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The Compliance and Penalty Regime: Its role as a compliance instrument in combating the Criminalisation of Tax Fraud in New Zealand

A thesis presented in partial fulfilment of the requirements for the degree of Master of Business Studies in Business Law at Massey University, Manawatu, New Zealand

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Abstract

The Compliance and Penalty Regime which came into effect on the 1st April 1997 required taxpayers to take their tax obligations seriously and honestly. The adoption of the Compliance Triangle in the 2001/2002 fiscal year subsequently enabled the Inland Revenue if taxpayers deliberately confronted the tax authorities, by way of criminal tax fraud, to apply the “full force of the law”. This responsive approach in respect of criminal tax fraud was a deliberate attempt to decrease the level of criminal tax fraud and send a signal to the community that such behaviour was not to be tolerated.

The centre piece of the application of the “full force of the law” was Sections 141E, 143A and 143B of the Part IX of the Tax Administration Act 1994 which imposed upon those taxpayers who breached their tax obligations the possibility of stringent monetary and or custodial sentences. Since the sections were introduced fourteen years ago this thesis evaluates the effectiveness of the regime in combating criminal tax fraud in New Zealand.

An examination of archival data that relates to Inland Revenue compliance strategies revealed that criminal tax fraud has increased since the introduction of this regime. However, the extent of criminal tax fraud confronting the New Zealand society and tax discrepancies was difficult to tell. First, it was not easy to decipher from the Inland Revenue’s Annual Reports and media releases the full extent of tax fraud which taxpayers were indicted for. Second, the inconsistencies in reporting the tax shortfall discrepancies in its Annual Reports and its reports to Parliament clouds the true extent of criminal tax fraud discrepancies.

To achieve a reduction in criminal tax fraud, despite Inland Revenue continual focus on areas involving high tax risk, need to reinforce as a behavioural trait societies responsibility to pay tax by improving the flow and quality of information about the extent of criminal tax fraud in New Zealand. Only then will New Zealanders become aware of the burden that criminal tax fraud is. Inland Revenue also need to address the inherently conflicting principles of the Compliance and Penalty Regime, the
Compliance Triangle and the Purchase Agreement and seek to improve voluntary compliance by focusing its resources not on taxpayers who reside at lower strata but by concentrating on those taxpayers who intentionally non-comply.
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The opinions expressed in this thesis are mine and they do not represent the views of the Inland Revenue.
# Table of Contents

**Abstract**

**Acknowledgment** iii

**Table of Contents** iv

## Chapter 1  Introduction  1

1.1 Taxpayer Compliance/Non-Compliance  1

1.2 The Role of the Inland Revenue  5

1.3 Aim and Objectives  9

1.4 Research Method and Scope  11

1.5 Summary  13

## Chapter 2  New Zealand’s Tax Administration: At the cross roads  15

2.1 Introduction – the Economic Landscape  15

2.2 The July 1984 Snap Election – Rogernomics  19

2.3 Market Liberalization.  20

2.4 Government Departments  21

2.5 Corporatisation and Privatisation  22

2.6 Tax System Reform  23

2.7 Inland Revenue Administration  25

2.7.1 Background  25

2.7.2 Corporate Plan - path to modernisation  26

2.7.3 Technology  30

2.7.4 Inland Revenue Structure  34

2.7.5 Compliance Structure  36

2.7.6 Inland Revenue Customer Charter  40

2.8 Tax Non-Compliance – Pre Compliance and Penalty Regime  42

2.8.1 Background  42

2.8.2 Combating non-compliance  42

2.9 Summary  51
Chapter 3  

The Genesis of the NZ Compliance and Penalty Regime  
3.1 Introduction  
3.2 Background to the Compliance and Penalty Regime  
  3.2.1 Criticism of the Old Regime  
  3.2.2 New Regime  
  3.2.3 Penalties: A Comparison of the Old and the New  
3.3 Policy Structure of Inland Revenue  
3.4 Criminal Sanctions  
3.5 Compliance Model  
3.6 Summary  

Chapter 4  

Review on Tax Compliance Studies  
4.1 Introduction  
4.2 Compliance and Penalty Regime – Deterrence or Behaviourist?  
  4.2.1 Deterrence Theory  
  4.2.2 Behaviourist Theory  
  4.2.3 Compliance and Penalty Regime — Deterrence or Behaviourist  
4.3 New Zealand Studies  
  4.3.1 Sawyer’s Work  
  4.3.2 Devos’s Work  
  4.3.2.1 Findings  
  4.3.2.2 Its Limitations  
  4.3.3 Ascroft’s Study  
4.4 Summary  

Chapter 5  

Inland Revenue Compliance and Penalty Strategy to Criminal Tax Fraud - An Evaluation (Part 1)  
5.1 Introduction  
5.2 Overview of Inland Revenue Published Data
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.3</td>
<td>Inland Revenue Strategy based on the Compliance Triangle</td>
<td>102</td>
</tr>
<tr>
<td>5.4</td>
<td>Data Integrity</td>
<td>105</td>
</tr>
<tr>
<td>5.4.1</td>
<td>Annual Reports</td>
<td>105</td>
</tr>
<tr>
<td>5.4.2</td>
<td>Shortfall Penalties, Annual Reports and Official Information Requests 2006 - 2009</td>
<td>111</td>
</tr>
<tr>
<td>5.4.3</td>
<td>Shortfall Penalties and Official Information Requests 1998 -2009</td>
<td>112</td>
</tr>
<tr>
<td>5.4.4</td>
<td>Breakdown of Shortfall Penalties</td>
<td>116</td>
</tr>
<tr>
<td>5.5</td>
<td>Audit Methodology</td>
<td>120</td>
</tr>
<tr>
<td>5.5.1</td>
<td>Drivers of Compliance Strategy</td>
<td>120</td>
</tr>
<tr>
<td>5.6</td>
<td>Summary</td>
<td>125</td>
</tr>
</tbody>
</table>

| Chapter 6 | Inland Revenue Compliance and Penalty Strategy to Criminal Tax Fraud - An Evaluation (Part 2) | 127  |

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.1</td>
<td>Introduction</td>
<td>127</td>
</tr>
<tr>
<td>6.2</td>
<td>Media Releases</td>
<td>128</td>
</tr>
<tr>
<td>6.2.1</td>
<td>Publication of Names</td>
<td>128</td>
</tr>
<tr>
<td>6.2.2</td>
<td>Offence category</td>
<td>129</td>
</tr>
<tr>
<td>6.2.3</td>
<td>Occupation category</td>
<td>133</td>
</tr>
<tr>
<td>6.2.4</td>
<td>Revenue type</td>
<td>134</td>
</tr>
<tr>
<td>6.2.5</td>
<td>Prosecution - Decision to prosecute</td>
<td>136</td>
</tr>
<tr>
<td>6.3</td>
<td>Industry Partnership</td>
<td>139</td>
</tr>
<tr>
<td>6.3.1</td>
<td>Background</td>
<td>139</td>
</tr>
<tr>
<td>6.3.2</td>
<td>Application</td>
<td>141</td>
</tr>
<tr>
<td>6.3.3</td>
<td>Industry partnership – other issues</td>
<td>143</td>
</tr>
<tr>
<td>6.4</td>
<td>Other Issues</td>
<td>146</td>
</tr>
<tr>
<td>6.4.1</td>
<td>Hidden Economy</td>
<td>146</td>
</tr>
<tr>
<td>6.4.2</td>
<td>National Research Unit</td>
<td>148</td>
</tr>
<tr>
<td>6.4.3</td>
<td>Use of Possible Additional Funding from Government</td>
<td>150</td>
</tr>
<tr>
<td>6.5</td>
<td>Summary</td>
<td>152</td>
</tr>
<tr>
<td>Chapter 7</td>
<td>Conclusion</td>
<td>Page</td>
</tr>
<tr>
<td>----------</td>
<td>-----------------------------------------</td>
<td>------</td>
</tr>
<tr>
<td>7.1</td>
<td>Summary of Findings and Implications</td>
<td>155</td>
</tr>
<tr>
<td>7.2</td>
<td>Limitations of this study</td>
<td>158</td>
</tr>
<tr>
<td>7.3</td>
<td>Future Research</td>
<td>159</td>
</tr>
</tbody>
</table>
Tables

Chapter 2
Table 2.1 Table 2.1 Tax Revenue % 1975 – 1984. 16

Chapter 3
Table 3.1 Comparison of Old and New Penalty Regimes. 62
Table 3.2 Motivational Postures, 70

Chapter 4
Table 4.1 Level/Rate of Taxpayer Non-Compliance amongst those selected for Audit/Investigation in New Zealand. 88
Table 4.2 Maximum Statutory Fines and taxpayer Non-Compliance 1985-2001. 89
Table 4.3 Average Penalty Imposed by the Courts and taxpayer Non-Compliance 1985-2001. 90
Table 4.4 Maximum Statutory Term of Imprisonment and Taxpayer Non-Compliance 1985-2001. 91
Table 4.5 Convictions and Sentencing for tax Offences and Taxpayer Non-Compliance 1985-2001. 92
Table 4.6 Type, Number of offences against the Inland Revenue Acts 1985-2001. 93

Chapter 5
Table 5.1 Prosecution Under the Revenue Acts and the Crimes Act 1961 1983-2009. 106
Table 5.2 Shortfall Penalties Imposed 1998-2009. 111
Table 5.3 Shortfall Penalties Imposed 1998-2009. 112
Table 5.4 Comparison of tax Shortfall 1998-2009 from Inland Revenue Annual Reports and Official Information Requests. 114
Table 5.5 Comparison of Shortfall Cases as per Inland Revenue Annual Reports and Official Information Requests. 115
Table 5.6 Shortfall Penalties Imposed by Revenue Type 2001 – 2009. 116
Table 5.7 Tax Shortfalls Imposed by Penalty Criteria 2001 -2009. 117
Table 5.8 Tax Shortfalls Imposed by Taxpayer Numbers 2001-2009. 118
Table 5.9  Comparison of tax Evasion/Abusive Tax Position % of cases 2001-2009.

Table 5.10  Type of Audits Tasks Undertaken by Inland Revenue.

Table 5.11  Tax Discrepancies 2003-2009 by Tax Type and Tax Units $M.

Chapter 6

Table 6.1  Prosecution 2005-2009 as per Inland Revenue Department Annual Reports and Official Information Requests.

Table 6.2  Industry Partnership.

Table 6.3  Success of Industry Partnership.

Table 6.4  Profile of Small and Medium Business Enterprises 2006-2009 Active in Business.

Diagrams

Chapter 2

Diagram 2.1  Inland Revenue Operational Structure 1983.

Diagram 2.2  Inland Revenue Operational Structure 1988.

Diagram 2.3  Structure and lines of Reporting Auditors and Inspectors: Inland Revenue Pre-1984.

Diagram 2.4  Structure and lines of Reporting Auditors and Inspectors: Inland Revenue October 1987.


Diagram 2.6  Inland Revenue Department Customer Charter.

Diagram 2.7  Modernisation of the New Zealand Tax System.

Chapter 3

Diagram 3.1  Elements of Self-Assessment System (Part 1).

Diagram 3.2  Elements of Self-Assessment System (Part 2).

Diagram 3.3  Inland Revenue’s Approach to Voluntary Compliance.
Figures

Chapter 2
Figure 2.1 Tax Revenue % 1975 – 1984. 16
Figure 2.2 Number of Acts drafted March 1983 - June 1995. 32
Figure 2.3 Pages of legislation drafted 1986 -1996. 32
Figure 2.4 Number of reports prepared by Inland Revenue June 1990 - June 1996. 33
Figure 2.5 Hidden Economy as % GDP 1969 – 1993. 48
Figure 2.6 Investigators as a % of Inland Revenue Staff 1975 – 1997. 49

Chapter 3
Figure 3.1 Pyramid of Regulatory Strategies. 69
Figure 3.2 Compliance Model. 71
Figure 3.3 New Zealand Compliance Model. 72

Chapter 4
Figure 4.1 Fischer et al. (1992) Tax Compliance Model. 81
Figure 4.2 Penal tax imposed 1985 – 1997. 95

Chapter 5
Figure 5.1 Tax Discrepancies from 1982-2010. 108
Figure 5.2 Tax Discrepancies as a % of Tax Revenue 1983-2010. 109
Figure 5.3 Returns Audited as a % of Returns filed from 1975-2001. 110
Figure 5.4 Tax Evasion Shortfalls as compared to Total Shortfalls Imposed as per Annual Reports 1998-2006 and Official Information Requests 2006-2009. 112
Figure 5.5 Tax Evasion Shortfalls as compared to total shortfalls Imposed as per Official Information request 1998-2009. 113
Figure 5.6 Tax Audit Results Budget to Actual 2003-2009. 122

Chapter 6
Figure 6.1 Tax Fraud by occupation and $ amount December 2004 – October 2010. 133
Figure 6.2 Media releases by tax type from December 2004 – October 2010. 135
Figure 6.3 Tax Fraud by Year. 136
Figure 6.4 Under reporting of income by visibility to the IRS individual Income tax year 1992. 137
Figure 6.5 Tax/GDP ratios 1983-2009. 147