Abstract

This study investigates the reasons why Small Business Individuals (SBI) have a poor reputation on questions of tax compliance. Tax related attributes of SBI were compared with private sector employees (PRI), employees in non-profit or government organisations (NPO), and non-working individuals (NWR). Data were taken from the Community Hopes, Fears and Actions Survey based on a random sample of 2040 individuals. A comparison of group means using one-way analyses of variance revealed that while there are numerous similarities in the responses of these groups, there were also critical differences. A stepwise discriminant function analysis was used to determine which variables could most efficiently differentiate SBI from others. The best predictive model obtained from this analysis indicated that SBI were more likely to owe money to the Tax Office and to perceive that they were unfairly treated by the Tax Office when compared with big business. At the same time, they acknowledged paying less than their fair share of tax. In addition, SBI viewed others as having lower social-ethical norms in relation to paying tax and were more opposed to the government spending tax dollars on welfare issues. Although they placed high importance on personal values of efficiency, SBI acknowledged having inadequate tax knowledge. These findings are discussed in the regulatory context: talking softly with a big stick is likely to work some of the time and be the best starting point. Taking the stick out and being tough, however, is likely to be necessary as a back-up strategy to signal that a credible sanctioning process is in place, and will be used to elicit compliance when necessary.