

CENTRE FOR TAX SYSTEM INTEGRITY



Networks of influence and the
management of SME tax
compliance in Australia

Gregory Rawlings



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**NETWORKS OF INFLUENCE AND THE
MANAGEMENT OF SME TAX COMPLIANCE
IN AUSTRALIA**

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THE CENTRE FOR TAX SYSTEM INTEGRITY WORKING PAPERS

The Centre for Tax System Integrity (CTSI) is a specialised research unit set up as a partnership between the Australian National University (ANU) and the Australian Taxation Office (Tax Office) to extend our understanding of how and why cooperation and contestation occur within the tax system.

This series of working papers is designed to bring the research of the Centre for Tax System Integrity to as wide an audience as possible and to promote discussion among researchers, academics and practitioners both nationally and internationally on taxation compliance.

The working papers are selected with three criteria in mind: (1) to share knowledge, experience and preliminary findings from research projects; (2) to provide an outlet for policy focused research and discussion papers; and (3) to give ready access to previews of papers destined for publication in academic journals, edited collections, or research monographs.

Abstract

This paper is based research with key actors involved in overall financial management and tax compliance in Small and Medium Sized Enterprises (SMEs). It incorporates the self-reported responses made during 12 interviews that were carried out through 2004 in Canberra, Melbourne, Sydney, Newcastle, Wollongong and in The Blue Mountains. It also includes insights from telephone conversations with sampled SME stakeholders who were prepared to talk about tax compliance in their firms over the telephone. This paper examines how companies manage tax compliance. Social networks and varying channels of influence between actors, both external and internal, to firms are crucial in understanding tax compliance in SMEs.

Virtually all participants in this study reported, in addition to their tax responsibilities, that they also felt responsible for the well being of their employees and/or that they were actively engaged in reducing their impact on the environment over and above minimal requirement and/or they were actively involved in the wider community. There is thus an emerging story between high levels of self-reported tax compliance and compliance in other areas: human resources (HR), environmental reporting and/or participation in the community as good corporate citizens. It is argued here that business and personal ethics constitute nodes of influence that need to be recognised in their own right. If there are clusters of SMEs that are materially compliant not only in taxation, but also in other regulatory spheres (HR management, environmental standards and community relations), then this could be developed as a powerful new tool for tax risk management and profiling.

The people interviewed in this study were psychologically and socially driven to both manage their businesses in a profitable way while remaining committed to the tax system. The Tax Office could well enhance this commitment by becoming a more active partner with business as a key node in webs of networked influence. One way of doing this would be to profile businesses that are known to be highly committed taxpayers and to see whether or not they are compliant in other regulatory spheres as well, such as HR management, environmental reporting and community participation. If they are then an active relationship with such firms could well promote and foster a culture of voluntary compliance. The foundations would have already been laid. In a sense the Tax Office would be developing a meta-regulatory approach; allowing SMEs to better effectively regulate themselves, with the Tax Office an important juncture within networks of self-regulation.

Networks of influence and the management of SME tax compliance in Australia

Gregory Rawlings

Introduction

This paper is based research with key actors involved in overall financial management and tax compliance in Small and Medium Sized Enterprises (SMEs). It incorporates the self-reported responses made during interviews that were carried out through 2004 in Canberra, Melbourne, Sydney, Newcastle, Wollongong and in The Blue Mountains. It also includes insights from telephone conversations with sampled SME stakeholders who were prepared to talk about tax compliance in their firms over the telephone. This paper examines how companies manage tax compliance. Social networks and varying channels of influence between actors, both external and internal, to firms are crucial in understanding tax compliance in SMEs. The coordination of events is the basis of a social network (Granovetter, 1973). Running a small business and fulfilling the compliance aspects associated with this is about managing diverse events and agents.

The ability to make a decision depends on the form of relationships between actors, differentially situated in diverse networks. This paper draws from the ideas of Latour (1987 and 1993) and Callon (1986 and 1998; see also Callon & Latour, 1981 and 1992) who extended Granovetter's (1973) earlier conception of networks by showing that social network analysis could include both human and non-human actors. In this case the network can also include organisations, entities, ideas and abstractions. When business owners or actors responsible for tax compliance in firms make a decision, they are influenced not only by other people (accountants, external advisers, board members, colleagues), but also by other factors present in networks; tax rates, organisations (such as the Australian Taxation Office [Tax Office]), types of tax, laws, rules and regulations. In tax compliance these factors have independent agency to influence decisions themselves, even if they may not be wielded by any particular person. They form part of the network of influence in tax compliance

This research is based on qualitative research and is interested in the narratives people use to talk about tax and the networks of influence at play in the management of tax

compliance. Following a discussion of methodology, this paper considers the way in which participants were recruited. In doing so it is important to recognise the reasons why people chose not to participate in the research and what this illustrates about the tax system. People who did choose to participate in this research exhibited a high degree of commitment to the tax system, and this became a major motivational factor behind self-reported incidents of high tax compliance.

After examining these psychological motivations, this paper considers the insights of Social Network Theory in more detail. It then looks at networks of influence in specified areas. These include the roles of accountants and external networks in the management of tax compliance; intra-firm decision-making; a case study of the GST and the Tax Office as an organisational source of influence on tax management.

Virtually all participants in this study reported, in addition to their tax responsibilities, that they also felt responsible for the well being of their employees and/or that they were actively engaged in reducing their impact on the environment over and above minimal requirement and/or they were actively involved in the wider community. There is thus an emerging story between high levels of self-reported tax compliance and compliance in other areas: human resources (HR), environmental reporting and/or participation in the community as good corporate citizens. It is argued here that business and personal ethics constitute nodes¹ of influence that need to be recognised in their own right. If there are clusters of SMEs that are materially compliant not only in taxation, but also in other regulatory spheres (HR management, environmental standards and community relations), then this could be developed as a powerful new tool for tax risk management and profiling.

Talking about tax: Methodology

This research is qualitative and emphasises the subjective understandings that people have about specific phenomena, in this case understandings and representations of compliance with the tax system. This research is designed to tell the stories of SMEs involved in the tax system. It does not aim to test hypotheses or claim that specific factors will predict

¹ For a nuanced discussion of nodal governance see Shearing and Wood (2003)

compliance. Rather, taking an approach based on grounded theory, it is about the stories that interviewees tell about their experiences of the tax system and its effects on their businesses. Where interviewees talk about tax compliance, their psychological motivations for paying tax the way they do, the relationship with their accountant, the internal organisation of their firm, the GST, the Tax Office, the way they relate to their staff, how they regard the impact of their enterprises on the environment, their role in the community and being good corporate citizens, these are considered in the first instance, in their own terms of reference. The emphasis is on ‘actor orientated descriptions’ (Geertz, 1973, p. 15). It was ‘after they have spoken’ that these narratives were pooled together to look at common or emerging themes that have lent themselves to further theorising, to delineate how networks of influence operate in the management of tax compliance.

The interviews for this research were semi-structured and used open-ended questions and conversational style free discussions. These questions covered general descriptions of the company (its goals, services, activities), the interviewee’s role/s within the firm, who is responsible for tax compliance, who participates in tax management, the role of boards, responses to specific tax planning scenarios, the importance of external accountants and advisers, views on different taxes, the effect of the GST and the firm’s involvement in the community. These questions were asked in a way that encouraged participants to think deeply about tax issues and they were invited to talk around these questions as well as answer them directly. They were not necessarily asked in any chronological order, but rather fitted into conversational style discussions. Interviewees would often raise the very same questions that were listed, indicating that the topics covered in each interview were relevant as they were being raised by the participants, her or himself without prompting from the interviewer (a list of questions is attached at appendix one of this paper).

These interviews were not taped. Instead extensive notes were taken during and immediately after these interviews. Detailed note taking is standard practice in social anthropology (the author’s disciplinary background) and can prove valuable in many forms of investigative social science, including sociology, law and business related disciplines. The narratives and quotes used in this paper cannot be claimed to be word-for-word transcriptions of what people said, but they are very close. They were written after

interviews and the longer narratives presented here are the result of having been usually written-up within two-three hours of an interview, at the bus station or on the train following an interview. They thus provide windows on the discourses that people use to describe and discuss the tax system.

Interviews lasted from two and a half hours to five minutes, with the average lasting just over an hour. In these interviews, participants talked about the tax system and their experience of it from particular vantage points. Erving Goffman (1975) has suggested that every telling, every narrative, is made from a specific vantage point. This research considers such vantage points and what they may tell us about the management of tax compliance and its networks of influence in Australian SMEs today.

Selecting and finding participants: Recruitment

Following the implementation of appropriate confidentiality and privacy controls, the Tax Office released a randomly selected list of 204 SMEs in New South Wales and Victoria. Of these, 100 had turnovers in the \$2-\$40 million range and the remaining 104 had turnovers in the \$40-\$80 million range. Every tenth company on this sample was then randomly selected. This resulted in a sub-list of 35 companies. A letter was then written to each of these companies explaining the extent of the project and inviting them to participate. The firms were invited to ring a toll-free number if they were able to nominate a staff member (preferably the owner-manager, or who ever was responsible for tax compliance) who would be able willing and able to be interviewed. Only one company out of the 35 initially contacted agreed to participate. Follow up letters were then written to these firms. These letters were shortly followed there after by telephone calls by the project's research assistant, Sophie Cartwright and the author (the chief investigator). This did not increase the rate of participation at all. The reasons at this stage for not participating were not systematically recorded, but they were in the next stage. However, most of those contacted said they had no time to participate or that they were inundated for requests to participate in studies undertaken by market researchers and could not meet those requests either. This was only if it was possible to get past the Personal Assistant (PA) or the receptionist and speak to the person we had initially written to. In some cases the Tax Office records led

directly to the firm's accountant, who were unable to provide the names and addresses of their clients (who often used holding companies).

Following the lack of success in this method of recruitment, it was decided to focus entirely on the NSW listing, mainly because of its proximity and convenience for interviewing purposes. Each and every firm, 117 in NSW, was cross referenced with the yellow pages, the Australian Securities and Investment Commission's (ASIC's) database and occasionally internet google searches. This was because many of the records provided by the Tax Office were the contacts details of a firm's accountant, financial adviser or a holding company, rather than trading company names. Thirty records were actually the addresses and contact details of accountants who for privacy reasons could not release the details of their clients. In nine cases it was impossible to establish the identity of a firm because the listing provided a shelf or holding company that did not exist in substantive form, or if it did the holding company obscured the firm's trading form. One listed firm was actually in Queensland rather than NSW and that too was omitted from the sample.

There were thirteen firms located in rural areas and their distance meant that it was not feasible to travel for a one-off interview and hence they were excluded from being contacted. Therefore 65 companies were left to contact. These were all contacted. Most declined to participate and in these cases the reasons for their decision were entered immediately into a data base and in there own way these provide relevant insights into the broader questions raised in this research. Some of the reasons were as follows:

I would love to help, but don't really have the time, I'm in-between jobs.

You're wasting your time with him; he wouldn't even fill in a form if you sent it to him.

I normally would. I think surveys are wonderful if they are utilised, but I've got so much work on at the moment; really I can't not be there in the business.

No thanks mate, not interested.

Our computer system is down, I can't meet, I'm going away on leave and won't be back for another three weeks. All of our tax affairs are handled by our accountant. We prepare the books, and hand them over to the accountant who does all the tax, the managing director then signs off on them. There are very few tax decisions that actually have to be made, they're all done by the accountant.

The lack of time was the most widely cited reason for deciding not to participate in this research. Respondents on the phone emphasised that they were busy running their firms and could not spare the time to talk. Others said they did not have anything to say because they were heavily in debt, were not making any profits and were not paying any tax (they had no profits to pay taxes on), even if they also said they had a high turnover. SMEs also reported that they did not see any reason for participating because an accountant managed tax compliance and they were not actively involved in tax decisions.

In fact the idea that a firm had a 'tax decision' to make began to appear misleading. For example, if the author said, 'I am interested in the way firms make tax decisions', the most common response was that 'there aren't any tax decisions to make, you make your profits, follow the guidelines and pay your tax'. As more firms were contacted the interviewer stopped using the term 'tax decisions' and spoke more about 'tax issues'. Where a person said that their accountant managed most of their tax matters, this was approached by saying that the research was also interested in the relationship between 'yourself' (the firm) and external parties such as accountants, financial planners and the Tax Office.

After all 65 remaining firms were contacted in New South Wales by telephone and email (the most effective means of recruiting these firms was to either call them up first with a follow-up email or send a brief email first followed by a telephone call), with increasing persistence (for example one firm was called seven times) eight firms agreed to an in-person interview, together with the initial respondent from the first mail out. A company that was initially approached for a closely related project with Large Business and International (LB&I), actually turned out to be within the SME rather than the LB&I band. The interview with this firm has been classified within the SME segment.

There were thus 10 in person interviews with SMEs in Sydney, The Blue Mountains, Wollongong, Newcastle, Canberra and Melbourne. Another two, while declining in-person interviews, were able to run through key tax issues on the phone and their participation has also been incorporated into this paper making a combined total of 12 interviews for this project.

Narratives of compliance and motivational postures

All stakeholders interviewed reported that they were compliant taxpayers. This became most transparent when interviewees were asked the question ‘how does your firm make its tax decisions?’ As with many of the firms contacted in the initial recruitment phase, all SME interviewees initially said that there were not too many decisions to make. Tax obligations were there to be paid. One participant, an accountant within a firm that employs 300 people towards the top of the SME band, said, ‘... there are not that many decisions to make. Compliance is fairly straightforward. There’s depreciation, but that’s straightforward, the formula is provided by the CCH Master Tax Guide. The company’s tax affairs are straight up and down, we don’t have any trusts, no overseas investments’ (Interview Sydney, October 2004). Another interviewee, the head of accounts in another large SME firm employing close to 200 people said ‘there really aren’t any [decisions] to make. The company does the paper work, and the tax gets done’. The interviewee herself did most of this and sometimes would consult with the manager and owners if there were complicated transactions, but very rarely. Alternatively if she had a problem with the BAS she would ring up her client manager at the Tax Office. Most of the time the main person who prepared tax and takes routine decisions were the firm’s external or internal accountant, which was reported in all 12 of SMEs interviewed.

All SME interviewees expressed views that tax was something that should be complied with. In other words, their confidence and morale in the tax system was relatively high.² These resonated in their narratives of compliance, in an underlying belief that the tax system was of social value. One interviewee said ‘My husband and I very much belief that we must pay our way, that is why I say we live in such a good country, that is well

² For a discussion of tax morale in Australia see Torgler and Murphy (2004).

equipped with sporting facilities, with medical services. All that is because our tax dollars are spent wisely' (Interview Sydney, October 2004). Other statements along these lines included:

Lets face it, everybody's got to pay tax. There are a lot of business owners out there, who think, 'I've got a business and I'm going make a huge profit and pay no tax on it', but you can't do that. I mean the tax is there for everyone, how else are they going to pay for the hospitals and the like (Interview Canberra, November 2004).

I believe we should pay tax (Interview Blue Mountains, October 2004).

... you can't measure the social value of taxation ... at the end of the day we very seldom think about ways of getting around tax [liabilities] (Interview Sydney, June 2004).

Look you've got to pay taxes, for education, roads, hospitals and so on, we don't have a problem with that (Interview Sydney, October 2004).

The self-reported propensity to voluntarily comply with the tax system seemed to parallel the willingness of people to voluntarily participate in this research. All who participated largely had positive views of the tax system, and if there was criticism of the administration of the tax system, it was balanced by recognition of the social value that taxation plays. This could be seen as highly biased. Only those who believed that there were not many tax decisions to make and who emphasised how it was important to pay taxes agreed to participate in this study. There is thus a degree of bias towards compliant taxpayers.

They still however, have a story to tell. For one, the fact that those with a high degree of tax morale in this sample provides a window on a particularly salient motivational posture: that of commitment to the tax system.³ Braithwaite (2003, p. 18) has identified five psychological motivational postures involved in compliance (or non-compliance) with the tax system: commitment; capitulation; resistance; disengagement and game playing. In the

³ This is also a crucial population for tax administration.

Centre for Tax System Integrity's (CTSI's) 2000 national survey of 2040 taxpayers (Braithwaite, 2001) commitment was reflected in the following statements that respondents were asked to identify with:

Paying tax is the right thing to do.

Paying tax is a responsibility that should be willingly accepted by all Australians.

I feel a moral obligation to pay my tax.

Paying my tax ultimately advantages everyone.

I think of tax paying as helping the government do worthwhile things.

Overall, I pay my tax with good will.

I accept responsibility for paying my fair share of tax (Braithwaite, 2003, p. 20).

Ten out of the 12 participants in this study expressed similar views, in their own narrative form, as did 92 per cent of respondents who were identified as having a posture of commitment to the tax system in *The Community Hopes, Fears and Actions Survey* of 2000 (Braithwaite, 2003, p. 23).⁴

There are differences between what people say and what they do, between discourse and practice, language and action. Braithwaite (2003) approached these discrepancies by measuring the propensity to declare or not declare income, the use of tax minimisation strategies, the use of deductions and participation in the cash economy. While these trends were detected, they made no difference to the dominant psychological motivational posture of commitment. Commitment forms a key juncture in a networked web of influences that are embedded in tax compliance. In this study commitment permeated relationships with other channels of influence; in stories people told about the part played by their accountants, about the influences between external and internal actors in managing this compliance, the Tax Office, different tax rates and different taxes and the high values that participants placed on their employees, the environment and the community. As

Braithwaite (2003, p. 21) observes ‘... regulation rests on the art of managing relationships’. The importance of these regulatory relationships, and their management, between agents illustrates the importance of Social Network Analysis.

Networks of influence: Social network analysis

Market coordination involves the management of risk that is involved in the production, distribution and consumption of goods and services as well as the management of compliance. In this sense businesspeople exist in ‘relational configurations’ (Callon, 1998, p. 9). The businessperson generates profits by being strategically positioned ‘between others’ (Burt, 1993, cited by Callon, 1998, p. 9). However, market coordination encounters problems when it is faced with uncertainty. No one agent has complete knowledge of all actual and potential transactions and scenarios. Therefore agents enter into relationships with other agents in order to overcome this uncertainty and manage its concomitant risks more effectively and efficiently.

Economics, Callon (1998) suggests, has two main solutions to explain market coordination in events of uncertainty and different levels of knowledge. The first, which he identifies as the ‘orthodox position’, involves ‘contingent contracts’ (Callon, 1998, p. 7). These are constantly negotiated, considered beforehand, planned and take prior events and situations into account. As more uncertainties are encountered it becomes more problematic to reach a solution. However, this only encourages an intensity of interaction between agents, who are considering and negotiating knowledge produced in ‘real time’. This interaction means that agents in a social field cease to be strangers to one another, but are rather ‘entangled’ (Callon, 1998, p. 7).

The second approach considers the idea of ‘focal groups’. This assumes that actors have if not a common point of knowledge, then a common point of reference or shared understanding about how to manage risk and uncertainty. These are focused around shared rules, regulations, expectations and procedures that contribute to specified outcomes. This

⁴ The two telephone respondents did not express a view on the tax system. Their firms were not paying tax because of annual losses. They were not making any profits to pay tax on.

rule based connection between intention and outcome can never be absolutely guaranteed, because there is never complete certainty in interpretation. However, interpretation can be enhanced and the possibilities for misunderstanding can be reduced through dialogue, engagement and negotiation.

These two views both share the assumption that agents are isolated and autonomous individuals and it privileges their actions over a given environment. In other words this assumption affirms the alibility of people to make their environment rather than their dependence on it, while retaining a residual recognition of the latter possibility. Callon (1998, p.7) therefore asks, '[W]hy not take this dependence on their environment as a starting point?' If dependence on an environment is recognised then it is possible to gain a clearer understanding of the foundations of coordination and the role of social networks. Contracts and agreements, rules and regulations, become part of a networked web of social relationships that are key to the management of risk, the negation of uncertainty and the ability to make and coordinate decisions.⁵ In Social Network Analysis, agents can make decisions in environments of relative uncertainty, because they are connected and through these connections they are able to calculate (Callon, 1998, p.10).

The genealogy of this approach owes much to sociological studies of science. These showed the importance of considering and introducing non-human agents into the social network (Callon & Latour, 1981; Callon, 1986; Latour, 1993). Even these constitute a node of influence within webs of networks. Take for example, a transportation company that deals in coal. The way the coal is uplifted, downloaded and distributed will have an effect on the condition of the vehicles used to transport the coal. This will in turn have an influence on the way the owner or manager of the vehicles, writes down this stock in depreciation schedules and it will have an influence on the way the regulatory authority (say a revenue department or tax office) accepts the calculations behind this depreciation. Thus a non-human 'thing', in this case coal and its effects on capital equipment, has an influence in its own right on how capital equipment is valued and re-valued for tax purposes. Similarly, tax rates, taxes, entities (companies and trusts), organisations (such as

⁵ For a thorough discussion of how webs of networked influence operate in business regulation, see Braithwaite and Drahos (2000).

the Tax Office), files (and the record keeping and paper work files presuppose), exist in networked webs of influence, alongside their human actors. As Latour (1993, p. 111) states: 'The social link does not hold without the objects that the other branch of the Constitution permits us to mobilize and to render forever incommensurable with the social world'. In other words 'things' have an influence over people's decisions just as much as other people. This allows people to calculate decisions in a way that reduces the vagaries of uncertainty.

Thus the agency of an actor operates as a consequence of the 'distribution of relationships' between other people and other factors (commodities, ideas, entities) (Callon, 1998, p. 9). As Callon (1998, pp. 7-8) affirms:

If agents can calculate their decisions, irrespective of the degree of uncertainty concerning the future, it is because they are entangled in a web of relations and connections; they do not have to open up to the world because they contain their world.

In considering networks of influence using Social Network Analysis it is necessary to understand and examine how relationships are formatted (Callon, 1998, p. 15). The relationships between agents constitute the key influence over how SMEs make their decisions and manage tax compliance. This paper now turns its attention to the exploration of how those relationships and connections operate in SMEs in Australia today.

The role of accountants and external networks of influence in SME tax compliance

All firms in this study except one used external tax advisers. In SMEs external tax advisers, primarily accountants, were crucial in the networks of influence in managing tax compliance and all interviewees in this segment expressed confidence that their accountant made correct and accurate assessments. In eight of the 12 SMEs interviewed, an external accountant was responsible for all tax management. Of those who used accountants, interviewees reported that:

Almost everything now goes through the accountant. We keep all the documentation and records here, but by and large everything is done by the accountant (Interview Canberra, November 2004).

He [the accountant] prepares the annual books, we hand over the documentation, he does the depreciation and the write-offs; it's the accountant who does all the juggling (Interview Newcastle, October 2004).

We have a good accountant whose put us on the right track (Interview Sydney, October 2004).

In all cases firms were responsible for daily tax compliance, maintaining records and fulfilling BAS obligations. They all did their own GST. They would seek advice from their accountant if they had any specific queries about the GST and one firm would send its BAS statements out to its accountant prior to lodgment with the Tax Office (Interview Canberra, November 2004). All the others completed BAS in their firms and contacted their accountants as and when they needed them. All SMEs had well-organised lodgment procedures. For example, one interviewee described the processes involved in tax management in their firm. Between the 21st and the 28th day of each month the firm would compile its BAS and lodge it with the Tax Office. They would also deduct PAYG taxes from their employees, using MYOB software.⁶ With GST the firm calculates the percentage on sales, with knowledge of 'all the rules that come to us' (Interview Sydney, October 2004). The ability to do this independently was a matter of pride for this firm, with the interviewee emphasising that it was part of the overall philosophy of the firm, adding, 'we always like to be good at what we do'; this philosophy extended to the tax system. The firm relied on its accountant when it came to its annual return. 'Everything was done manually', when it came to paying taxes on profits. The firm would give a breakdown of its figures to its accountant and 'he makes a decision' (Interview, Sydney, October 2004). This pattern, of firms having responsibility for their own routine tax compliance (GST, PAYG and Payroll Tax) was repeated in eight out of the 12 SMEs interviewed.

⁶ In their study of SMEs, and GST Tran-Nam and Glover (2002, p. 365) also found that MYOB was widely used as a software package to manage compliance.

External accountant's prepared the 'annual books' following lodgment of documentation. In all except one of these eight cases, the accountant was responsible for depreciation and writing down/off assets and equipment; it was the accountant who did all the 'juggling' and the results were seldom queried. There was a high degree of trust between firms and their accountant's. One participant put it like this:

I sit down and present the accountant with ideas about tax, with a list of scenarios or decisions and then I ask him to reduce it to something sensible. He doesn't always do this, he tells me what we can and can't do, and I accept that. We don't go out of our way trying to work out ways to avoid paying tax. The way I see it, we make a profit and we pay tax on it, that's that. In general, in business, there's a reluctance to pay tax. I talk to them, at conferences and conventions, to business owners, and they'll tell you they go down the road to see this two-bob bloke accountant from around the corner, and he'll work out ways that they end up paying hardly any tax. But it doesn't work like that. We have an operation which is much more professional than that ... Our accountant is a wealth of knowledge. With some accountants you never know, but our accountant communicates knowledge all the time ... I've got a good piece of mind with my accountant (Interview Wollongong, October 2004).

Accountants were not a source of influence on unreflective SMEs. The above narrative demonstrates that the interviewee was well aware that there were accountants available who would pursue aggressive tax strategies, but he chose not to use them. Another interviewee said that when seeking external advice, 'we don't like anything aggressive, we won't touch it, we don't want to be in that situation' (Interview Sydney, June 2004). Returning to the Wollongong SME, he remarked that 'I've never seen a promoter. Most people tend to stick to their accountant. Either way, it's better to get a tax problem fixed rather than go to a promoter to try and get out of the tax problem' (Interview Wollongong, October 2004).

In latter interviews the author began propose a hypothetical scenario and would ask *If some one, say an accountant or financial planner, came to you and said 'I can restructure your business in such a way that you would pay 50 per cent less tax', how would you respond?* Most participants said that they would listen to such advice, but would not consider or

implement it, suggesting that was impossible to legally reduce a tax bill to that extent. One interviewee responded by saying his approach was to ‘listen to everyone, trust nobody’, and then said that he felt that this was not a feasible strategy. He then added, ‘my philosophy is to make money, pay tax on it. Last year I paid \$90 000 in company tax. I have always had to pay tax on it ...You have to pay what you have to pay’ (Interview Sydney, October 2004). Another interviewee said that such a strategy could not be done ‘legally’, and he would be ‘extremely dubious’ about such arrangements (Interview Newcastle, October 2004). ‘There were no real areas of grey’ when it came to his company’s tax affairs; tax could not be reduced that easily (Interview Newcastle, October 2004).

Participants actively considered the advice of their accountants, but they were well aware of what was and was not possible. SMEs effectively divided work between themselves and their accountant. Firms would manage day-to-day tax compliance, BAS reporting requirements, PAYG, Fringe Benefit Tax (FBT) and payroll taxes. External accountants managed their end of year lodgments and taxes payable on profits, and were responsible for depreciation schedules. Once these activities/tasks had been completed then there were areas where SMEs had to make a decision, often on the advice of their accountant, but it was their decision nonetheless. This included ways of holding property, leasing, owing or renting capital equipment, negative gearing and superannuation contributions. When it came to these tax decisions, intra, or internal firm networks of influence, in conjunction with external influence from an accountant, became fundamental to the choice made.

Networks of intra-firm influence

The firms surveyed in this study varied in scope and size. Not all of them provided turnover figures, but of those who did, there was a reported range of \$18 million to \$75 million. In terms of staffing these SMEs ranged from six employees to 300 employees. In the smaller SMEs (half the sample, six SMEs) decision-making in financial matters, including tax compliance, rested with owner-managers. One of the major decisions that half the SMEs interviewed in person had to make or were considering around the time of this research was how to hold property. The main decision was should they own, rent or

lease their premises, and if they decided to own their operating premises should they do it through their main trading company, a separate property holding company or a trust. Each of these holding mechanisms would have slightly different implications for capital gains tax, GST, stamp duty and depreciation. It was at this stage that an external accountant or an advisor may have exercised influence on the decision, but the decision itself was left to the internal procedures of the individual firm. One interviewee reported, 'our accountant believes that we are better off renting, but of course sometimes it's good to own' (Interview Blue Mountains, October 2004). In another firm owner-managers wanted to purchase the premises they were renting, but the building's owner had been unable to sell it. In these smaller firms, decisions were made jointly, often by a husband and wife team who were both owners. They involved no more than two people. These SMEs also tended to divide work with one partner responsible for the firm's financial management (including tax compliance) and other responsible for retailing, HR or stock. These firms did not have elaborate boards or management structures, though they all had at least two directors, often a husband and wife team. The management decisions, including those surrounding tax compliance, became more complex with increasing firm size, a trend also reported by Bennett and Robson (2004).

All SMEs in this research were private companies, except one where that data was unrecorded (a subsidiary of a foreign firm). The majority of SMEs were either owned by one to three people, in four cases a couple and in another case, a couple in association with a third party. Larger firms tended to have more complex managerial and ownership structures. These larger firms relied on external advisers, such as accountants, with far less frequency than the smaller companies. One had an internal accountant in charge of all tax compliance and did not use external advisers at all. All of its accounting and tax compliance were done in-house. Three SMEs had internal tax management systems and internal accountants but worked with external advisers (accountants, lawyers or auditors) when they required tax advice.

There was some variation in the firms that only used an accountant periodically for specific advice. Two firms that reported they did all their own tax compliance were both at the very top of the SME segment, pushing towards categorisation as large firms at the lower end of

the LB&I band (with turnovers of between \$70-\$80 million). One firm, with a turn over of \$18 million, had a well-structured management system resembling the largest firms interviewed. Within these firms, internal management structures became important to tax compliance. In one firm at the very top of the SME segment, which had a board headed by a CEO (with a dispersed ownership structure with employees holding shares), it was the interviewee, the company accountant who together with the managing director made all tax decisions. When it came time to 'stamp them' the board was consulted and approved their decisions, but it usually had very little active involvement when it came to tax management. However, in all critical decisions, the board was consulted. In asking the interviewee to describe the processes involved in reaching a tax decision this interviewee described it as:

... very simple, the two of us sit down with our external advisers and go through the options. We review their advice and revisit them if we're not satisfied or sure of it. There's no formal paper work as such, only the records that need to be kept for the Tax Office. There's no ticking off the boxes, no step-by-step process, there is no checklist that needs to be ticked off. Once it's done then its dead and buried, we store it in a box and it will sit there. Anyone is welcome to look through it if they need to. There's no hard and fast rule about it. If we make a mistake then we'll fix it (Interview Sydney, June 2004).

Another interviewee, in the firm with a turn over of \$18 million per annum reported that the board, consisting of two managers (owners), a third owner, together with two external advisers 'get together four or five times a year' to discuss all financial matters, including any outstanding tax issues. The three owners will then consult with their advisers and make the final decision. This firm had at the time a group of consultants in to review the company to look at formalising processes as to how decisions are made. They were developing an on-going written down set of procedures so that if some one else were to fill the position of the interviewee then she or he could do the same job without too much difficulty using the same set of criteria. Even companies at the upper band of the SME segment who claimed not to have such an organised approach to management, still had meetings with accountants and directors to discuss overall financial management within the firm, including tax compliance.

Internal networks of influence, between directors, owners, and internal accountants became much more crucial to decision making in these larger SMEs. Because the ownership of property seemed to be one of the prevailing issues that emerged in this research, the author started asking interviewees to describe the process whereby options would be discussed and a decision would be made.

One large SME did all of its own accounting and tax compliance internally. The interviewee himself was a fully qualified Certified Practicing Accountant (CPA), and the firm had another two accountants within its managerial structure. The firm was responsible for all of its own tax compliance, and used an external auditor only to lodge its annual return. This firm's tax affairs were fairly straightforward and there 'were not that many tax decisions to make'. It was owned by a family who were also actively involved in its management. The author asked the interviewee *if someone – an accountant, an external financial planner – were to come to the company and say something like 'you can reduce your tax bill if you transfer ownership of the property into a trust'*, how would you respond? It was then explained that this was an option that a number of interviewees had said they were considering or had considered in the past. The interviewee was asked who would make the decision about whether or not to do this. The interviewee responded that the family, the owners would make such a decision. This 'was something' that the interviewee had been recommending to them 'lately': that they transfer the ownership of their buildings into another company. They [the family] would make such a decision on recommendations and advice from the interviewee. He would do the research and would advise them together with the auditor (Interview Sydney, October 2004).

Most networks of influence within firms were inter-personal, but 'objects' or 'texts' also constituted important nodes of influence when making a tax decision or managing tax compliance. In the larger SMEs that were responsible for their own tax compliance and used external advisers minimally, the CCH Master Tax Guide was reported to be indispensable. One firm in Sydney said that the CCH provided guidance on all compliance obligations, including GST and income tax profits. The interviewee from this firm reported that:

The CCH pretty much defines what you can do. Our philosophy is aimed at keeping it simple. If we were into do it yourself superannuation schemes, subsidiaries and trusts hanging off the side, then it would be complex. But we keep it simple (Interview Sydney, October 2004).

Intra-firm networks of influence were largely of an interactive character, involving discussion, problem solving, the assessment of ideas and advice. This does not occur in a vacuum, but rather key stakeholders draw on available information and established procedures clarified in texts (for instance the CCH Master Tax Guide). There was no clear demarcation between intra firm networks of influence and external networks of influence, both exist as part of the same web of ties. At certain points an external advisor will be brought into a firm and at other points it will be agents within a firm who make vital decisions. This continuity, rather than a dichotomy, between internal and external networks of influence was further illuminated when people spoke about the effects of various taxes on their business, and in particular their management of the GST and how GST managed their firms.

GST as an influential node in networked webs of influence

In their study of SMEs throughout regional and rural Australia, Tran-Nam and Glover (2002) found that the introduction of the GST had produced managerial benefits and had encouraged 'fiscal discipline'. It allowed SMEs to make better informed business decisions and enhanced their capacity to comply with tax requirements. It has promoted 'a more professional small business culture' (Tran-Nam and Glover, 2002, p. 367). These findings concur with this research. GST was an important influence on how a business was run and how tax compliance was managed. It appears to have improved both.

Nine firms in this study were asked to describe their experiences with the GST. Seven were positive, with six responses being highly supportive of the GST, while two firms reflexively assessed its advantages and disadvantages. None of the participants said that the GST constituted a negative influence on business. One participant said 'the GST has been great for us ... it's been fantastic, the best thing they ever did' (Interview Canberra, November 2004). Another interviewee said 'the GST has made tax compliance much

easier. It has made business much better' (Interview Sydney, October 2004). One interviewee in Newcastle emphasised that the GST had 'made the world of difference for business', adding that they were always scrapping money together from suppliers right at the last minute, year after year because they had an annual tax payment. These firms emphasised that it improved their record keeping and management systems.

Two of the larger firms, which already had management controls in place (and also employed internal accountants and had one or more people responsible for tax compliance within the firm, rather than using external accountants) were more reflexive in their views of the GST. One firm, which had procedures for paying various taxes in place before the GST was introduced, reported that they 'were not sure if the GST has made things easier' (Interview Melbourne, July 2004). This firm had complex GST related issues. They had a lot of overseas customers for whom GST was not applicable. They were also dealing in precious metals, and had required an independent ruling on whether or not GST applied to certain of their product lines, depending on the purity and composition of the metals used in production. It had thus taken them considerable time and effort to make sure that they were complying with the GST.

Most firms reported that the GST was initially challenging, but this was in sharp contrast to the present situation when it has been routinised as part of their business operations and had improved overall management. 'Fear' and trepidation marked the GST's introduction, but this has now been replaced by efficiency and diligence, as one interviewee recalled:

When the GST came in, everyone feared it, and we went to huge lengths to prepare for it ... In the end, it was much simpler than we would ever have expected it would have been. In retrospect the GST has been great, because you're making ongoing payments. When we used to put in annual returns you would often cringe at the end of the year, because you'd never know how you were going to pay for it. Over time that fear factor of the GST has gone. The GST has also forced businesses to be much more diligent with their accounts and book keeping procedures. There used to be a last minute panic to get everything together, but now it's much more straightforward. It's helped keep the cash flow going, and everything up-to-date. It has had a very positive influence (Interview Blue Mountains, October 2004).

One of the reasons that the GST has been so favourably received and adopted by SMEs and had a positive influence on tax compliance, is because it replaced a number of small but time consuming taxes, such as sales tax. One interviewee described how a lot of his clients were government departments. These were exempt from sales tax, but only by way of rebate. If the firm was selling to government departments prior to the GST, they had to lodge a rebate form to get the sales tax reimbursed. Now that this has been eliminated, they can directly collect and pay the GST themselves, they 'fill in the blanks and that's it' (Interview Sydney, October 2004). Another firm, in a very similar situation with a large number of government clients, said that when the sales tax was in place, they used to have to claim large amounts of money back from the Tax Office (up to \$10 000) at a time, which would send off 'alarm bells'. The Tax Office continually sent in a stream of auditors to investigate. However, since the GST was introduced they no longer need to claim such large sums of money. The 'GST has made it much simpler', the interviewee reflected (Interview Newcastle, October 2004).

The main impact resulting from the abolition of the sales tax and the introduction of the GST has been on time, but in most businesses interviewed it has reduced the amount of time taken to comply. One interviewee recalled that:

Before GST tax compliance was very time consuming, it would take forever. The main reason was sales tax. I was often getting behind and would have to come in all weekend, just to work out the sales tax. We were given a lot more time to get the sales tax figures in, but it was still much more time consuming. Now it wouldn't take that long at all, it doesn't take very long at all (Interview Canberra, October 2004).

Of the nine firms who were asked about GST, all except one reported that it did not take very much time to comply at all. In fact GST had reduced the amount of time taken to manage tax compliance. Eight interviewees reported that it took between five minutes and a day to comply with the GST by way of lodging a BAS statement. Although, that appears to be a considerable time difference, none of these firms reported that it was an onerous amount of time. Interviewees summarised the amount of time it took to comply with the GST by saying:

... it [the GST] has become relatively mechanical ... it takes on average a day to prepare all the GST information and then lodge the BAS (Interview Sydney, October 2004).

It takes no time to comply. A BAS takes five minutes. (Interview Sydney, October 2004).

It now takes me half an hour to do a BAS (Interview Blue Mountains, October 2004).

GST and BAS lodgments have brought SMEs into much greater and regular contact with the Tax Office. Interviewees talked about how if they had a mistake or had a question about GST or the BAS they would not hesitate to ring the Tax Office, rather than their accountant, or contact both the Tax Office and/or their accountant to make queries. Others also mentioned that they attended the Tax Office's seminars on GST and other tax compliance issues and that they found these helpful and useful. This brings into focus another crucial influence on how SMEs make their tax decisions – the Tax Office itself.

The Tax Office as organisational influence on SME tax compliance

In this research ten SMEs were asked to give their opinions about the Tax Office and describe their experiences of working with the Tax Office on compliance issues. Nine out of ten firms had very positive opinions of the Tax Office, though in two cases this was relatively new in that their interactions with the Tax Office were initially difficult but had improved dramatically in the last decade. Interviewees expressed their views on the Tax Office in the following ways:

I've generally found them very helpful, but helpful up to a point because of the complexity of our work (Interview Melbourne, July 2004).

They're very good actually (Interview Canberra, November 2004)

They have been absolutely brilliant. There was one time when, because of the software we use and the fact that we're always having power failures that we totally lost a BAS statement and it was due in that afternoon! They were great, gave us an

extension, very understanding and helped us along. They realise that our systems aren't always compatible. I can sit here at my desk, at my terminal and talk to our client manager; that gets around any problem we have (Interview Sydney, October 2004).

The ATO, they're fine. They are very good, easy to contact, always helpful. If we make a mistake with one our BAS we just ring them and they change it over the phone, no problems. If one of our FBT lines is wrong, then we call them and they fix that too (Interview Sydney, June 2004).

SMEs had also noticed a distinctive shift in Tax Office 'customer relations' practices over the last 20 years. There was a noticeable improvement in the way it was felt the Tax Office treated SMEs. In doing so this enhanced both the reputation of the Tax Office and also its ability and capacity to be brought into the webs of influence that constitute SME business decisions. One interviewee recalled his first experience with an Tax Office audit when he was running another business:

They arrived here, took away everything, all of the firm's paper work, everything. They even took whole filing cabinets, filing cabinet after filing cabinet, as if they were expecting to wash-up a couple of million bucks, when really all it was over was a \$1000 cheque wrongly written out. They were just absolutely arrogant pigs. The people then were just arrogant. They were taking invoices, it was real shocking, you just knew that it was never going to be good (Interview Wollongong, October 2004).

Since this experience however, the interviewee had noticed a major change in how the Tax Office approached his firm. He reflected on this changed attitude:

We haven't a bad experience with the ATO since then ... we might have a query over depreciation, or the accountant might want to find out more about depreciation for vehicles, especially if we want to order new ones. We can just ring them and talk to them and there's no problem. It's easy to make contact. If something's wrong, the Tax Office or ourselves just fix it. It's all good, from a customer relations point of view, it's really picked-up. You used to be scared about ringing the taxman. But this has all changed now, people aren't scared any more about ringing the Tax Office and saying 'this has happened'. Firms get a more than

sympathetic approach and because of that people are more inclined to come forward. For customer relations they have really picked up (Interview Wollongong, October 2004).

Another firm in Sydney reported a similar transition with the interviewee stating that:

... I must say that whenever I talk to anyone at the ATO they are very helpful; they go out of their way to assist. When I first started talking to the ATO they were very arrogant. They kept things very close to their chest. Not anymore. It's taken 20 years to come through, but it's noticeable ... The culture has definitely changed, the way they manage their clients has changed, people in the ATO have changed, all for the better (Interview Sydney, October 2004).

One persistent issue that the Tax Office confronts is accessibility. However, most interviewees said that they found the Tax Office accessible. Only two reported having to wait on hold on the telephone when calling the Tax Office. Most interviewees said that they were able to call the Tax Office and have their queries answered quickly. Only firms with relatively complex product lines or complex questions found accessibility difficult. For example, one interviewee in Melbourne said it was very difficult to get the Tax Office (or more specifically any one tax officer) to commit to a position because of the complexity of his firm's product line (which involved precious metals).

Other interviewees specified particular Tax Office practices that they thought could be improved. For example, one firm reported that the export component of his business meant that the Tax Office often owed them money. He found that the Tax Office was only paying the firm 3.75 per cent in interest for late payments. The interviewee could not see why the Tax Office could not just either pay on time or pay a commercial rate of interest. He emphasised that the 'ATO wouldn't get it, they just wouldn't get it'. He continued, 'if a company owes them money, they charge 7.5 per cent in interest, which is what banks have to pay. There's no fairness in that' (Interview Sydney, October 2004). However, in another similar case with a Sydney SME that was interviewed, they were able to expedite payment of their refund by talking with the Tax Office.

Critique of the Tax Office therefore tended to be made at the level of specific instances of administrative practice, rather than criticism of the overall organisation. Indeed nine out of ten participants had very positive attitudes towards the Tax Office. One interviewee reflectively commented that administrative problems were prevalent in all large organisations, both government and business, public and private. It was a consequence of the way large organisations were administered. This interviewee compared the Tax Office to other large organisations and remarked 'I've recently had dealings with a bank in the UK and I think it's connected to the bureaucratisation of all large organisations, but in comparison the ATO is good, in fact they're really good' (Interview Sydney, June 2004).

Companies that had a Tax Office client manager, who they could call on a regular basis to discuss tax compliance, had some of the most positive views of the Tax Office. One interviewee observed:

... with company tax, and FBT they have been really good, we just ring our client manager, that's who we deal with and we don't have any problems ... I don't really know how I got him, ah that's right he had a lot of hassle getting hold of our accountant. He can be impossible to get hold of, never answers the phone, is always out, never replies to email, I could fully see why he couldn't get hold of him. He [the tax officer] needed something for the Tax Office, and rang me and realised he could get the info straight away without having to go through the accountant. And since then we've always had him and he's been great (Interview Sydney, October 2003).

The Tax Office maybe even in a stronger position to be an important influence on SME tax decisions if it is able to extend the number of client managers that firms have available to them. One interviewee, when asked about what she thought the Tax Office could do to improve its relationship with SMEs put it like this:

... Communication is the key. It would be really good to have some one to phone in the tax department. For example, we're interested in importing. We want to know about the tax implications of importing. What portion must customs clear? There's no one in the Tax Office you can go to say 'this is what you do'. I'd be on the phone all day to get half an answer. It's like piecing together fragments. We get

some information from them, some from the accountant, some from customs ... If I could just have some one who I could talk to at the Tax Office, could phone up and that would be it. I would probably only need to talk to them about three times a year! (Interview Blue Mountains, October 2004).

Networks of influence are like putting fragments of information together. Through some administrative retuning, the Tax Office may well be in a position to constitute one of the largest pieces of them all. As one interviewee in Sydney reflected 'The ATO could be a partner with small business. I know this is an outside point of view, but rather than fighting each other, the ATO needs to be a partner with these businesses and they in turn need to build up a relationship with the Tax Office' (Interview Sydney, October 2004).

The key stakeholders interviewed in these firms had strong motivations to pay tax. Psychologically they reveal a motivational posture of commitment to the tax system. Socially, they saw value and gave importance to taxation. As such the Tax Office is in an ideal position to work with firms like these in managing SME tax compliance. However, there were other parallel stories told about regulation and compliance that corresponded to these social and psychological motivations to pay tax. They were the ways these interviewees talked about their employees, the environment and their role in the community. Not only were these firms highly compliant when it came to their tax affairs, they were also compliant over and above what was required when it came to HR management, Occupational Health and Safety (OHS), environmental reporting and the tax advice that they rejected even if it was perfectly lawful and encouraged by the state. This suggests that there are other dimensions of influence that need to be taken into account when examining how firms make their tax decisions, namely ethics and morals. These too, in addition to types of tax (GST), persons (accountants and board members), organisations (the Tax Office) and texts (the CCH Master Tax Guide), constitute an important network of influence in the management of tax compliance. As such they could be adopted as important regulatory tools by a tax office seeking to be a valued and respected source of influence in its own right.

Ethical compliance and parallel stories: HR policies, environmental standards and community citizenship

Over and above lodging annual returns and advising firms on their financial arrangements, interviewees did not accept all the advice that was imparted to them by internal and external parties such as accountants. A number of firms reported that they did not always follow his accountant's advice to increase profitability through minimising taxes. Braithwaite (2003, p. 29) has noted that there are five forms of tax minimisation that either perfectly lawful or actively encouraged by the state: these are negative gearing; employee stock options; salary packaging; superannuation planning and warrants or leveraged investments. A number of firms were either using or were considering some of these options, particularly paying extra money in superannuation or offering stock options to staff. The motivations for this varied between companies, but in general there was a tendency to avoid arrangements that might make running a business more complex. For instance, it was one matter to pay extra in superannuation, and quite another to have a do it yourself superannuation fund, that some firms considered too risky from a tax compliance perspective.

Similarly, while firms considered negative gearing they also avoided it because they felt it was unnecessary, even if it had the potential to increase the overall long-term value of the firm. For example, one interviewee said that his accountant would often recommend:

‘Why don’t you start negative gearing’, he’s always giving recommendations on negative gearing. But why do that? We make good money, we have a good life, we own our own homes, what’s the point in doing that? (Interview Sydney, October 2004).

Another interviewee said that her accountant was very good at giving options. She continued:

He [the accountant] says ‘these are your options’. [For example], he’s suggested that we cut back on staff. But with staffing, I really have moral issues with putting people off. I won’t put people off if I can help it, I wont restructure in a way that makes people loose their jobs. This is a very youthful industry run by twenty-some things who think they know what they’re doing, but they don’t. Look I’m old, and a

lot of the people we've employed, especially the reps, are old, but what else will they do? It would be my last option to put people off (Interview Blue Mountains, October 2004).

What this suggests is that in terms of overall business management there are non-economic dimensions, which became part of the picture. In other words ethics, morals and values, which extend into SMEs that include not only compliance in the tax area, but in other fields of management as well. Driscoll, Hoffman and Murphy, in their 1998 article, show that good ethics and good compliance 'are interdependent; each is incomplete without the other' (Driscoll, Hoffman & Murphy, 1998, p. 39). It has already been seen that the SME participants for this study had high ethical standards when it came to taxation, but such good ethics reverberated through their firms into other areas as well.

Alongside the stories of good tax compliance were also stories of business ethics in other areas, namely when it came to HR policies, environmental standards in SMEs and good corporate citizens as community participants. Eight out of the 12 SMEs interviewed raised the importance of 'doing right' by their staff, even at extra cost to the firm and even if it reduced profits. The importance of good staff relations was raised in a completely unprovoked manner, in other words there were no questions about HR management in my interviews. They followed on from discussions about tax management and compliance and fitted into an overall discussion about the firm. One firm reported that they paid over award wages and were happy for their staff to take time off if they had an appointment or needed to get something fixed. Another reported, '... as a working mother, I made a conscious decision that I would create a working environment that was friendly to mothers. It's a working environment that is flexible; people can take time off form family reasons' (Interview Blue Mountains, October 2004). Another said 'we are a corporately responsible company ... We believe that we need to 'take into consideration all aspects of how our employees are maintained. This a very important part of our company. We even have a staff member who just does Occupational Health and Safety' (Interview Sydney, October 2000). Two interviewees said that unfair dismissal laws made it very difficult to dismiss any one and that they needed to be amended. However, they thought that they should not be abolished, rather just reformed, as workers needed continued protection. One

interviewee, who thought that unfair dismissal laws only needed amending, said that workers still needed protection because ‘there are a lot of bastards out there, especially in this industry’ (Interview Wollongong, October 2004). This same interviewee, of an SME in the middle of the segment band who employed 100 people and paid them 10-20 per cent above award rates, said ‘at the end of the day I don’t make that much money, that’s not what it’s all about, you get satisfaction out of giving a job to somebody, out of starting out with people who when this business was started had nothing, and now they have a life, they have a good life, they’ve got families, a house, a car, own things, it’s seeing that; that’s what you get out of it, not money’ (Interview Wollongong, October 2004).

Other firms were keenly aware of the environment and had taken steps to manage resources in a sustainable way. One firm interviewed used a large amount of paper in its production processes. They ‘were a fairly socially aware company ... we are trying to move to the point where nothing in that industry that we do impacts negatively on the environment’ (Interview Sydney, June 2004).

The question ‘how do you see your firm fitting into the community’[?] provoked responses from firms who had not independently raised social awareness. One large SME remarked ‘the owner, the owner has a problem with the word no. He’s always giving money away to something, buying soccer uniforms, supporting the local club, breast cancer support’ (Interview Sydney, October 2004). Of the ten SMEs that were asked how they fitted into the community, six said they were active in supporting groups through donations and sponsorship. One interviewee said that their firm had very close ties with the community. They sponsored schools, the rugby team, the local Parish and St Vincent De Paul, ‘you have to do that, be part of the community you’re in’ (Interview Canberra, November 2004).

The point about these narratives, and the ethical issues that they raise, is that they were made by the very same people who self-reported high levels of compliance with the tax system. They usually started the interview affirming that they supported taxation and believed that they should pay correct levels of taxes, rather than actively move to reduce them through schemes or strategic planning. They fit into a broader constellation of ethical

discourse and practice that appears to bind being a good taxpayer, with being a good employer that is environmentally aware and socially responsible.

Conclusion: Promoting tax compliance through encouraging networked motivations of influence

In an analysis of responsive regulation for tax system integrity, John Braithwaite (2003) defines meta risk management as the 'management of risk management'. This involves the Tax Office monitoring and remaking the risk management of the organisations that it seeks to regulate. It is about '... shaping the risk management systems of other organisations in the taxpaying environment' (Braithwaite, 2003, p. 3). This entails building community partnerships, understanding taxpayer behaviour and increasing flexibility in Tax Office operations to encourage and support compliance (Braithwaite, 2003, p. 4). The people interviewed in this study were psychologically and socially driven to both manage their businesses in a profitable way while remaining committed to the tax system. The Tax Office could well enhance this commitment by becoming a more active partner with business as a key node in webs of networked influence. One way of doing this would be to profile businesses that are known to be highly committed taxpayers and to see whether or not they are compliant in other regulatory spheres as well, such as HR management, environmental reporting and community participation. If they are then an active relationship with such firms could well promote and foster a culture of voluntary compliance. The foundations would have already been laid. In a sense the Tax Office would be developing a meta-regulatory approach; allowing SMEs to better effectively regulate themselves, with the Tax Office an important juncture within networks of self-regulation.

The converse would also apply. Is there a relationship between non-compliance and poor HR management strategies, environmentally damaging practices and a lack of community concern? This research was unable to investigate these kinds of firms to establish whether or not there are such parallel stories. However, if there is, it may well assist Tax Office risk profiling of firms by allowing better targeting of resources. If SMEs who are motivated to participate in the tax system by a posture of commitment, and maintain networks of

influence that reinforce that commitment, can be separated out from those that do not, it may provide tax administration with a compelling regulatory tool that promotes, fosters and encourages compliance on the widest possible scale.

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Appendix 1: Open ended questions used as interview guide

1. Can you please tell me more about your company – what you do, what your company's goals are, what kind of goods and services you provide?
2. What is your work background; what is your role in the company?
3. Can you tell me/us more about the structure of your firm? Does it have a manager/owner-manager or CEO, a board and directors? If so what is their background and what role do they play in the firm?
4. Who are the most crucial decision makers in the company on major tax decisions; what about directors, partners, the CEO, and owner-manager, etc?
5. Could you please describe for me/us the processes involved in reaching a tax management decision in your firm?
6. Who participates in reaching these decisions?
7. Who wields influence when making these decisions?
8. Would you change the current strategies if you were CEO/owner-manager?
9. How do you respond to these tax planning scenarios?
10. To what extent do you work with external tax advisers?
11. What influence do they [tax advisers] have in reaching a tax management decision?
12. [If interviewee is not the chief accountant] What kind of role does your accountant play in tax decisions?
13. What weight would different stakeholders in your firm (owner-manager, CEO, board, directors) give to tax planning advice from your accountant and tax adviser?
14. What kind of tax advice would be acceptable to your firm?
15. What kind of tax advice would be unacceptable to your firm?
16. What kind of dealings do you have with the ATO and how have you found them?
17. Has the introduction of GST and related changes affected your tax management decisions and if so how?
18. What do you think are the key tax issues facing your firm and other businesses in Australia at the moment?

19. Are major tax liabilities something that can be brought under control by proactive management techniques?
20. Where do you see your company's tax management decisions going in the next two to five years?
21. Could tax management decisions be enhanced in your firm and if so how? Do you think this is the role of your firm, the ATO, or both?
22. Where do you see this firm fitting into the community? What kind of relationships does it have with the community; do you think it makes the community a better place? If so, how?

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