden Economy activity. The nationality of the business owner was also a strong predictor of non-participation.
Figure 31. Conceptual overview of the attitudinal and demographic predictors of Hidden Economy participation

**Attitudinal Predictors**
- Did not believe that most small businesses declared all of their earnings.

**Demographic Predictors**
- Nationality of business owner
- Male
- 35-54 years old
- Customers paid in cash in the past three months
- 51-75% of household income generated from the business
- Sought tax information from people from own migrant/ethnic/industry group
- Held a New Zealand Student Loan
- Received income from overseas
- Used an accountant/tax agent
- Belonged to a New Zealand industry group
Meeting customers’ needs

To understand how Inland Revenue could better meet the needs of migrant business owners, Phase 3 in-depth interviewees were asked to describe how they currently interacted with Inland Revenue. Supporting findings from the Phase 3 CATI survey (which were reported earlier in this report), interviewees stated that they sought tax information through their tax agent, via Inland Revenue’s website, or sought advice from their friends. Direct personal contact with Inland Revenue staff, however, appeared to be limited.

“I have not attempted, so in terms of have I had any queries that I wanted to clarify with Inland Revenue, no. If I’ve ever had queries I’ve taken them to the accountant, and I’ve either left it to him to go and speak to them. I don’t think I’ve had anything that complex, or he’s given me the answer anyway. Have I gone to the website and attempted to search for information, no. Have I called their helpline to speak to someone, no.” “In my entire time in New Zealand I think I’ve only twice called Inland Revenue, even as an employee. The first time was the year I arrived, I wanted to know how one goes about doing this where you get a tax refund thing, and the second time was about a year later when I did the tax refund thing.”

Indian business owner (Interview 2)

“I don’t think they [IRD] communicate at all. I’ve not talked to Inland Revenue ever…. I always had an accountant. I never filed my returns on my own, they prepare all my financials, they do the balance sheets so it’s their job. For me I know this is my profit, this is my share of tax, they just give you this is your advanced tax, you get a statement and pay them…. No, probably I never deal with them direct. My accountant might think the Inland Revenue are very busy now and it’s not easy to interact with them, it’s because I never face them directly.”

Indian business owner (Interview 4)

When Phase 3 in-depth interviewees were asked for their suggestions on how Inland Revenue could improve its engagement with migrant business owners, eight key themes emerged from the thematic analyses. A conceptual overview of these is provided in Figure 35. Examples of each of these themes are now discussed.

The need to provide assistance packages for new migrants was one suggestion that was put forward by some interviewees.

“Like when the people come in to the country, it would be good to have some kind of support from them, like how to set up a business. More information packs or if it can be sent out in the mail even.”

Indian business owner (Interview 14)

“Another thing is people so when you arrive to New Zealand, migrate to New Zealand here you can have special department, or special group to speak same language, and can do much they can help for new people arriving.”

“For business they could tell them exactly how to set up, how to open account in bank, how to request your IRD number, how to run a business and how to find good accountants, something like that. You can have one group or two groups to recommend different things to people.”

Chinese business owner (Interview 12)

A number of interviewees also provided a range of different ideas on how Inland Revenue’s website could be further improved. These ideas ranged from providing: multilingual websites; more specific information; and relevant “links” to other websites.
“I’ve gone through the Inland Revenue website with some level of detail five years ago when I first applied for a tax refund, and it’s quite comprehensive. It’s also I think fair to say that it’s down to the assumption you have a really good command of English, there’s a zillion calculators on there, it starts with the assumption that you can figure out which one is for what.”

Indian business owner (Interview 2)

“But they [IRD website] only provide the previous five years’ record and this goes back only last five years. Then you have to click, click, one by one. It’s not a summary. I hope it could have a structure like you click income tax and there is a summary for each year, but now you have to click into individual years and check the details. So it’s like oh, everyone to print out a summary for last few years - no, you won’t do that. They have to click one by one and print all one by one and do it in spreadsheet. I thought it’s an easy function for IRD website to do a little better.”

Chinese business owner (Interview 10)

**Figure 32.** Suggestions by ethnic migrant business owners on how Inland Revenue could better meet their needs.

- **Engagement of ethnic migrant business owners**
  - IR’s website to be multilingual, contain more information, provide relevant links
  - More seminars, workshops, training programs
  - Increased face-to-face interactions to inform, educate, and assist customers
  - Phone service to be multilingual, more efficient, and for consistent advice to be given
  - Increased use of print and broadcast media to reach customers (e.g., newspaper, television)
  - More multilingual brochures/pamphlets
  - Industry specific tax information to be provided
  - Assistant packages for new migrants

*Inland Revenue | Te Tari Taake*  
*Classification: Public*
“So I still think IRD website, for one subject, for example, income tax and the income tax is property investment income tax, this subject they should have more detailed explanation and examples on the website.”

Chinese business owner (Interview 10)

“The best way is the online. Probably I would say tax structure, that can be easily available on IRD’s website. So they should link a websites. Maybe they can make a website - starting your own business… and then they give categories and you go into that categories and then all the websites are linked so you can go into different websites depending on if it’s a companies registration website or it’s a compliance website or it’s a tax website, that can be just linked in there.”

Indian business owner (Interview 1)

“Inland Revenue would be really good if they can, even if [it’s on their] website, was [links to] business association in other community, not just Chinese but India or any [other] business association. Any government agency between other countries, then they can have a link to doing business here. I know they already have that in immigration website, but in terms of outside their own government agency they can go other government agency.”

“Like Taiwanese business association, doing business in New Zealand if they have a link, and the member in that business association they will come from there, like Taiwanese. I would go to the website, get the link, email, if I want to see how they do business in New Zealand, rather than go find IRD, I can just click the link from website take me straight there, then it’s more easy for them when they think about doing business in New Zealand. They can go to their local networking website, then they have a link there, it will help, I don’t think there will be huge costs.”

Chinese business owner (Interview 5)

It was proposed by some that Inland Revenue could also hold more seminars and workshops (in the local communities) for migrant business customers.

“So if IRD really wants it to be easier for everybody to understand the tax structure, they could probably meet them or invite them to a seminar or something. Like if they knew that in Wellington region 50 businesses starting up next month, then they can just invite all of them to come to a seminar or something which will make it really easy for migrants.”

Indian business owner (Interview 1)

“I know Inland Revenue when I first registered company, they sent us to workshop in different areas, you can go for 3 hours when you do your tax or GST return, any return. That would help if they had workshop, but in other language if they can.”

Chinese business owner (Interview 5)

“They can have seminars or something like that, in communities one by one. New Zealand is not that big. When I did my project management course, the course was so beautifully designed, all the industry people they were coming and taking our lectures, they were sharing their experience like 3 years of experience they were sharing in one hour.”

Indian business owner (Interview 9)
Greater customer engagement, with Inland Revenue proactively informing, assisting, and educating customers was put forward by some ethnic migrant interviewees. A suggestion for there to be an “Inland Revenue helpdesk” (where customers could meet staff who could answer general tax-related queries) was suggested by one interviewee.

“I think the easiest way is from Inland Revenue sending out [their staff] to their local embassy, all embassy in Auckland or Wellington, they will have their local community group contact. Inland Revenue can send an email to the embassy and say this is something coming up, if you guys are interested get your group leader to come, apply to all the community email or website. If you want to have a link put Inland Revenue’s link in your embassy website, how to do business in New Zealand, this is the website to go [to].”

Chinese business owner (Interview 5)

“Sending out more people... to the associations, [so] they know where to find [them]. If you are a well established business association, [it] doesn’t matter where you’re from, if you need somebody a professional, Inland Revenue staff to go there to host one seminar for you guys. They can contact [the] migrant business association, there’s a certain amount of people there interested in this topic, they know where to find [it], I think that would help. Educate the migrants, say you have to do this, this is the right way to do it, rather than you come here, tell us you don’t know how to do it. Barrier of language is not excuse because you come here so you should know this.”

Chinese business owner (Interview 5)

“Migrant is when they move there’s not a lot of information, and no one to help. If suppose Inland Revenue has got a help desk, what happens is when you move from another country here everything is on the phone. First of all I’m not saying my English is very good but my English is not that bad but some people don’t understand, they prefer to go into an office and talk to people who can help. It would be good to have something like[a] help desk. I’m not saying they have to put 15 people there to help but one or two people. If you go to Inland Revenue office, like Work and Income public office, something like that where you can just walk in and ask, that would be good.”

Indian business customer (Interview 14)

Ensuring that Inland Revenue’s phone service was more efficient, accessible, and consistent was proposed by some ethnic migrant business owners.

“Inland Revenue one problem is the contact call, very difficult to get through. If you call IRD, you may call several times to get through, long waiting too busy, I understand they are very busy, long queue of calls waiting.”

Chinese business owner (Interview 8)

“Once I have to call, not before setting up the business, had to wait one and half hour to get through, then they didn’t answer my questions so.”

Indian business owner (Interview 14)

“Actually, I think I deal with IRD since 2007 and make a lot of phone calls with them. They improve a lot with the speed of answer the phone calls, but sometimes different staff give different answer. But I understand accounting not always right or wrong. Maybe we can have different ways to achieve certain things, but it happens, like different staff give different answer.”
Chinese business owner (Interview 10)

Others also requested for Inland Revenue to provide multilingual brochures/information.

“It’s very hard because some people understand English very well, but some people don’t understand it or they could do the one thing, if they print a brochure they can give those information in every language, so their language they can understand.”

Indian business owner (Interview 7)

“They should send some direct mail, by direct mailing they can inform the customers, there is a lot of direct mail we get every day in our letterbox, so if IRD can do that it would be good also.”

Indian business owner (Interview 7)

A general increase in the use of print and broadcast media to promote the “tax compliance” message was suggested by some.

“If Inland Revenue you run some campaigns on television or something to educate these people, how what you pay is actually coming back…. If IRD can sort of start doing it like on Sky you have the Indian channels. In India they do it quite a lot actually, they run a campaign the benefits of paying taxes…. Give an example of me, look Mr [name] comes from India and pays taxes, look he’s advancing so much, and this is Mr X who doesn’t pay taxes and it doesn’t serve you not to pay taxes.”

Indian business owner (Interview 4)

“Probably the people who don’t have any awareness, if some information is available in some public sites, how to set up a business like it’s more randomly available to the people. Having something in libraries, more advertisement on TV probably, or having something available at Work and Income.”

Indian business owner (Interview 14)

“In New Zealand have lots of Chinese newspapers, free one. And I think IRD might be doing some better things like advice, some activity or news to share [with] different social community.”

Chinese business owner (Interview 12)

For Inland Revenue to provide more industry-specific information was also put forward as a suggestion by some interviewees.

“Most probably… government should create something industry wise. So if somebody’s looking for hospitality business or retail business or any other business, they can just go onto that website and find out more about it. If I need to know anything about the employment I’ll go to Department of Labour and they will have lots of information. Similarly, if we go to Companies Office they have lots of information, but there is nothing which will give you deeper idea of what’s involved in certain industries.”
“Like if I want to know anything about the café or what’s involved in a café business, I’ll just go on a website and that will take me whichever government agency can help me. Like if I have a problem with employments, okay, this other website is where you can go. And if I have a problem with licensing, these are the licences you need and what are the requirements. So probably just bringing everything together maybe.”

Indian business owner (Interview 1)

“So if government has identified sectors where people come and do business, then you find out two good guys in Auckland, maybe Wellington one or something like that. They know everything about the construction business, and they will be presenting that industry, so when anybody is coming from outside and wants to do business, maybe pay $200 or $500 to him to give him advice, but he’s like immigration people, (specific) for that industry only. If somebody is good in food business, you have that identified sector and you create one identity, so whenever they come they fix up a time like you fixed up with me, and they have a one to one and talk about the industry. As long as they are paid they will do that.”

Indian business owner (Interview 9)

“They have to just inform the businesses or whoever is looking to get a business or do a business here about the tax structure and then more information about the business. It’s very easy for them to gather information from maybe so many different cafes and collect that. If you are looking for a café business, and if you do this much yearly turnover, what your tax would be and what other expenses they could be looking at. What the GST figures would be?”

Indian business owner (Interview 1)
Migration is a process which brings with it a number of short and long-term challenges. What this research has been able to provide is some insight into the characteristics of migrant business owners, explored the influence of cultural distance on compliance attitudes and behaviours, and identified factors that could facilitate tax compliance.

Similarities between migrant business owners

Despite the cultural diversity that exists between business owners from the UK, Australia, China, and India, some similarities were found in their characteristics. Examples of these similarities included: many being “sole traders” or “companies”; having a similar number of employees; the majority having run their New Zealand business for up to 5 years; and most not being affiliated with any business/industry group. Respondents also gave similar ratings of their experience of running a business here.

Differences between migrant business owners

Differences were found, however, in a number of other areas, which included: specific characteristics of the business/business owner; their experience of the migration; and their compliance attitudes and behaviours.

Business characteristics

Regarding the characteristics of the business owner, a slightly higher portion of UK and Australian business owners reported having a household income that was greater than $100,000, and were also more likely to receive income from overseas. They also tended to financially support family members within New Zealand, whereas, Chinese and Indian business owners were more likely to support family members who were based overseas.

How business accounts were managed and tax information was sought differed across migrant business owners. Indian and Chinese business owners tended to rely more on their accountant/tax agent (who was usually from the same ethnic background as themselves) to manage their tax affairs and provide tax advice. The UK and Australian business owners were more likely to seek tax information through Inland Revenue channels, and used a wider suite of business systems to manage their accounts and paperwork (which included employing an accountant, as well as having a paper-based and electronic system).

Integration and adaptation

The UK and Australian business owners generally appeared to have integrated better into New Zealand society. For example, a higher portion of Chinese and Indian business owners reported: having difficulties in setting up their business; feeling that they were being treated “differently” because of their ethnicity; and being less satisfied with their life here. As reported earlier, while a higher proportion of UK and Australian business owners earned a household income that was greater than $100,000, a higher portion of Chinese and Indian respondents reported that they were struggling financially.

These findings support other New Zealand research which suggests that migrants from non-traditional source countries (such as Asia) do face some specific challenges to adaptation here. These include, for example, poorer labour market outcomes than their European counterparts (e.g., Masgoret et al., 2012). Other challenges also include: encountering language difficulties; facing financial hardship; familial tensions and conflict as a result of the migration; experience of discrimination; and general difficulties in adjusting to the country of settlement, to name a few (refer further to Williams and Cleland, 2007; and research by Spoonley and colleagues from the Integration of Immigrants Programme and Nga Tangata Oho Mairangi).
Compliance attitudes and behaviours

Attitudinal and behavioural differences in tax compliance were found between the different migrant business owners. Chinese and Indian business owners generally reported more positive perceptions, interactions, and higher levels of trust in Inland Revenue than their UK and Australian counterparts. They were also more likely to believe that there would be consequences for tax cheating, that Inland Revenue was effective in “catching” tax cheats, and that other small businesses would declare all their income.

These attitudinal differences were reflected in the self-reported compliance behaviour. The logistic regression revealed that compliance behaviour was influenced by the nationality/ethnicity of respondents. A higher proportion of business owners from the UK and Australia reported having engaged in Hidden Economy activity in the past year than their Chinese and Indian counterparts.

Comparison with other research populations

Within the Migrant Businesses survey questionnaire, some survey items from other research (and in particular projects completed by the National Research & Evaluation Unit) were inserted to allow high-level comparative analyses with different research populations.

Business characteristics

One of these projects was research into SMEs from the construction and trade industry. As construction and trade SMEs had quite specific business characteristics, this was reflected in some of the differences found between them and migrant businesses.

For example, while over half (55%) of construction and trade SMEs reported having a paper-based filing and accounting system, approximately one-third (35%) of migrant businesses reported using this type of system. A similar portion of construction and trade SMEs and migrant businesses, however, had no particular filing system but kept a record of their accounts and paperwork (41% construction and trade SMEs cf., 36% migrant businesses).

While electronic transfer (such as internet banking) was a common mode of payment by customers (89% construction and trade SMEs cf., 71% migrant businesses), cash payments were more common in migrant businesses (40% cf., 6% construction and trade SMEs).

The channels used to source tax information remained similar with accountants and tax/financial advisors being the most common channels used by both construction and trade SMEs and migrant businesses (61% construction and trade SMEs cf., 77% migrant businesses). A similar portion also reported seeking tax information from friends and family (25% construction and trade SMEs cf., 31% migrant businesses).

A slightly higher portion of migrant businesses reported that the amount of time spent on tax matters was acceptable to them (68% cf., 59% construction and trade SMEs); and were generally more confident in dealing with Inland Revenue (72% cf., 64% construction and trade SMEs).

Integration and adaptation

Migrant businesses and construction and trade SMEs were similar in their feelings of financial security. Approximately three in ten migrant businesses (28%) and construction and trade SMEs (29%) reported that they were struggling financially.

Also of interest was that 45% of Chinese and Indian migrant business owners felt that they were being treated “differently” because of their ethnicity. While this does not necessarily equate to racially motivated prejudicial or discriminatory encounters, it does suggest that migrants of Asian ethnicity may not necessarily feel that they are being treated the same as the general populace.

These perceptions of “difference” are in support of other New Zealand research. For example, the New Zealanders’ Perceptions of Asian and Asian People’s 2013 Survey found an increase in those who believed New Zealanders’ feelings towards Asian people had “cooled” in the previous year (refer to Asia New Zealand Foundation & Colmar Brunton, 2014). Also of note are findings from Statistics New Zealand’s (2013c) New Zealand General Social Survey 2012, which found that those of Asian ethnicity and recent migrants were more likely to report that they had experienced discrimination in past 12 months.
In terms of ratings of overall life satisfaction, migrant business owners’ ratings (76%) were generally lower than the ratings of the general population (87%) and recent migrants (89%) from the New Zealand General Social Survey 2012 (Statistics New Zealand, 2013c). This also held true between the UK/Australian and Chinese/Indian migrant business owners and their European and Asian counterparts from the New Zealand General Social Survey 2012.

**Compliance attitudes and behaviours**

Migrant businesses had similar high levels of trust in Inland Revenue as general public respondents from Inland Revenue’s Customer Satisfaction and Perceptions (CS&P) Survey.

On comparing compliance attitudes between migrant businesses and those of construction and trade SMEs, a lower portion of migrant businesses believed that most small businesses declared all their earnings (40% cf., 54% construction and trade SMEs). A similar portion, however, believed that they would get caught for tax cheating (84% migrant businesses cf., 80% construction and trade SMEs); and had anxieties about being audited (23% migrant businesses cf., 19% construction and trade SMEs).

Additionally, in support of the aforementioned research, one of the strongest predictors of engagement in Hidden Economy activity continued to be the social norm/belief that others were also non-compliant.

**Interface with IR**

When ethnic migrant businesses were asked how Inland Revenue could better meet their needs, some of the suggestions included increased engagement between Inland Revenue and its customers; and for tax information to be provided using multi-modal channels. These suggestions were not dissimilar to those provided by senior executives from the construction and trade industry.

The findings were in support of other research, such as that by the Office of Ethnic Affairs and Inland Revenue, which found that ethnic SMEs rated Inland Revenue as the Government department that they most wanted to receive information from for their business (Chand & Cleland, 2012).

The need for improved engagement and understanding of cultural influences on tax compliance also supported findings from other New Zealand research (e.g., Yong, Northcott, and Hooper, 2014).

**Implications for IR**

The Migrant Businesses Research Project has been able to provide Inland Revenue with contextual information about its migrant customers. On consolidating the research findings, the implications for Inland Revenue are now discussed.

**Deconstructing the “migrant” term**

First, the research has been able to demonstrate not just the diversity that exists between different migrant groups and the New Zealand population, but has also highlighted some of the similarities that exist.

It has also emphasised the need to deconstruct terms such as “migrants”, which has recently become synonymous within the New Zealand vernacular to solely describe those from the Asian continent (despite the fact that New Zealand has had a longer history of immigration from “traditional source countries”, such as the UK). Spoonley and Bedford (2012) also argue that terms such as “Asian” do not fully capture the cultural diversity that exists within this group, that in recent times it had been used as a derogatory descriptor, and even suggest the use of the term “Asian peoples” to describe this cohort of the population instead.

The questions the research raises are how “migrants” are being defined within Inland Revenue, and what consideration is currently being given to assist and work with not just those from visible minority groups, but also with the less visible majority. Moreover, as with the term “Asian”, the diversity that exists within the “European” ethnic group also needs to be considered.
Challenging the “cultural distance” myth

Second, while the research has been able to demonstrate the influence of ethnicity/nationality on tax compliance attitudes and behaviours, support was not found for the hypothesis that migrants from countries that were more culturally distant from New Zealand would have poorer compliance attitudes and behaviours. While it may be plausible that migrants from countries with larger cultural distance from New Zealand (where, for example, the tax system is different, there is lower tax morale, and there is a higher incidence of corruption and mistrust of Government) might apply/"transfer" non-complaint norms from the country of origin to the country of settlement, this was not found.

Contrary to this, migrant business owners from countries with smaller cultural distance to New Zealand (e.g., the UK and Australia), reported lower levels of trust in Inland Revenue, generally held less compliant attitudes, and were more likely to engage in Hidden Economy activity than those from countries with larger cultural distance (e.g., China and India).

These findings challenge some of the more “traditional” assumptions around the compliance of migrants, and in particular, what was reported by Phase 1 subject matter experts. The implications are that when working with migrant business customers, while finding out about the cultural background of customers is still important, broad assumptions of tax compliance/non-compliance (that are based solely on the ethnic origin of migrants) cannot be made.

Addressing customer diversity

Third, the research has demonstrated that Inland Revenue’s migrant customers do have specific needs. For example, there may be those who are not proficient in the English language; have a fear and distrust of Government; are technologically illiterate; and prefer face-to-face interactions with Inland Revenue. The research has provided some insight into how Inland Revenue could better “reach” this segment of its customer base.

Moreover, it is worth bearing in mind that there are many other migrant groups, who were not included in this research (e.g., the Pacific peoples; migrants from South Africa, the former Soviet Union, North and South America, to name a few) on whom there is limited contextual knowledge about.

As Inland Revenue moves towards developing a tax system for the 21st Century, it is fitting that Inland Revenue is now acknowledging the breadth and diversity of its customer base, and that consideration is being given on how the tax system could meet these changing needs.

What Inland Revenue may wish to consider, if it has not already, is to develop an organisational strategy which specifically focuses on addressing this customer diversity. Possible elements to this strategy could, for example, include:

- Developing further in-depth understanding of the various migrant groups within Inland Revenue’s customer base. While this research has been able to provide initial insight into a segment of Inland Revenue’s migrant customer base, there is potential for further research to be conducted to address the diversity that exists within and across the various migrant groups within the New Zealand population.
- Designing and implementing customer-centric initiatives that are based on the aforementioned understandings of the various customer groups.
- Evaluating the implemented initiatives to ensure that Inland Revenue has been effective in delivery, has met customers’ needs, and has facilitated compliance.
Research implications

The *Migrant Businesses Research Project* is believed to be the first known "large-scale" research that has been conducted to better understand: the characteristics of migrant businesses; their tax compliance attitudes, behaviours, and drivers; and the influence of cultural distance on tax compliance.

Until now, the available research on the migrant population in New Zealand (and in particular those from the Asian continent) has predominantly been qualitative in design. While the research was not without its limitations, the Project was able to demonstrate the successful application of a mixed-methods approach to data collection, and in particular, the application of computer-assisted telephone interviewing on ethnic migrant business owners. This is an encouraging methodological development for the field of migrant research.

Furthermore, as already mentioned in the previous section, despite the increasing diversity of Inland Revenue’s customers, Inland Revenue has limited contextual information about these customers. There is, therefore, scope for further research to be conducted to address some of the existing knowledge gaps.
Section 4. Conclusion

New Zealand is a settler society with a long history of immigration. It is also becoming increasingly culturally diverse with a quarter of the population now being overseas-born. These demographic changes have implications for Inland Revenue, particularly as it starts developing a tax system for the 21st Century.

The Migrant Businesses Research Project is understood to be the first “large-scale” research that has been conducted to understand the tax compliance characteristics of migrant businesses in New Zealand. It has provided insight into Inland Revenue’s migrant business customers, and in particular, has provided a customer-centric view of the challenges they face; elucidated the drivers influencing their compliance attitudes and behaviours; and identified how to facilitate and influence compliance.

While “migrant” may be a useful label to describe and categorise these customers, it is still worth considering the individual uniqueness within each customer group. Moreover, the influence of the migratory process on tax compliance cannot be underestimated.

Migration is not a static event but is best conceptualised as a process which brings about short and long-term changes to migrants. For some, for example, it may have resulted in the loss of financial security and a weakening of their social support networks/structures, whereas, for others, it might have created new business opportunities, and so on and so forth.

Below is a quote from a migrant business owner which helps put into perspective some of more basic difficulties that some migrants face. The challenge for Inland Revenue will be to consider how it could best assist these customers to “get things right at the start”, and to efficiently and effectively integrate them into the New Zealand tax system, and to society as a whole.

“Because one country’s system and administrations is different to another country. So we are now, we are New Zealanders basically. So New Zealand has a set of systems and procedures so anyone come from another country have to go through with that. It’s going to take some time. It’s a migration, you know body can migrate but mind is not even though the person who might get it here his mind is toward his own country. I remember when I came here you know, first six months I did not start to say dollars as dollars because in India we call it rupees. I always say rupees. So, it takes time to you know to leave that and to adopt the new things. It’s very hard...”

Indian business owner (Interview 6)


