

eJournal of Tax Research

CONTENTS

- 4 Comparison of a lower corporate income tax rate for small and large businesses
John Freebairn
- 22 Wine options of Australian tax reform
Paul Kenny, Michael Blissenden and Sylvia Villios
- 51 Tax compliance of ethnic minority immigrant entrepreneurs: A social capital perspective
Sue Yong and Fiona Martin
shut again
Rocco Loiacono and Colleen Mortimer
- 119 Risks of IFRS based taxation: The application of section 24JB by authorized users to hedged relationships
Pieter van der Zwan

Tax compliance of ethnic minority immigrant entrepreneurs: A social capital perspective

Sue Yong¹ and Fiona Martin²

Abstract

Given all these issues, this study aims to address the need to provide research on the role of social capital in tax compliance behaviours of migrant entrepreneurs in New Zealand. Specifically, this study attempts to answer the following research questions:

1. How does social capital impact on the Asian and Pacific³ entrepreneurs' ability to file their tax returns and pay their taxes on time?
2. Does social capital influence the attitudes of Asian and Pacific entrepreneurs'?

in the country as more than one-third of its population were born overseas. This puts it on par with Sydney and New York (Lee, 2015). The Asian and Pacific peoples

due to their displacement and also discrimination on the part of the receiving society. However, in more recent times, there is greater acceptance of migrant groups and there has been a greater influx of these migrants to New Zealand since the widening of access to citizenship (Friesen, 2015; Ministry of Business Innovation and Employment, 2013).

Asian migrants who are professionally qualified often migrate to developed countries for a better quality of life; however, many are unable to obtain similar professional employment in the host country due to lack of cultural capital and recognition of overseas qualifications. Many therefore resort to lower skilled employment or self-employment (Cooke, Zhang & Wang, 2013; Department of Labour, 2010).

Large waves of Asian migrants initially started arriving in New Zealand during the 1990s (Friesen, 2015). During the early 1990s immigration into New Zealand from Asia, especially from Hong Kong, Taiwan, and the Republic of Korea, increased sharply following the introduction of a points-based selection system in 1991 which

Both these groups often lacked social relationships with local Europeans and 0 — R U L
However, this lack of integration in the local society was compensated for by a strong social cohesion within their own ethnic migrant groups (Podsiadlowski & Fox, 2011; Yong & Martin, 2016). This is where social capital could play a crucial role within these groups as a mechanism to compensate for the deficiency of integration with the rest of the society. This is evidenced by the strong bonding amongst the Pacific peoples groups in churches. Pacific churches model the Pacific way of living in the islands and are therefore integral in ensuring Pacific migrants integrate into New Zealand society (Gershon, 2007; Macpherson & Macpherson, 2004; Tiatia, 1998). These mechanisms provide security, protection and support for migrants and a sense of belonging to a group despite being away from home (their country of origin). Hence, the church for ethnic Pacific peoples serves as a ‘source of adaptive advantage’ (OECD, 2001, p. 42) when they first arrive in New Zealand.

3. SOCIAL CAPITAL

There are many definitions of social capital and no one agreed definition. This study uses the definitions from the OECD (2001) s en 10.9 (f (e)-2.41 T)6.6 o

financial and human capital for emerging entrepreneurs, as strong kinship ties encourage funding for their business ventures and provide cheap and flexible labour (Geertz, 1973). Ethnic ties will often provide valuable information on the local business, financial and labour market (Basu & Altinay, 2002). However, ethnicity may serve simultaneously as a way to bind some people together while keeping others apart (OECD, 2001). Keeping the group separate can be a long-term disadvantage as it can alienate the group from the wider business community and therefore limit significant business opportunities.

Recent research in New Zealand has found some relationships between social capital and the tax compliance behaviours of Pacific and Asian peoples in relation to tax compliance behaviours (Yong, Northcott & Hooper, 2014). In particular, the study has found some significant differences in the sources of tax assistance used and the manner in which these groups kept and filed their tax records. Unlike the Asians, both Pacific and Asian peoples groups were more dependent on their accountants as they lacked accounting and tax knowledge. On the other hand, the Asians relied on their social networks for free tax assistance and information in order to save on tax compliance costs. They engaged their accountants for tax advice only when it was necessary.

More recent research on collectivistic ethnic groups also showed that tax payment ability and difficulties can be related to the assistance given and demands placed on them by their social networks (Yong & Martin, 2016). In particular, this study found that Asian small business operators experienced no tax payment difficulty as they had financial assistance from their social networks. On the other hand, the financial demands and pressures placed on the Pacific peoples resulted in tax payment difficulties. These tax payment difficulties were attributable to meeting their

2005). Some of the codes were known beforehand from prior literature and some were new findings as the analysis advanced.

The next section details the thematic findings of the migrant entrepreneurs' tax compliance behaviours and the role of social capital for their businesses.

4.2 Research findings and discussion

The demographic and biographic details of each of the Asian and Pacific peoples businesses are recorded in Appendix 1. The findings of the role of social capital on migrants' business and tax compliance activities are divided into the following themes:

1. Business start-ups and tax information
2. Tax return preparation and tax payments
3. Practices and perceptions of the informal economy

The role of social capital and its impact on the above themes are discussed in the ensuing sections. In particular, the similarities and differences between the two migrant groups will be highlighted.

4.2.1 Business start-ups and tax information

4.2.1.1 Asian entrepreneurs

The majority of the Asian entrepreneurs started their businesses after working for a few years with New Zealand corporations. This complements previous literature on Asian immigrant entrepreneurs which suggests that they usually start their businesses after a few years working for others (Dhaliwal, 2000; Romero & Yu, 2015). Some migrants received financial assistance transnationally from their social networks to start their businesses. All but two entrepreneurs operate their businesses to service their own ethnic community i.e. their clients are predominantly from their own ethnic group. In doing so, they claimed stiff competition from other Asian businesses and therefore experienced low profit margins.

Asian immigrants tend to be tertiary qualified (Cooke, Zhang & Wang, 2013; Department of Labour, 2010). All but one Asian entrepreneur interviewed was professionally qualified in the *Accounting (Engineering Education) B.1 (M) (Pri 08139) 0*

Being a mortgage broker, I advise people on tax issues and therefore I would say I am very knowledgeable (w)4.6 ()10.9 ()-10.7 (I)6. v2.239. e rye 4.6 (d)...1.141 7

and prepares the business income tax returns. My mum is kicking a fuss because he is charging us a lot of money. (Pacific entrepreneur 1: Male in the health provider business)

I am not very knowledgeable with the tax requirements in New Zealand... I do not look at tax to really study it as I haven't taken the time nor am I interested because I would look at it and say 'pass'.

and no (the) ()10.8 o wai69

et al., 2008). Asian entrepreneurs resorted to their extended families in New Zealand and their home countries for financial resources to pay taxes if this was needed. This situation was observed by Business expert 9. He claimed that Asian families would endeavour to pull in financial resources to help their entrepreneurs but that this did not happen for the Pacific peoples group due to their lack of finances. He stated:

I see the Asian community very much work within their group, their own family, their own extended family. They seldom use banks, the family is the bank. But the Pacific Islanders don't work in a similar way because they don't have the money. Where it comes to money it doesn't work like this with the Pacific Islander but where it comes to helping, all the family will come together to help like to pack in the container but not with money as there is no money. (Business expert 9: Male from a government agency)

As one Asian entrepreneur commented:

I am helping my family in the bakery and have been for three years. I have to look after the business and do the accounts every weekend when I am not working for someone else. (Asian entrepreneur 4: Female who is helping her family bakery business)

Access to social capital in terms of filing tax returns and tax payments have enabled

and [(e)- (p)2 (r)96 (.989 0 Td (si)-2d ()TjaTJ 0 Twe)-((.dneaxT an I,7.989 0 T o0ysia TJ

contributions to the church, remittances back to their home countries and paying for extended families' birthdays, weddings and funerals. These financial demands on Pacific peoples are well documented in the literature (Connell & Conway, 2000; Macpherson, 1992; Macpherson & Macpherson, 2004). Business experts also claimed that most Pacific entrepreneurs were willing to help their social networks but to their own detriment. The following statements point to the reasons for tax payment difficulties for Pacific entrepreneurs as being the financial contributions to their social networks:

The Pacific Islanders bring to the business their cultural values of families... In some ways, family can get in the way of the business. For example someone has a business and others think they can go to them and get things for free because they are my family. (Business expert 10: Female from a government agency)

The cultural tradition of giving to the family is very strong. ... My dad had to fight against all his family regarding the Samoan fa'ava lave lave (traditional giving and reciprocity) and there was so much trouble with that. When he said no to the financial giving, that was it and even his own personal family wanted to kill him... The culture to give to your family is ingrained in you the minute that you are born. Your whole existence is to give to the church and to give to the family. (Pacific entrepreneur 6: Female who helps with her husband's arts and craft business)

No I don't do the stereotypical Samoan way of giving anymore because at 21 I left home and left the church and just cut ties with all that... there is a feeling that you are obliged to give and in some church giving there is a competition between some families as they announce the church giving... It is more like the Island's cultures and the whole competition of having a high standing even though I may go hungry because I give to others. (Pacific entrepreneur 2: Male in the clothing design industry)

The expectation of Pacific Islander entrepreneurs to contribute financially to their families and social networks is extremely strong and cannot be denied. Failure to financially contribute to families and social networks when the need arises will lead to adverse repercussions not only to the Pacific Islander entrepreneurs but also their families. Refusal to financially assist with their social networks can result in losing their credibility and societal standing. Consequently, it is difficult for these entrepreneurs to prioritise their business income and resources towards fulfilling taxation and financial demands over the demands from their social networks. Many resort to business resources to fulfil social demands as they do not have access to mainstream finance.

Lack of access to social capital in terms of information about filing tax returns have deterred Pacific entrepreneurs from filing their tax returns without the assistance of paid accountants. They also experienced the negative side of social capital in terms of financial contributions required to meet the needs of their social networks. These demands hindered their ability to pay their taxes on time thereby increasing tax compliance costs resulting from tax penalties and fines.

In summary, the Asian entrepreneurs experienced the positive side of social capital whereas the Pacific peoples group encountered the downside of social capital in terms of tax compliance. This is because the Asian group had assistance from their social

There is always cash job like for friends and family. There is no cash job in our business because then we can't deduct the expenses. Cash jobs are really based on the industries especially with the building industry. (Pacific entrepreneur 5: Male in the IT business)

I am not saying that I am doing cash jobs but the average people will pocket the cash jobs of \$100. Because the amount is so small and that the person can control the money coming in ... small businesses do not earn a lot of money and to compensate that, cash jobs would help... Yes, we have experienced people offering us cash jobs for some work to be done with the different pricing. (Asian entrepreneur 6: Female in the education business)

Table 1: Role of S

5. CONCLUSION AND SUGGESTIONS FOR FUTURE RESEARCH

An increasing number of Asian and Pacific immigrant-entrepreneurs are starting businesses in urban economies such as Auckland, Sydney and Melbourne. The research into these entrepreneurs in Auckland indicates that they are setting up businesses in highly competitive environments and thereby experiencing low profit margins (Kloosterman, 2010).

The aim of this study is to provide insights into the phenomenon of social capital that may influence the tax practices of Asian and Pacific migrant-entrepreneurs in Auckland, New Zealand. Regardless of the general similarities of their collectivistic orientation, a closer look at their tax practices reveals distinct patterns and dynamics. The study indicates that social capital can either constrain or facilitate successful tax practices depending on the context, circumstances, availability and requirements of

p

r

a

c

Katila, S & Wahlbeck, O 2011, 'The role of (transnational) social capital in the start-up processes of immigrant businesses: The case of Chinese and Turkish restaurant businesses in Finland', *International Small Business Journal*, vol. 30, no. 3, pp. 294–309.

Kloosterman, R 2010, 'Matching opportunities with resources: A framework for analysing (migrant) entrepreneurship from a mixed embeddedness perspective', *Entrepreneurship & Regional Development*, vol. 22, no. 1, pp. 25–45.

Kloosterman, R & Rath, J 2010, 'Shifting landscapes of immigrant entrepreneurship' in *Open for business: migrant entrepreneurship in OECD countries*, OECD, Paris.

Kloosterman, R, van der Leun, J & Rath, J 1998, 'Across the border: Immigrants' economic opportunities, social capital and informal business activities', *Journal of Ethnic and Migration Studies*, vol. 24, no. 2, pp. 249–268.

Kloosterman, R, van der Leun, J & Rath, J 1999, 'Mixed embeddedness, immigrant entrepreneurship and informal economic activities in Netherlands', *International Journal of Urban and Regional Research*, vol. 23, no. 2, pp. 253–267.

Lee, H 2009, 'Pacific Migration

- Obeng-Odoom, F & Jang, H 2016, 'Migrants and the transformation of local neighbourhoods: A study of the socioeconomic transformation of Lidcombe, Australia', *Urbani Izziv*, vol. 27, no.1, pp. 132–148.
- OECD 2001, *The Well-being of Nations: The Role of Human and Social Capital*, OECD, Paris, available at <http://www.oecd.org/site/worldforum/33703702.pdf>.
- Penrod, J, Preston, D, Cain, R & Starks, M 2003, 'A discussion of chain referral as a method of sampling hard-to-reach populations', *Journal of Transcultural Nursing*, vol. 14, no. 2, pp. 100–107.
- Pitrus, W 2015, 'Not all smooth sailing: Barriers to small business success for owner/managers from middle eastern communities in Melbourne', *The Journal of Developing Areas*, vol. 49, no. 6, pp. 293–304.
- Podsiadlowski, A & Fox, S 2011, 'Collectivist value orientations among four ethnic groups: Collectivism in the New Zealand context', *New Zealand Journal of Psychology*, vol. 40, no. 1, pp. 5–18.
- Portes, A 1998, 'Social capital: Its origins and applications in modern sociology', *Annual Review of Sociology*, vol. 24, pp. 1–24.
- Portes, A & Sensenbrenner, J 1993, 'Embeddedness and immigration: Notes on the social determinants of economic action', *American Journal of Sociology*, vol. 98, pp. 1320–1350.
- Putnam, R 2000, *Bowling alone: The collapse and revival of American community*, Simon & Schuster.
- Ram, M & Jones, T 2008, *Ethnic Minorities in Business*, Open University Business School, Walton Hall, Milton Keynes.
- Ram, M, Jones, T, Edwards, P, Kiselinchev, A, Muchenje, L & Woldesenbet, K 2011, 'Engaging with super-diversity: New migrant businesses and the research–policy nexus', *International Small Business Journal*, vol. 31, no. 4, pp. 337–356.
- Ram, M, Jones, T & Villares-Varela, M 2017, 'Migrant entrepreneurship: Reflections on research and practice', *International Small Business Journal*, vol. 35, no. 1, pp. 1–16.
- Ram, M & Smallbone, D 2003, 'Policies to support ethnic minority enterprise: the English experience', *Entrepreneurship & Regional Development: An International Journal*, vol. 15, no. 2, pp. 151–166.
- Ram, M, Smallbone, D & Deakins, D 2002, *Ethnic minority businesses in the UK: Access to finance and business support*, British Bankers' Association, London.
- Robie, D 2009, 'Diversity reportage in Aotearoa: Demographics and the rise of the ethnic media', *Pacific Journalism Review*, vol. 15, no. 1, pp. 67–91.
- Romero, I & Yu, Z 2015, 'Analyzing the influence of social capital on self-employment: a study of Chinese immigrants', *Annals of Regional Science*, vol. 54, pp. 877–899.
- Sanders, J & Nee, V 1996, 'Immigrant self-employment: The family as social capital and the value of human capital', *American Sociological Review*, vol. 61, no. 2, pp. 231–249.

- Schwartz, S 1990, 'Individualism-collectivism: Critique and proposed refinements', *Journal of Cross-Cultural Psychology*, vol. 21, pp. 139–157.
- Smallbone, D, Kitching, J & Athayde, R 2010, 'Ethnic diversity, entrepreneurship and competitiveness in a global city', *International Small Business Journal*, vol. 28, no. 2, pp. 174–190.
- Spoonley, P 2014, 'Rising Asian immigration highlights New Zealand's changing demographics', *The Conversation*, 12 February, available at <https://theconversation.com/rising-asian-immigration-highlights-new-zealands-changing-demographics-23002>.
- Stahl, C & Appleyard, R 2007, *Migration and developments in the Pacific Islands: Lessons from the New Zealand Experience*, Australian Agency for International Development.
- Statistics New Zealand 2013, *Major Ethnic groups in New Zealand: 2013 Census*, Statistics New Zealand, Wellington, available at <http://www.stats.govt.nz/Census/2013-census/profile-and-summary-reports/infographic-culture-identity.aspx>.
- Strickland, P 2013, 'Examining the impact of four key cultural dimensions on ethnic restaurants in Victoria in Australia', *Asia Pacific Journal of Tourism Research*, vol. 18, no. 5, pp. 483–500.
- TEARA 2016, *Intolerance towards Pacific migrants*, available at <http://www.teara.govt.nz/en/ethnic-and-religious-intolerance/page-4>.
- The World Bank 2013, *Doing Business 2013: Smarter Regulations for Small and Medium-Size Enterprises*, The World Bank, Washington.
- Tiatia, J 1998, *Caught between cultures: A New Zealand-born Pacific Island perspective*, Christian Research Association, Auckland.
- Tsui-Auch, L 2004, 'The professionally managed family-ruled business: Ethnic Chinese business in Singapore', *Journal of Management Studies*, vol. 41, no. 4, pp. 693–723.
- Urbano, D, Toledano, N & Ribeiro-Soriano, D 2011, 'Socio-cultural factors and transnational entrepreneurship: A multiple case study in Spain', *International Small Business Journal*, vol. 29, no. 2, pp. 119–134.
- van Hulst, A & Ahmed, A 2013, 'Migrant entrepreneurs' access to business finance in Australia', *Journal of Developmental Entrepreneurship*, vol. 18, no. 1, pp. 1–22.
- Vertovec, S 2007, 'Super-diversity and its implications', *Ethnic and Racial Studies*, vol. 30, no. 6, pp. 1024–1054.

Yucedogru, R & Hasseldine, J 2016, 'Understanding tax morale of SMEs: A qualitative study',
eJournal of Tax research, vol. 14, pp. 531–566.

Appendix 1: Demographic and Biographic Information of Asian and Pacific Entrepreneurship and Tax Compliance

Migrant entrepreneurs A – Asian P – Pacific	Country of origin	Tertiary qualification	Background	Business industry	Length of business	Service ethnic clients	Has access to peers who could assist with tax queries	Experienced tax payment difficulty	Aware of cash jobs practices by peers
A1	Hong Kong	Entrepreneur – No Spouse – Yes	Motor mechanic	Car repairs	12 years	No	No	No	Yes

r 1 .

Migrant entrepreneurs
A – Asian
P – Pacific

Country of origin

Tertiary qualification

Background

Business industry

Length of business

Service ethnic clients

Has access to peers who could assist with tax queries

Experienced tax payment difficulty

Aware of cash jobs

β = 0.09285 (ly)