

Centre for Tax System Integrity

Working Paper 82 – ‘Sticks, carrots or sermons?’ Improving voluntary tax-compliance among migrant small-business entrepreneurs of a multi-cultural nation.

The major aim of this working paper is to explore the roles that social networks play in tax evasion and the contributions that an application of network analysis can make to the more general field of compliance research. It examines the role that various social networks play in perpetuating or changing embedded, non-compliant social processes and actual behaviours, which exist within trading-networks and that may be characteristic for particular small-business sectors and service-industries. In particular, the research focuses on a number of trading-networks of immigrant entrepreneurs within Australia.

The paper argues that entrepreneurial behaviours can be explained more adequately, if placed within the overall socio-economic and politico-institutional environment of the country of settlement. This has a number of significant implications for the development of more effective policies that involve broader issues relevant to compliance and defiance of laws and regulatory enforcement strategies. The exploratory study indicates the sort of related difficulties that regulatory authorities may face in their attempts to deal with a range of ‘mixed-embedded’ law-defying practices, which operate both within and among culturally diversified (social) trading-networks of a multicultural nation.

The paper argues that ‘taming’ the cash-economy, by maintaining a ‘cat-and-mouse approach’ to tax compliance will do little to encourage the civic sentiments and attitudes that underpin a more inclusive culture of voluntary compliance. Improvements in voluntary compliance with a nation’s tax laws appears to be closest associated with a healthy democracy in which ‘both cultural dispositions and legal norms foster tolerance, co-operation and a sense of personal and social responsibility for others’.

As much as formal and informal activities rely heavily on reciprocal trust between members of social networks, so does voluntary compliance rely on strong, reciprocal trust relations between a nation’s citizens and its democratic institutions that promote self-control and regulate individuals’ initiatives in a balanced style of governance. Tax-regulators may find that their presence and active participation in business-networks, which deserve social trust and respect, are able to reduce progressively their traditional reliance on an ever-increasing arsenal of formal rules and the strict (often very costly) application of one-dimensional deterrent enforcement strategies.