The tax and accounting compliance hurdles for Tongan entrepreneurs in New Zealand

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Abstract:

Tax compliance and record keeping is challenging for many small businesses as they are generally less equipped compared with their larger corporate counterparts. For small Tongan businesses in New Zealand the challenge is even greater. Interviews with Tongan businesses in New Zealand reveal that many of the difficulties they face in relation to record keeping and tax compliance is related to a fundamental misalignment in cultures. Despite the difficulties they face, the findings from the interview sessions highlight practices that are consistent with business sustainability. These practices are discussed in the dual context of western commercial markets and embedded Tongan culture. The findings are suggestive of a way forward that supports Tongan business sustainability in New Zealand while continuing to embrace the values and beliefs that are characteristic of Tongan culture. The findings are also suggestive of similar challenges faced ethnic entrepreneurs who come from outside a western capitalistic framework.

Keywords: Taxation compliance, Record Keeping, Tonga, small business, New Zealand
Introduction

Tax compliance and record keeping are challenging activities for most small business worldwide (Salamon & Dhaliway, 1980). Johnson (1978) noted that “the small firm has become the focus of increasing attention by government and politicians” (cited in Salamon & Dhaliwal, 1980, p. 555). Salamon and Dhaliwal (1980) observed that “one of the more frequently mentioned problems of small business is the burden of complying with governmental reporting requirements” (p. 555). This burden is shared by Tongan businesses operating in New Zealand. This paper attempts to chronicle the Tongan small to medium sized enterprise (SME) business experience with taxation compliance and record keeping with the aim of contributing to the discussion and understanding of this global phenomenon.

While many small businesses are typically knowledgeable in their area of operation, they lack the knowledge and experience in financial record keeping and taxation compliance. Richardson (2006) found that tax complexity was the single most important determinant of tax evasion. Chittenden Kauser and Poutziouris (2003) argue that despite the US government’s acknowledgement of the need to reduce the regularity hurdle for small businesses, there is little evidence that this is actually being done.

Tongan businesses in New Zealand, like many other small businesses, are faced with the hurdle of tax compliance and record keeping. These hurdles are particularly challenging for Tongan businesses as they are contrary to Tongan traditions based on sharing at an individual level and oral history. Despite these differences in culture, Tongan business entrepreneurs are not exempt from the responsibility of paying tax and maintaining financial records so as to allow for the calculation of assessable income.

The discussions make reference to a series of cases, each representing a small Tongan business. For reasons of confidentiality these organisations have not been individually named and are referred to as C1 for case one, C2 for case two and so on. The reference to cases is intended to facilitate discussion and not to be taken as a series of unique case studies to be used in a case study research framework. A total of 20 cases or organisations were used in
this study. Three business consultants were also consulted as part of the study. In the following discussion these are referred to as BC1, BC2 and BC3. Table 1- Summary of Cases provides a summary of the cases with their primary line of business noted adjacent. In a number of incidences, reference is made to opinions collected from members of the Tongan community who are affiliated to many of these businesses either as customers, employees or members of the extended family of the owner. The triangulation of these three views provides a robust source of information for research about tax compliance and record keeping challenges faced by Tongan businesses in New Zealand.

Research Design

Small businesses play an important role in the New Zealand economy (Cameron & Massey, 1999; Frederick & Chittock, 2006; Hamilton & Dana, 2003; Knuckey et al., 2002; Linowes & Dixon, 1992) and make up 97% of businesses (Bascand, 2008). New Zealand define micro-enterprises as those employing fewer than five staff, small businesses as those employing between 6-49 and medium businesses as those with between 60 and 100 staff.

Small enterprises are increasingly becoming the solution to unemployment for Pacific Island people. However how they perform and to what extent are they sustainable is largely unknown. The establishment of the Pacific Business Trust in 1989 was a government initiative aimed at increasing employment for Pacific Island people through encouraging new business formations. The effectiveness of this scheme has been mixed with many Pacific Island businesses no longer trading.

The approximate number of Tongan businesses in New Zealand who are employers is approximately 300 (approximately 2% of the Tongan adult population). A further 600 hundred are in self employment but do not employ others (Statistics New Zealand, 2007). The possibility that some of those identified as self employed are cottage industry, the actual number of registered self employed is likely to be significantly less. The casual and temporal nature of many Tongan businesses at the cottage industry phase make it difficult to estimate how many there are. Many who are at the cottage industry stage of development are not registered and prefer to operate discretely for fear of the compliance challenges that come with being an official business. Given the relatively small population base it is not possible to carry out statistical analysis at the industry or subcategory level.

The research participants in this research included twenty Tongan businesses, three business consultants and members of the Tongan community in Auckland that were customers of the twenty businesses or were aware of them. The choice to target Tongan businesses was driven by a number of factors including; the background of the researcher, accessibility to participants, access to data regarding Tongan businesses, language and the cultural resilience demonstrated by Tongan people living in New Zealand.

The background of the researcher was the most influential driver in selecting Tongan businesses rather than for instance Samoan businesses who represent over half the Pacific population in New Zealand. The researcher in this instance is Tongan by ethnicity, is able to speak Tongan and English fluently, has extensive networks and contacts within the Pacific
Island community and particularly Tongans and has expertise in accounting, finance and economics in a western commercial framework. His familiarity with the Tongan culture and ability to fluently speak in Tongan and English provides a number of advantages. These include an appreciation and sensitivity of Tongan cultural principles, nuances in everyday Tongan conversations and an ability to understand complex notions and themes unique to either Tongan or western society.

Given the background of the researcher access to Tongan businesses, networks and community were much easier than for other Pacific ethnicities. In a number of cases the reputation of the researcher influenced securing willing participants. In the Tongan community as with many of the Pacific Island nations, networks play a significant role. Tongans prefer to interact in the broader social context with people they know and feel comfortable with. In the case of research, Tongan people are more likely to *talanoa* (talk) with a researcher they feel is likely to understand their opinions and potentially unique perspectives.

Tongan people living in New Zealand have demonstrated a greater resilience to foregoing their Pacific heritage than any of the other Pacific Island countries. As discussed in chapter 2, the proportion of Tongan people able to conduct a conversation in the Tongan language fluently increased by 1% between 2001 and 2006 (Statistics New Zealand 2007) compared with a decrease of 3-4% for the other Pacific Island nations. This aspect is important as the potential impact on cultural resilience on business sustainability, which maybe applicable to all Pacific Island businesses, is likely to be more noticeable with Tongan businesses.

A second group of research participants include three business consultants from the Pacific Business Trust. These were selected based on their business knowledge having worked with many Tongan businesses in New Zealand and in Tonga. Two of the three business consultants included in the study were Tongan by ethnicity allowing greater alignment to the ethnic focus of this research. Their selection is consistent with the guidance offered by Morse et al (2002) when they suggest that “the sample must be appropriate, consisting of participants who best represent or have knowledge of the research topic” (p.12).

The process for selecting Tongan businesses was based on capturing a collection that reflected the diversity in industry, time in business, gender of owner/operator, size of business, revenue base and organisational structure (Morse et al., 2002). The rationale for casting the net wide was to capture a mix of experiences that would not be unique to any particular sector or sub-category. The 20 businesses included in the current study were sourced so as to reflect the diversity noted above.

To begin the selection process an initial presentation of the research project was made to the Pacific Business Trust seeking access to their business database. Given the benefits that the research would have for the ongoing business of the trust together with the relationship the researcher had with the trust as a former trustee, this access was granted. However clients were not to be contacted directly except through the business consultants.

The first step in the process of selecting Tongan businesses was an analysis of the business database held by the Pacific Business Trust. This was done to provide an overview of the number of Tongan businesses and the spreads of industries they operating in. A letter outlining the purpose of the research was then sent to the Pacific Business Trust to announce at the regular breakfast meetings with pacific Island businesses that this research project was
being carried out and that some may be invited to participate. The rationale for this step was to forewarn potential participants of the project and to encourage them to participate.

Using the public business directory maintained by the Pacific Business Trust (Pacific Business Trust, 2005), telephone contact was made with Tongan businesses inviting them to participate in the research. Throughout the project only three contacts did not eventuate in a talanoa session. Two were later discovered not to be Tongan businesses and the third initially agreed to participate but subsequent calls to schedule a meeting time were unsuccessful.

*The researcher’s existing networks with the Pacific Island community provided a secondary access point for participants. Contact was made to several participants by key members of the Tongan community encouraging them to participate. These were then followed up with a telephone contact by the researcher to invite them formally to participate and to arrange a time. These networks also provided key contacts of Tongan businesses that were likely to participate. Of the contacts provided through the researcher’s networks, only two were not followed through as other businesses with similar dynamics and industry had already been including in the study. Obligation to keep financial records and pay tax*

Although many Tongan businesses by virtue of size are likely to be exempt from compliance with the applicable accounting standards in New Zealand (New Zealand Equivalent to International Accounting Standards [NZ IAS]) ("Financial Reporting Act," 1993 Section 22), they will still need to complete special purpose financial reports for taxation purposes. The Financial Reporting Act 1993 is aimed at enforcing non-exempt companies to prepare and file accounts with the Companies Office. It does not prohibit or discourage exempt companies from preparing accounts for their own purposes. To this end it is inevitable that small companies and non-incorporated entities will need to incorporate into their reporting practices aspects of the NZ Framework. Paragraph 6 of the NZ Framework states:

> Special purpose financial reports, for example, prospectuses and computations prepared for taxation purposes, are outside the scope of this NZ Framework. Nevertheless, this NZ Framework may be applied in the preparation of such special purpose reports where their requirements permit.’ (New Zealand Institute of Chartered Accountants, 2007 para 6)

Irrespective of firm size and the application of the differential reporting framework, small firms continue to adopt aspects of the financial accounting framework both for compliance and to increase the prospects of their business success (Boden, 1999; Collis & Jarvis, 2002;
Joshi & Ramadhan, 2002; Maingot & Zeghal, 2006; McMahon, 2001; McMahon & Davies, 1994; Salamon & Dhaliwal, 1980). What these authors share in common is the view that small to medium sized enterprises (SME) stand to benefit from financial reporting and compliance provided that the accounting standards reflect their needs. They also argue that training in the use of accounting standards will increase the benefit that they will receive from it. The specific benefits that SME’S will make include savings in reduced compliance activities and the greater use made of accounting information to guide management decisions. In relation to compliance, the complexity of the financial accounting framework and associated accounting standards is a burden for both small and large businesses. Boden (1999) suggests the preparation of financial accounts for self-employed businesses requires the assistance of professional accountants, because of the complexity of the accounting process, and yet this for many firms is unaffordable. She adds that:

if financial reporting systems are constructed in such a way that the average self-employed person has neither the skill nor the confidence to negotiate their way effectively and cheaply, then they will be seriously disempowered if they cannot afford the services of a professiona (p. 58).

Collis and Jarvis (2002) found that external accountants were employed to prepare financial reports and provide advice to small businesses that were unfamiliar with record keeping and reporting practices. The reliance of small businesses on external accountants to assist with the preparation and presentation of financial statements, both for compliance and for the management of their business, is an indication of the potential misalignment of accounting standards and framework with small businesses (Salamon & Dhaliwal, 1980). Chittenden, Kauser and Poutziouris (2003) suggest that “ governments have attempted to reduce the extent to which the burden of tax compliance falls more heavily on small firms compared with bigger businesses, there is little evidence of progress” (p. 110).

The financial accounting framework is a source of information for small businesses that increases their prospects of survival. Dyt (2005) found that small businesses in Australia that completed financial reports for tax compliance also benefited from the use of the same information to manage their business. In a similar study, Joshi and Ramadhan (2002), in surveying small and closely held firms on the adoption of international standards in Bahrain, found that most companies that responded to the questionnaire applied International Accounting Standards (IAS) and considered IAS to be very relevant for them. They write:
A majority of small and closely held firms have already voluntarily adopted IASs for various reasons. Chief among them is the need to standardize the financial reporting process to provide a common ground for comparison and analysis. In addition, respondents indicated that their decision to adopt IASs was influenced by the expectation of improving the efficiency and effectiveness of financial reporting plus achieving their firms’ objectives. Other reasons included the influence of credit providers—mainly banks—and the desire to improve their credit rating for purposes of obtaining external financing (Joshi & Ramadhan, 2002, p. 438).

For Tongan businesses, record keeping is important for both the ongoing management of the business and calculation of assessable income for tax.

**Compliance Challenges for Tongan Businesses in New Zealand**

**Taxation Compliance**

The literature in small business tax compliance is relatively extensive covering the motivations for and incidence of tax evasion (Andreoni, Erard, & Feinstein, 1998; Erard & Feinstein, 1994; Joulfaian & Rider, 1998; Richardson, 2006; Varma & Doob, 1998), self-employment (Bruce, 2000), through to attitudes about taxation (Ahmed & Braithwaite, 2005; Etzioni, 1988; Kirchler, Maciejovsky, & Schneider, 2003). This paper adds to that literature by introducing an ethnic minority perspective. While many of the challenges faced by Tongan businesses included in this study echo those of small businesses in general and particularly the self-employed, other motivations for tax non-compliance were found.

Kirchler et al (2003) differentiate between the different forms of tax compliance (non-compliance) including tax avoidance, tax evasion and tax flight. Their study found that while tax avoidance was perceived positively, tax evasion and to a lesser degree tax flight was perceived negatively. This differentiation in tax treatment did not seem to be acknowledged by Tongan people as their businesses are small and do not represent multinational entities. Furthermore, tax non-compliance was more driven by a lack of understanding about the tax regulations than a deliberate act of fraud.

However a number of businesses do not acknowledge or understand the redistributive nature of the tax system. Richardson (2006) writes:

> OLS regression analysis shows that non-economic determinants have the strongest impact on tax evasion in comparison with economic determinants.
By integrating these various determinants into mixed models of tax evasion, our understanding is enhanced about tax evasion across countries. Complexity is found to be the most important determinant of tax evasion. Other significant determinants are education, income source, fairness and tax morale. (p. 164)

Many Tongan businesses pay tax out of fear of penalty and loss of public and community reputation. However, education in the area of taxation is likely to increase tax compliance and reduce the incidence of tax evasion.

**Tax obligations and Traditional Redistribution**

One of the challenges faced by many Tongan businesses is the management of tax obligations. The obligation to pay tax and the calculation of tax liability is based on an individualistic framework. Small businesses in their early years of operations find the adjustment to filing tax returns and paying goods and services tax (GST) difficult. Findings from interview sessions with Tongan entrepreneurs and business advisors suggest a number of possible reasons. One reason relates to the individual approach taken with the assessment of tax liability. Traditionally produce (agricultural and fishing) to be consumed is a collective effort, so that the distribution of the produce among the members of the community is a reasonable expectation. In the western business context, the payment of tax is assessed on the individual’s personal income. Since personal income is the result of individual effort, the redistributive nature of taxation is regarded as inconsistent with income or wealth that is generated collectively. Tongan businesses already share a significant part of their net income with the extended family through money transfers to the Pacific, and community through donations made to the church. The taxation process ignores this level of community sharing, as these donations and gifts are not tax deductible, leading to a situation where Pacific Island people effectively go through the income redistribution process twice – firstly with tax and secondly through traditional gifting. Business consultant BC1 suggests that Tongan people who are unwilling to pay tax should remember that many of their relatives are beneficiaries of the tax system. While this is often true, the redistributive role of tax takes away the opportunity for relationships to be formed through traditional sharing.
Distribution of produce in a village setting is based on a complex network of relationships. Distribution is not enforced, but encouraged through these relationships and community identity. Members of a village share as mutual acts of goodwill and towards preserving social relationships (tauhi va). The process of gifting and sharing occurs between individuals, in line with the relationship ties between them. Mandatory collection (taxation) to an independent third party (government), as in the case of tax, removes the opportunity for individuals to connect. The commons mentality in Tonga is fused together by the relationships between individuals in the community. Removing the opportunity to maintain traditional community relationships through the introduction of tax compromises traditional networks, and is therefore not regarded as a redistributive mechanism. A comment made by a business consultant during an interview session suggests that Tongan entrepreneurs needed to be educated about the redistributive function of taxation. While this may help in some cases, it is unlikely to reassure entrepreneurs that community connections are strengthened through the payment of taxes.

**Self-employment and the Taxation**

Tax compliance by self-employed business is lower compared to wage and salary earners (Joulfaian & Rider, 1998). The high rate of tax compliance among wage and salary earners is driven by the presence of a third party (employer) to collect and pay tax (Bruce, 2000). Where a third party is not present to collect and pay tax, earnings reporting by small businesses (self-employed) is often not carried out.

The shift away from employment to self-employment, by many Tongans, has resulted in the non-payment of taxes for a number of reasons. Tax paid by Tongan people is mainly through PAYE (pay as you earn) and GST (goods and services tax). Since personal income tax is deducted at the source, Tongan tax-payers become accustomed to the net pay they receive. Similarly, good and services tax levied on most retail transactions is included in the selling price. With no option but to pay, consumers become so accustomed to the GST-inclusive amount that the net price is ignored. The calculation and mechanism for the deduction of tax from gross earnings or GST from the transaction of goods and services is not the direct responsibility of employees. As Tongan people shift away from employment towards running their own business, this responsibility to account for and pay tax becomes theirs directly. The
income tax liability of small businesses is based on the firm’s assessable income. In order to calculate their assessable income each year, accurate records need to be kept, including all income and expenses, plus any accrual adjustments required. The additional responsibility of calculating assessable income, together with an inherent objection to the role of taxation in the community, has resulted in some Tongan business people’s taking a less than enthusiastic approach to the payment of tax. C15, for instance, deferred the payment of tax during a period of cash shortage, only to be levied with penalties and use of money interest that further exacerbated their financial situation. Tongan business entrepreneurs, faced with having to file accounting records to allow the calculation of their tax liability, often fail to acknowledge the compulsion associated with tax liability. Since the taxation process is foreign to traditional Tongan culture based on a commons approach, tax compliance is more suitably carried out at the income source where tax is deducted by the employer as Pay As You Earn (PAYE) taxation. This will reduce the likelihood of income earners defaulting on tax payments.

The liability to pay tax represents a deterrent to many businesses to grow beyond ‘cottage industry’ status. Tongan women, who are responsible for many of these cottage businesses had, originally produced traditional crafts in the form of fine mats, ceremonial clothing, tapas and baskets for ceremonial events. These items were seldom sold, and were gifted as part of the ceremonial process. In recent times, the demand for these ceremonial treasures (koloa) in New Zealand, Australia and the United States has led to their being commercially traded (Kaeppler, 1996). Business consultant BC1 describes these ‘cottage industry’ businesses as having significant potential for growth. However, despite this growth potential many of the women involved have opted to keep their operations small. To grow their business beyond cottage industry status will trigger a range of compliance hurdles, including tax that they are unfamiliar with, and unwilling to manage. C18 is an example of a business that has grown from the cottage industry status. Despite the business challenges of fixed rental costs and utilities and other fixed overheads, C18, represents a relatively rare occurrence and cottage businesses can still be found in large numbers operating their stalls at the many flea markets throughout Auckland.

Financial reporting compliance is generally accepted as a challenge for small business (Boden, 1999; Chittenden et al., 2003; Collis & Jarvis, 2002; Salamon & Dhaliwal, 1980). Tongan businesses in general were found to struggle with compliance, and in particular, tax. While the challenges they face in terms of compliance with human resource management,
insurance and financial management exist, the focus of this paper is confined to that of accounting and taxation compliance. C2 (recruitment and training) suggests that compliance costs can be too much for small businesses that are ill prepared to fulfil or fund the associated financial costs. He further suggests that government contracts like his demand a greater level of compliance and reporting than non-government contracts. C2 has successfully managed the issue of tax compliance by outsourcing this function to an external accountant. The owner operator of C2 believes that “although this is a cost, it is far better to have this function outsourced than trying to do it in house”. Similarly C5, a painting company, completes the day to day record-keeping in-house, but then hands over to an accountant these documents at the end of each month so as to allow the preparation of the month end accounts and the filing of tax returns.

C4, a paving firm owner, sought the assistance of his adult children, as the required technical knowledge to complete the forms and returns was beyond his ability. Similarly, C7, an immigration consultant, acknowledges the challenges of running a business and compliance demands. Although her children are currently responsible for filling in the tax returns (one of her children has completed a Bachelor of Commerce from the University of Auckland) she states that she had previously outsourced this to an accountant to ensure compliance. She says that:

> when I first started I had an accountant assigned to do it (referring to the accounts and filing tax returns) because I believed I should be on the right track of business, compliant and make sure I do it according to the law and the New Zealand rules and … I believe that’s why I last long (Case C7-Immigration consultant 18:55)

Now that her children are responsible for completing the returns, she does continue to check it before it is filed. Although she no longer uses an external accountant to complete this function, she admits that she does not hesitate to contact the Inland Revenue Department (IRD) if there is anything she is unsure about. The experiences of C7 highlight the fact that individuals who are able to manage the complexity of immigration regulations are not necessarily capable of complying with that of tax.

Seeking advice from authorities including the Inland Revenue Department (IRD) and banking organisations is an option that many Tongan businesses have not pursued. The fear that a number have expressed is that of being found doing something incorrectly and being
penalised. Pacific Island people tend to hold a negative view of the IRD as unfriendly and unhelpful. Business consultant BC1 recalls a client saying to her “gosh I do well in business, and the government just wants to take my money” (BC1, 11:47). She adds that some businesses go into a phase of denial about their tax obligations, hoping that the problem will go away. Two Tongan business owners (C4 and C7) say that they have approached the IRD for assistance and have found them helpful. Their bold and humble attitude to becoming compliant has been clearly beneficial for both. Their actions echo the advice that BC1 has given her clients that “anyone going into business, but realises that they are weak on the compliance front, should make contact with an IRD advisor” (BC1, 11:42).

The owner of C1 (communications and publications) admits that the single biggest concern for him is “meeting our financial obligations, paying suppliers on time and taxes”. As with C7, C1 now keep their own accounts and file their own tax returns. The owner admits that he is thankful that his wife is able to do this and he does not have to deal with it himself (The owner’s wife in this case is a commerce graduate from the University of Auckland).

C9, a healthcare consultant, admits that although she is capable of completing tax returns, it continues to be an ongoing challenge her, as she suspects it is for other small Pacific businesses. She says:

I think the other thing … the age old discipline … the stuff around GST returns paying tax. All those things are a problem. They’re hard all the time. And I’ve been doing it for a long time … I hate it (C9 Healthcare consultant 1:18:30)

The experiences of these Tongan businesses are consistent with that of business consultant BC2 when he says:

Koe kovi pe tax ia ko ‘etau ngaue hala aki…koe tax ia kapau he ‘ikai teke very careful hono ngaue ‘aki koe tax ‘e toe mate pe ‘ete pisinisi he ngaue ‘a e tax (BC2, 13:40)

The negative aspects of tax come about from how we abuse it. If we are not very careful with complying with tax, the consequences are that it will be the tax that destroys your business.
Record Keeping

In a culture where oral history is the established mechanism for preserving information, written records are considered superfluous and onerous. Although Wareham (2002) suggests that records are important for the preservation of Pacific Island cultures Brown et al (Brown & Tower, 2002; Brown, Tower, & Taplin, 2005) maintain that oral communication continues to be the preferred means of communication and passing down of ideas. Tongan entrepreneurs have reluctantly adopted record-keeping as part of a compliance process, rather than as a tool for planning and managing their business. Business consultant BC2 explains that the two reasons he sees why many Tongan small businesses keep records is to satisfy the Pacific Business Trust (who may have provided them with a loan) and for filing tax. He suggests that business survival is dependent on good record-keeping. He advises that:

If you are unable to keep good records of your business dealings, it will be very hard for you to understand what is happening let alone how you will grow it…If you want to expand your business, it is difficult to know what parts to expand (BC2, 15:30).

The majority of Tongan entrepreneurs who participated in the study found the record keeping process difficult, and often did not see the benefit associated with it. C5 (painting and decorating company) successfully manages the record-keeping process, but acknowledges that it had been difficult at first. During the first three years of his operations he explains that he did everything (meaning keeping records and filing tax) himself. He would go to work during the day and then in the evenings would carry out the paper work with recording jobs, invoicing and paying suppliers. During this period he admits that the only way he had been able to “keep on top of it” was “by doing it every day and not letting it pile up”. He notes that after the third year he was able to afford the services of an accountant, as the volume of paper work had become too much for him to manage.

Good record-keeping practices have been suggested as essential to business sustainability and growth (Riemenschneider & Mykytyn Jr, 2000; Scott & Bruce, 1987). Business consultant BC2 advises that “good records will provide you with a good foundation for the future…one of the important reasons for keeping records is for the purpose of having a running history of the accounts that will be needed if the business is ever sold off and when it applies for funding or loans in the future” (BC2, 13:20). The success of case C8 (automotive services)
and C5 (painting and decorating) has been through careful record-keeping, with the intent of using it to manage the business. C5 suggests that:

Koe anga pe ‘eku faka kaukau keu ‘ilo ‘a e ‘osi ko e ‘a e mahina… hange koe quotation ‘oku ou keep pe. Ta mai ‘a e kau me’a ia ko enau ngaue peau lava keu tala ai pe na’e fiha ‘a fakamahuinga’i. (C5, 9:15)

The way I think about it is that I need to know at the end of the month what has happened and in the case of quotations that I keep, I am able to tell what was originally quoted and not have to rely on memory.

The record-keeping process requires systems for collecting data, skills to collate and interpret the data, and technology to facilitate the efficiency and effectiveness of the record-keeping process. For many Tongan businesses, these requirements are either lacking or expensive to acquire. Tongan small business operators struggle with the accounting conventions that form the basis for the record-keeping process, and often abandon the exercise as being too difficult. Small businesses in the ‘cottage industry’ phase of growth are examples of unwillingness to grow, through fear of the complexity and cost of compliance. Successful Tongan businesses have managed the problems associated with record-keeping by outsourcing it to an accountant. In many cases the accountant provides guidance on the types of records that need to be kept and the mechanism by which they can be captured. Processing the information into financial statements and filing company tax returns is then carried out by the accountant.

The record-keeping experiences of many new Tongan entrepreneurs echo a similar story. Many begin by trying to keep their own accounting information, usually through lack of an alternative. Some of the 20 businesses in this study, constrained by cost, continue to keep their own records (C4, C6 and C18). The majority of Tongan businesses maintain their own records as a matter of preference, although this is with the assistance of a professional accountant (Blackwood & Mowl, 2000; Dyt, 2005). Business consultant BC1 counsels that “in moving all the financial functions to the accountant, you lose some of the control that you need to effectively manage the business” (BC1: 14:30). This is an inevitable consequence for many small businesses struggling to deal with compliance issues per se. BC1 advises that “businesses should try to do it themselves (referring to record keeping and accounting), but that in the event they can’t, not to sit around but to call for help” (BC1: 14:50). In general, the information they collect is minimal and intended for the purpose of tax compliance and specific disclosures required by government funding agencies. Information to allow cost and
revenue analysis is generally not kept. As the businesses expands some employ computer technology to streamline the record keeping process. C8 (automotive services) used the MYOB (Mind Your Own Business) accounting package to manage and record transactions. Case C6 (financial advisory and lending services) started with manual records, but now enters these into a computer database, including electronic digital images of the security (traditional Tongan koloa in the form of fine mats) on the loans advanced.

The difficulty and reluctance that many Tongan entrepreneurs have with record-keeping is linked to an inconsistency in the framework in which record-keeping is based. Record-keeping is based on an anti-commons approach. Records are maintained based on individual ownership (as in the case of freehold assets) or property rights (as in the case of financial leases). Financial data is collected and stored for the primary purpose of establishing individual accountability, including tax. Similarly, the recognition and measurement criteria used in capturing financial activity assumes transactions are the result of arms length exchanges between individuals for which there are no pre-existing relationships.

Record-keeping practices are important for the sustainability of Tongan businesses, particularly in western commercial contexts such as New Zealand. Tongan businesses find the record-keeping process onerous, expensive and inconsistent with their culture. The relative lack of understanding that Tongan entrepreneurs have about record-keeping and the benefits that arise from it have negatively impacted on the sustainability of some Tongan businesses. This may be overcome by Tongan businesses seeking assistance from the IRD or organisations such as the Pacific Business Trust. Successful Tongan businesses included in this study maintain records for reasons of compliance and for the management of their business. Although the record-keeping process is based on an anti-commons framework, Tongan businesses in New Zealand increase their potential to survive through diligent attention to the maintaining accurate and relevant records.

**Conclusion**

Tax compliance is a mandatory requirement for all businesses, large and small. Like many other small enterprises, Tongan businesses struggle with tax compliance. Filing tax returns requires the preparation of financial accounts for the calculation of assessable income. This process is difficult for Tongan small owners who often do not have skills in accounting and tax. Many Tongan businesses are unable to afford the services of professional accountants to
assist in preparing and filing financial accounts and tax returns. Some small Tongan businesses (cottage industry) find tax compliance too threatening and prefer to maintain their operations at a discrete level so as to not trigger having to file tax returns. Successful Tongan businesses included in this study are either able to employ a professional accountant or secure the assistance of family members and friends to fulfil their tax compliance needs. Few Tongan businesses take advantage of the advice and help offered by the Inland Revenue department (IRD). However, Tongan businesses that do contact the IRD find the service helpful. Although many Tongan business people express a fear of the IRD, tax compliance may be made easier through taking advantage of IRD assistance programmes.

Part of the difficulty with Tongan businesses becoming tax-compliant is related to Tongan peoples’ inherent sense of sharing (societal identity) and building relationships. Tongan businesses demonstrate this sharing attitude through gifts and assistance they make and provide to the churches (C5 and C13), sports clubs (C4) and family. Some Tongan businesses provide for their ethnic community by providing employment as in cases C2, C13 and C16. This form of sharing acts to replace the redistributive role of taxation. Furthermore, taxation acts to remove the potential for relationships to be formed as an outcome of traditional sharing.

Finally, Tongan businesses need to incorporate into their set-up plan, systems to address tax compliance. Some Tongan business people, moving from paid employment to self-employment, having been accustomed to PAYE, overlook the importance of filing business and personal income tax returns. Based on the experiences of the Tongan businesses included in this study, Tongan businesses in New Zealand may increase their survival potential by recognising the importance of tax and internalising it into their cost and management structure, despite the inconsistency that this has with cultural traditions of sharing and collective production of goods and services.

Record keeping is particularly challenging for Tongan business entrepreneurs whose root culture is based on oral traditions and history. However for their businesses to survive in a western market context, training in financial recording systems and maintaining such systems is important

**Table 1- Summary of Cases**
<table>
<thead>
<tr>
<th>Case Number</th>
<th>Reference</th>
<th>Approx Number Employees</th>
<th>Initial Business Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Case 1</td>
<td>C1</td>
<td>5</td>
<td>Communications &amp; Public Relations</td>
</tr>
<tr>
<td>Case 2</td>
<td>C2</td>
<td>5</td>
<td>Recruitment Services</td>
</tr>
<tr>
<td>Case 3</td>
<td>C3</td>
<td>4</td>
<td>Television Production</td>
</tr>
<tr>
<td>Case 4</td>
<td>C4</td>
<td>10</td>
<td>Paving and road resurfacing</td>
</tr>
<tr>
<td>Case 5</td>
<td>C5</td>
<td>20</td>
<td>Painting</td>
</tr>
<tr>
<td>Case 6</td>
<td>C6</td>
<td>2</td>
<td>Financial Services and lending specialist</td>
</tr>
<tr>
<td>Case 7</td>
<td>C7</td>
<td>1</td>
<td>Immigration Consulting</td>
</tr>
<tr>
<td>Case 8</td>
<td>C8</td>
<td>3</td>
<td>Automotive Engineering</td>
</tr>
<tr>
<td>Case 9</td>
<td>C9</td>
<td>2</td>
<td>Health Advisory Services</td>
</tr>
<tr>
<td>Case 10</td>
<td>C10</td>
<td>2</td>
<td>Screen Printing, mortgage brokerage and textile sportswear manufacturer</td>
</tr>
<tr>
<td>Case 11</td>
<td>C11</td>
<td>4</td>
<td>Legal services</td>
</tr>
<tr>
<td>Case 12</td>
<td>C12</td>
<td>n/a</td>
<td>Furniture manufacturing and retail</td>
</tr>
<tr>
<td>Case 13</td>
<td>C13</td>
<td>3</td>
<td>Agricultural food importer</td>
</tr>
<tr>
<td>Case 14</td>
<td>C14</td>
<td>n/a</td>
<td>Freight Services</td>
</tr>
<tr>
<td>Case 15</td>
<td>C15</td>
<td>25</td>
<td>Radio Broadcasting and media</td>
</tr>
<tr>
<td>Case 16</td>
<td>C16</td>
<td>n/a</td>
<td>Fence and boundary construction</td>
</tr>
<tr>
<td>Case 17</td>
<td>C17</td>
<td>4</td>
<td>Travel consultancy</td>
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<tr>
<td>Case 18</td>
<td>C18</td>
<td>1</td>
<td>Manufacture and retail of traditional crafts</td>
</tr>
<tr>
<td>Case 19</td>
<td>C19</td>
<td>2</td>
<td>Youth Services</td>
</tr>
<tr>
<td>Case 20</td>
<td>C20</td>
<td>20</td>
<td>Health Services Consultant</td>
</tr>
</tbody>
</table>

References


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\(^{1}\) Exempt companies are not required to comply with the accounting standards approved by the ASRB. However, they are still required to furnish accounts for tax purposes. The minimum disclosure requirements for exempt companies are set out in the Financial Reporting Act 1993.

\(^{2}\) Cottage industries refer to small businesses that are operated as a supplement to a household’s primary income. They are characterized by their small size and ad hoc casual nature of their operations. For many cottage industry operations, they emerged from traditional Tongan arts and crafts carried out by women’s groups that were produced primarily for ceremonial events.

\(^{3}\) Based on information gained from discussions with business consultants from the Pacific Business Trust BC1.