Shedding Light Into the Black Hole: Research and Evaluation Into the Hidden Economy  

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1.0 Introduction

The Hidden or Cash Economy\(^1\) undermines the integrity of the tax system. Moreover, evidence from the literature suggests that in times of economic recession, Hidden Economy activity is likely to increase with taxpayers opting out of the system.

To address this risk, funding was allocated to Inland Revenue New Zealand by the New Zealand Government in 2010 to undertake work on the Hidden Economy Initiative. An approach was developed to influence Hidden Economy compliance and social norms by making it easy for people to comply, and by creating a challenging environment for those operating within the Hidden Economy.

A longitudinal and multi-tiered approach was proposed that was intelligence-led and evidence-based to move people and businesses from noncompliance or partial compliance to a social commitment to meet their tax and social obligations.

To this end, a comprehensive programme of work was developed by the National Research & Evaluation Unit, to:

- Better understand the Hidden Economy risk;
- Identify the enablers and barriers to compliance;
- Inform the design of interventions to mitigate/treat those risks; and
- Assess the effectiveness of the implemented interventions/"treatments", and specifically, whether they have resulted in long-term improvement in compliance/behaviour change.

The purpose of this paper is to provide an overview of Inland Revenue New Zealand's Hidden Economy Research & Evaluation Programme. The conceptual basis of the Programme will first be discussed (Section 2.1), followed by an outline of the components of the Programme (Section 2.2); highlights of some of the key research and evaluation findings (Section 2.3); the lessons learned and implications discussed (Section 2.4).

2.0 Hidden Economy Research & Evaluation Programme

The overarching objective of the Hidden Economy Research & Evaluation Programme is to provide an ecological, longitudinal, and evidence-based approach that positively influences taxpayer compliance (refer to Appendix A). The specific objectives of the Programme are to:

- Provide insight into customer compliance attitudes, behaviours, and norms.
- Improve understanding of the drivers of noncompliance for different segments of the customer base.

\(^1\) The Hidden Economy is defined as comprising of monetary and non-monetary transactions intentionally not declared or accurately reported. The key characteristics/behaviours that identify people operating within the Hidden Economy include: being outside the tax system; being inside the tax system but not filing; underreporting their income/inflating their expenditure; earning income from illegal activities; deliberately using fraud.
• Inform the development and implementation of Inland Revenue’s Hidden Economy strategy.
• Inform the design and implementation of Hidden Economy interventions/treatments to ensure that they remain responsive to the identified risks.
• Keep Inland Revenue informed about international best practice, and to ensure that Inland Revenue’s practices remain relevant and innovative.
• Increase research and evaluation collaboration, and information sharing with other tax jurisdictions.

To achieve the Programme objectives, research and evaluation activity employing a mixed method approach was used.²

2.1 Conceptual Basis of the Programme
The Hidden Economy Research & Evaluation Programme was developed after having conducted a literature review (which included an overview of the Hidden Economy research being conducted by other tax jurisdictions), key informant interviews (with subject matter experts within Inland Revenue), and consulting internal strategic documents. The findings from this review highlighted the knowledge gaps both nationally and internationally and how the National Research & Evaluation Unit could fill some of those gaps. A conceptual framework for Hidden Economy research & evaluation and an evaluation strategy were developed.

One of the conclusions from the literature review was the acknowledgement that tax compliance behaviour was complex and that there are myriad factors influencing whether customers choose to comply with their tax obligations. There was also the recognition that there was a “psychology” to tax compliance and that for behaviour change to occur, a holistic view of the customer was needed.

An ecological framework for conceptualising the factors influencing taxpayer compliance was therefore proposed and provides the theoretical basis of the Hidden Economy Research & Evaluation Programme. While the approach itself is not new (refer to Australian Public Service Commission, 2007; Central Office of Information, 2009; Halpern et al., 2004), it does provide a taxonomy that simplifies the otherwise complex myriad of factors that are likely to be influencing taxpayer attitudes and behaviours.

On applying this framework, it is postulated that taxpayer compliance is influenced by factors at the following levels:
• Individual level: factors that are intrinsic to the person (such as their attitudes and beliefs), as well as their demographic characteristics (such as their age, gender etc.);
• Social level: the influence of their peers and social networks etc.; and
• Environmental level: the impact of the wider environment, (such as natural disasters, the changing nature of technology etc.).

Figure 1 provides a diagrammatic illustration outlining how an ecological framework could be applied to Inland Revenue’s compliance model.³ A more comprehensive overview of the factors that are likely to influence taxpayer compliance is provided in Appendix B.⁴

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² This approach includes not only the analyses of primary sources of data (including survey work with taxpayers), but also analyses of administrative data and secondary data sources/information where appropriate. It is hoped that such a triangulated approach to data collection would address inherent limitations associated with survey methodology.
³ Please note that the purpose of the ecological framework is to provide a taxonomy for research and evaluation activity; it is not intended to replace Inland Revenue New Zealand’s BISEP compliance model. For more information about the BISEP model, refer to Braithwaite (2003).
⁴ While the list of factors provided in Appendix B is not exhaustive, the model was derived after a review of the national and international literature on tax compliance/Hidden Economy.
2.2 Components of the Programme
After applying an ecological approach to the design of the Hidden Economy Research & Evaluation Programme, seven key components emerged. Refer to Figure 2. Each of the identified areas is now discussed.

FIGURE 2. Overview of the Components of Inland Revenue New Zealand’s Hidden Economy Research & Evaluation Programme
2.2.1 Understanding Individuals’ HE Attitudes, Behaviours, and Drivers

Developing insights into taxpayers’ attitudes and behaviours, and understanding the drivers of tax compliance, remain at the core of the Hidden Economy Research & Evaluation Programme.

As outlined earlier, human behaviour is complex and is influenced by a myriad of factors that may either be internal (e.g., cognitions, attributions) or external (e.g., the global financial crisis) to the individual. The need to better understand the psychological and behavioural drivers of behaviour supports international trends on tax compliance research, which have seen shifts away from the use of “economic models” to account for taxpayer behaviour.

Thus, one of the first pieces of research to be completed from the Programme included a national survey of Hidden Economy attitudes and behaviours. The purpose of this survey was to establish a baseline measure of Hidden Economy attitudes and behaviour, and to monitor these trends in the long term. The survey has been able to provide Inland Revenue with a measure of:

- The demand and supply side of the Hidden Economy (and in particular the level of social acceptance for cash job activity);
- The prevalence of cash job activity in the general populace;
- The types of industries where cash job activities may be occurring;
- And general public perception of the effectiveness of Inland Revenue in being able to detect such activity.

As Inland Revenue’s programme of work on the Hidden Economy further progresses, it is anticipated that findings from research such as this would inform the development of large-scale activities to shape tax compliance behaviour (such as national and regional social marketing campaigns).

2.2.2 Understanding Businesses’ HE Attitudes, Behaviours, and Drivers

Ensuring that businesses receive the right level of support, that the tax system remains responsive to customer needs, and maintaining long-term customer compliance are high-level objectives that most tax administrations are striving to achieve.

For businesses that are operating within the tax system, the type of noncompliant behaviour that may be associated with Hidden Economy activity could range from poor recordkeeping, underreporting of income, not filing or paying (or late filing and payment), aggressive tax planning, fraud and evasion activities, to name but a few. Owing to the “hidden” nature of Hidden Economy activity, developing a better understanding of how and why some businesses are choosing to operate outside the tax system would also be an equally important knowledge gap to fill.

To develop a better understanding of businesses and their tax compliance behaviour, with particular focus on Hidden Economy activity, one project that was completed under the Hidden Economy Research & Evaluation Programme was research on small and medium-sized enterprises (SMEs) from the construction and trade industry. The reason the construction and trade industry was researched was because of Inland Revenue’s current compliance activities on this industry. This research helped to:

- Develop an understanding of the characteristics of SMEs from the industry (such as how they sourced work; how income was generated; how they managed their bookkeeping etc.);
- Identify their attitudes towards tax and the Hidden Economy, and the types of Hidden Economy activity they were engaging in;
- The drivers of compliance/noncompliance and the characteristics of compliers/noncompliers;
- Identify strategies/interventions that could be adopted by Inland Revenue to facilitate industry compliance behaviour.

Consideration is now being given to how the findings of this research could be used to design, develop, and implement interventions that could be applied to promote industry compliance.
2.2.3 Understanding HE Risk Posed by Special Groups of Interest

In addition to developing insight into general customer behaviour, there is also a need to better understand the tax compliance behaviour of different segments of the customer base. For example, one-quarter of New Zealand’s population are now overseas-born, with Asia being the most common region of birth for those born overseas (Statistics New Zealand, 2013).

In response to the changing nature of New Zealand’s population, the needs of “ethnic SMEs” have been investigated (Chand & Cleland, 2012), and a literature review on immigrant entrepreneurship and tax compliance completed (Yuan, Cain, & Spoonley, 2013).

Research exploring how being a migrant shapes tax compliant behaviour has also been recently completed. Some of the objectives of this research include developing a baseline measure of:

- The characteristics of migrant SMEs (such as how they structure their business; manage their bookkeeping; where their sources of income are from etc.);
- Their compliance attitudes and behaviours, and the drivers of compliance;
- The influence of “cultural distance” on compliance; and
- Factors that would foster migrant compliance.

It is anticipated that findings from this research would contribute to the knowledge vacuum that currently exists on migrant businesses in New Zealand and inform Inland Revenue’s compliance activities on this segment of the customer base.

2.2.4 Investigating the Impact of Changes in the Tax Environment

The application of an ecological approach emphasises the need to apply a holistic framework to researching the Hidden Economy, including the need to consider not just factors at the micro level but also macro level influences on taxpayer compliance. These may include, for example, taking into consideration developments in the national and international tax environment, and the impact of these on the evolving business needs of tax administrations.

Two such macro-level influences that were researched as part of the Hidden Economy Research & Evaluation Programme were to:

- Explore the impact of adverse events on SME tax compliance behaviour (with particular focus on the Christchurch 2010 and 2011 earthquakes in New Zealand); and
- Investigate how technology may be acting as an enabler of noncompliance.

2.2.4.1 The Impact of Adverse Events

The Christchurch earthquakes of 2010 and 2011 are continuing to have an effect on New Zealand’s economy, and will probably continue to do so for many years. Where challenging circumstances are created as a result of challenging events, there is a need to understand the “challenges” that may arise so that any potential risks can be mitigated, the right level of support is provided (to minimise opportunities for noncompliance), and that the lessons learned could be applied in the future should similar circumstances arise.

Thus, a longitudinal project on the impact of adverse events was initiated (refer to Poppelwell et al., 2012; and Poppelwell et al., 2013). The research has provided Inland Revenue with:

- A baseline measure of Christchurch SME’s attitudes and behaviours towards tax compliance;
- Identified what impact Inland Revenue’s presence has had on SME tax compliance behaviour; and
- Established how the different phases of disaster recovery have affected SME compliance.

A three-to-five-year longitudinal project has been scoped and is currently informing Inland Revenue’s compliance initiatives in Christchurch.
2.2.4.2 Use and Application of Technology

Technological advances are occurring at a phenomenal rate, and as are the increased opportunities not to comply and engage in noncompliant activities via electronic means. In particular, the advent of the internet has implications for all tax administrations and poses a potential risk to revenue collection.

To better understand some of the compliance risks associated with electronic commerce (e-commerce)/information communication technology (ICT), research has been undertaken to develop a baseline measure of:

- Online, and in particular, off-shore consumer behaviour (such as types of goods/services that are being bought and the value of those goods);
- The motivators/barriers behind online purchasing behaviours;
- Tax compliance attitudes and behaviours (with particular focus on whether technology may be abetting individuals to operate outside the tax system).

The aforementioned research provides: high-level background information on the potential size of the e-commerce industry within New Zealand; the prevalence of consumers who may be importing goods below the de minimis threshold to avoid paying GST on those goods; and the implications of this for tax revenue collection for Inland Revenue.

2.2.5 Inform HE Strategy and Intervention Design and Implementation

According to Inland Revenue’s Hidden Economy Approach, Inland Revenue is committed to applying an “evidence-based approach” to address the Hidden Economy risk. Such an approach, therefore, requires the need for research to aid in the understanding of the customer base, provide the contextual background for compliance initiatives, and inform the design and development of such interventions.

As the Hidden Economy Programme develops, it is envisaged that the National Research & Evaluation Unit would work closely with its colleagues to continually inform Inland Revenue’s strategy for the Hidden Economy and help design initiatives that are based on an understanding of the customer and is responsive to their needs.

2.2.6 Evaluating the Effectiveness of HE Interventions/Programs of Work

In their paper on how other tax authorities tackled the Hidden Economy, the UK’s National Audit Office (2008) identified that one gap in the research was that there was “little published information available on the cost-effectiveness of the measures used by tax authorities to tackle the Hidden Economy” (National Audit Office, p.9, 2008). What this highlights is the need to have robust evaluation processes in place to assess whether the interventions/programs of work applied have been effective.

Moreover, even prior to the implementation of any interventions, baseline measures are needed to allow for pre- and post-intervention comparisons. Long-term monitoring is also suggested to help determine whether the interventions have resulted in longstanding changes in compliance behaviour.

The need for a more systematic and “experimental” approach to intervention/policy design and implementation is supported by the work of the Behavioural Insights Team in the UK, who promote the use of randomised control trials when developing public policy (refer to Haynes et al., 2012). How this approach could be applied to Hidden Economy research and evaluation is worth considering further.

Conducting evaluations is an integral part of the Hidden Economy Research & Evaluation Programme, and an evaluation strategy was developed to assess the effectiveness of Inland Revenue’s compliance activities on the Hidden Economy. The development of the strategy was guided by the intervention logic for the Hidden Economy Programme – refer to Appendix C.
One example of an evaluation project completed under the Programme was an assessment into the effectiveness of Inland Revenue’s campaign on the hospitality industry, and in particular, the restaurant sector. The evaluation was able to provide:

- Insights into restaurant owners’ motivators and barriers to compliance;
- Suggestions on how Inland Revenue could improve on the delivery of its compliance initiatives within the sector;
- Ideas on how awareness of Inland Revenue’s compliance activities could be generated.

2.3 Highlights From the Programme

Research and evaluation activity on the Hidden Economy has been ongoing in the past few years, and a number of outputs have been produced from the Hidden Economy Research & Evaluation Programme. Below is a high-level synthesis of some of the key findings. The findings are now informing Inland Revenue’s strategy towards the Hidden Economy and the development and implementation of compliance initiatives.

2.3.1 Measuring the Size of the Hidden Economy

The size of the Hidden Economy in New Zealand is unknown. The merits of deriving a single figure to represent the size of potential revenue loss to the New Zealand Government through Hidden Economy activity was explored, in a review of the different methodological approaches to measuring the tax gap. The review found that while it may be conceptually appealing to present a quantifiable figure of the potential size of the Hidden Economy, deriving this figure was problematic for the following reasons:

- There are currently no standard approaches for assessing and interpreting the tax gap;
- Tax authorities apply different definitions of the tax gap which makes it difficult to directly compare tax gap figures across different countries;
- Tax gap calculations are subject to assumptions that cannot always be verified in practice; and
- The statistical robustness and accuracy of current tax gap measurements was queried.

Owing to the methodological issues inherent in all tax gap measurements, it was concluded that any measurements pertaining to the tax gap needed to be treated with caution. The conclusions from the paper supported Inland Revenue’s current stance not to estimate the size of the Hidden Economy and/or tax gap within New Zealand.

2.3.2 Scale of the Hidden Economy

As mentioned earlier, when the Hidden Economy Research & Evaluation Programme was developed, research to better understand the scale and nature of Hidden Economy activity at the wider societal level was identified as a priority.

In response to this gap in knowledge, research was conducted at national, regional, and business levels to investigate the:

- Level of Hidden Economy activity in the wider community;
- Perceived prevalence of Hidden Economy activity;
- Level of social acceptability/tolerance for such activity;
- Perceived deterrence effect of Inland Revenue.

Supporting the international literature on cash job activity, (e.g., European Commission, 2007), the research found that construction and repair services and home assistance services were the two most common industries where cash jobs were bought and sold from (refer to Figures 3 and 4).
FIGURE 3. Industries Cash Jobs Were Bought From

<table>
<thead>
<tr>
<th>Industry</th>
<th>Baseline Phase (April 11 - July 11; n=232)</th>
<th>Year 1 Monitor Phase (October 11 - June 12; n=380)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction and repair services</td>
<td>42%</td>
<td>46%</td>
</tr>
<tr>
<td>Home assistance services</td>
<td>47%</td>
<td>40%</td>
</tr>
<tr>
<td>Automotive work</td>
<td>13%</td>
<td>8%</td>
</tr>
<tr>
<td>Personal services</td>
<td>6%</td>
<td>3%</td>
</tr>
<tr>
<td>Hospitality services</td>
<td>6%</td>
<td>3%</td>
</tr>
<tr>
<td>Seasonal work</td>
<td>&lt;1%</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>Retail</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>On-line trading</td>
<td>&lt;1%</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
<td>&lt;1%</td>
</tr>
</tbody>
</table>

* multiple response

Industries cash jobs bought from in the past 12 months (HE subsample)

FIGURE 4. Industries Cash Jobs Were Sold From

<table>
<thead>
<tr>
<th>Industry</th>
<th>Baseline Phase (April 11 - July 11; n=144)</th>
<th>Year 1 Monitor Phase (October 11 - June 12; n=187)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home assistance services</td>
<td>38%</td>
<td>35%</td>
</tr>
<tr>
<td>Construction and repair services</td>
<td>30%</td>
<td>24%</td>
</tr>
<tr>
<td>Hospitality services</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>Personal services</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Automotive work</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Seasonal work</td>
<td>8%</td>
<td>2%</td>
</tr>
<tr>
<td>Retail</td>
<td>&lt;1%</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>On-line trading</td>
<td>&lt;1%</td>
<td>&lt;1%</td>
</tr>
<tr>
<td>Other</td>
<td>22%</td>
<td>20%</td>
</tr>
</tbody>
</table>

* multiple response

Industries cash jobs sold from in the past 12 months (HE subsample)
The general perception by just over half the respondents surveyed was that cash jobs were “commonplace” in New Zealand (refer to Figure 5). Moreover, under half believed that “given the opportunity, most people would hide income to avoid paying taxes.” In terms of social tolerance for such activity, however, 57% believed that it was not “ok” for people not to declare all their income. Regarding whether respondents perceived that cash job activity would be detected by Inland Revenue, the responses were evenly distributed across the response categories.

In addition to research that focused primarily on engagement in cash job activity, whether the New Zealand public also engaged in other types of Hidden Economy activity was also investigated. Specifically, Small and Medium-sized Enterprises (SMEs) from the construction and trade industry were surveyed to better understand their compliance characteristics.

The research found that for construction and trade SMEs, the on-selling of scrap metal or other materials for cash and not declaring the income was the most common type of noncompliant activity reported (21%), followed by doing cash jobs (13%), and bartering for services or materials (13%) (refer to Figure 6). For SMEs with employees, a small proportion also reported treating employees as if they were “self-employed” (12%) or having employed someone under-the-table (9%) (refer to Figure 7).
2.3.3 Motivators and Barriers to Hidden Economy Participation

The literature suggests that in times of economic hardship, Hidden Economy activity is likely to increase. This was supported by the research, which found, for example, that economic and financial hardship was one of the predictors of Hidden Economy participation for SMEs from the construction and trade industry. These findings also corroborated results from a national survey on Hidden Economy attitudes and behaviours, which found that there was strong social acceptance for using the state of the economy as justification for cash job participation (refer to Figure 8).
FIGURE 7. Noncompliant Behaviour With Construction and Trade SMEs Who Had Employees

FIGURE 8. The Economy, Social Acceptability, and Price of Cash Jobs as Motivators for Cash Job Participation
What the findings from Figure 8 also illustrate is the importance and influence of interfamilial and interpersonal relationships in maintaining cash job activity. The role of these relationships was further explored in a qualitative case study on the drivers of Hidden Economy participation within a region of New Zealand (refer to Figure 9). As with the findings from the quantitative research, financial and interpersonal factors were found to be strong drivers of Hidden Economy participation within this qualitative research.

The following were found to be predictors of construction and trade SMEs not participating in the Hidden Economy:

- Respondents’ moral conscience (tax morale);
- Their perceived risk of detection (deterrence);
- Belief that cash jobs were not commonplace; and
- Belief that others were honest with their tax obligations (social norms).

Examples of further explanations given by respondents for choosing not to engage in Hidden Economy activity are provided in Figure 10.

**FIGURE 9. Mapping the Drivers of Hidden Economy Participation Within a Region of New Zealand**
2.3.4 Likelihood of Future Hidden Economy Behaviour

To gauge what future trends in Hidden Economy activity might hold, the general populace were asked whether they were likely to: honestly declare their income in the future; agree to pay/ask for cash jobs; and sell goods/services without declaring the income in the future. The vast majority of respondents (90%) reported that they would honestly declare all the income. A small portion also reported that they would agree to either pay for cash jobs (28%), ask for cash jobs (27%), or offer cash jobs (17%), even if tax was less likely to be paid in those circumstances (refer to Figure II).
2.4 Lessons Learned and Implications for Inland Revenue New Zealand

2.4.1 End-to-End Campaigns/Programmes of Work

On consolidating the findings from the research and evaluation to date, they highlight some of the challenges associated with the Hidden Economy. It is apparent that holistic, “end-to-end” campaigns or programmes of work are needed to address these challenges. A simplified conceptual model of how such campaigns/programmes of work could be designed and implemented is provided below in Figure 12.

To implement such programmes of work, it is suggested that as an initial step research be conducted to develop insights into what the compliance issues are. Findings from the research and evaluation activity would then guide the development of the Hidden Economy strategy, policy development and implementation, and the design and implementation of Inland Revenue’s compliance initiatives/interventions.

Subsequent to the implementation of Inland Revenue’s compliance initiatives/interventions, evaluations to gauge the effectiveness of these activities are suggested. Findings from the evaluations would then feed back into the refining and redesigning of the applied interventions, to ensure that Inland Revenue remains responsive and effective in its service delivery, and that the implemented programmes of work are meeting their intended objectives.

When evaluating the effectiveness of interventions and/or programmes of work on the Hidden Economy, owing to the “hidden” nature of it, one challenge will be how to measure what is hidden, and to demonstrate what would have happened in the absence of the intervention. Consideration is currently being given into the development of “compliance indicators” that can provide measures of effectiveness of compliance activities.
2.4.2 Implications for Intervention Design and Implementation

In terms of the specific design of the types of compliance initiatives or interventions that could be undertaken, findings from the Hidden Economy Research & Evaluation Programme suggest that multi-modal and multi-faceted intervention designs are needed. Therefore, in addition to the “traditional” suite of compliance activities, it is suggested that consideration also be given to:

- The application of national/regional social marketing campaigns (to help shape societal attitudes and behaviours towards the Hidden Economy and, for example, to influence social norms related to the “civic duty” of paying tax etc.);
- The increased use of social media (in response to the changing needs of customers and the growing digital environment); and
- More pronounced engagement by Inland Revenue to raise its external visibility (with stakeholders at all levels, from individual taxpayers to SMEs and large corporate organisations).

How these initiatives or interventions are implemented could also be given further consideration. As stated earlier, it may be worth exploring how randomised control trials can be built into the testing and application of these compliance initiatives or interventions.
Recent evaluation of Inland Revenue’s compliance initiatives in the restaurant sector provides an example of where a combination of different interventions was trialled (refer to Figure 13). Although the findings were inconclusive, owing to the short-time frames involved in the evaluation, Figure 13 provides a graphical illustration of how future intervention design could benefit from more structured approaches to intervention design and implementation.

**FIGURE 13. The Effect of Sending Letters and/or Staff Visits on the Timely Payment of GST to Businesses in the Restaurant Sector**

A long-term approach to the design and implementation of initiatives and interventions, to enable continual monitoring and assessment is also suggested. Within the Hidden Economy Research & Evaluation Programme, there is currently long-term monitoring of national attitudes and behaviours towards the Hidden Economy, and a longitudinal study to explore the impact of adverse events on SME tax compliance. The benefit of interweaving longitudinal research and evaluation projects into the intervention design process is that it enables Inland Revenue to be responsive to customer needs and any compliance issues that may arise.

### 2.4.3 Long-Term Commitment

It is worth noting that the compliance issues faced in New Zealand are not unique and that Inland Revenue New Zealand shares similar compliance challenges faced by other tax administrations. Owing to the complexity of the issues faced, it may be worth contemplating how closer relationships could be fostered between New Zealand and its international colleagues to address some of the compliance challenges ahead. A long-term commitment and approach to addressing the Hidden Economy is also worth considering.

### 3.0 Conclusion

The Hidden Economy undermines the integrity of the tax system. This paper has outlined Inland Revenue New Zealand’s programme of research and evaluation into the Hidden Economy. While still in its infancy, the Hidden Economy Research & Evaluation Programme has been able to provide insights into customer compliance attitudes and behaviours. It is hoped that this research and evaluation activity will go some way towards shedding light into New Zealand’s “black hole.”
APPENDIX A
Overview of the Hidden Economy Research & Evaluation Programme

Components
- Understand individuals’ HE attitudes, behaviours, and drivers
- Understand businesses’ HE attitudes, behaviours, and drivers
- Understand HE risk posed by special groups of interest
- Investigate the impact of changes in the tax environment
- Inform IR’s HE strategy
- Inform treatment/intervention design & implementation
- Evaluate effectiveness of HE interventions/programmes of work

Methodology
- Mixed Method
  - Computer-Assisted Telephone Interviews
  - Online surveys
  - Paper-based surveys
  - Focus groups
  - Face-to-face interviews
  - Analyses of IR’s databases
  - Literature reviews
- Analyses
  - Thematic analyses of qualitative data
  - Descriptive and inferential statistics of quantitative data
  - GIS software to map data

Outcomes
- Insight into customers’ compliance attitudes, behaviours, and norms
- Improved understanding of drivers of non-compliance for different segments of the customer base
- Providing the evidence-base for IR’s HE strategy and contributing to its development and implementation
- Ensuring that the design and implementation of HE interventions are evidence-based and responsive to the identified risks
- IR to be kept informed of international best practice, and that IR’s practices remain relevant and innovative
- Increased collaboration and research and evaluation information sharing with other tax jurisdictions

Ecological, longitudinal, and evidence-based approach that positively contributes to influencing taxpayer compliance
APPENDIX B
Application of An Ecological Framework to Understanding Factors Influencing Compliance Attitudes and Behaviours

### Individual Factors
- Age
- Gender
- Country of birth
- Ethnicity*
- Length of residence in NZ
- English as first language
- Education
- Employment status
- Occupation
- Annual income
- Financial burden/debt
- Deprivation*
- Fiscal knowledge
- Knowledge of tax system
- Motivation to comply
- Tax morale
- Personal norm
- Feelings of shame and guilt
- Overall health
- Religious
- Trust in others
- Contact with Inland Revenue
- Customer satisfaction

### Social Factors
- Marital status
- Peer influence
- Taxpayer socialisation
- Tax agent usage*

### Environmental Factors
- Tax rates
- Complexity of tax law/system
- Regulatory burden
- Social security burden
- Social norm
- Trust/confidence in government
- Trust/confidence in tax system
- Trust/confidence in legal system
- Tax system fairness
- Deterrence
- Probability of detection
- Probability of audits
- Severity of sanctions
- Location
- Technological developments
- Economic climate**
- Economic growth rate**
- Consumer price index measures**
- Trade weight index**
- Business structure**
- Age of business**

Note:
* = factors that also apply to businesses
** = factors that only apply to businesses
References


