

Centre for Tax System Integrity

Working Paper 78 – Networks of influence and the management of SME tax compliance in Australia.

This paper is based on research with key actors involved in the overall financial management and tax compliance of 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.