

# eJournal of Tax Research

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

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*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 Pacific<sup>3</sup> 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'.

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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

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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

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

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

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

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**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)**