

INLAND REVENUE'S NEW CIRCULAR COMPLIANCE MODEL – AN OVERVIEW

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ABSTRACT

New Zealand Inland Revenue adopted the Braithwaite Compliance Model in 2001. It was regarded as transformational at the time it was introduced. More recently Inland Revenue have developed and adopted a new circular compliance model. At the centre of the new model is the 'Customer'. The new model builds upon the Braithwaite Compliance Model and was released in late 2015. This paper examines why the Braithwaite Compliance Model was replaced and provides an overview of the new circular compliance model with its One, Three, Five, and Seven aesthetic. It considers whether the various wheels of the new compliance model will lead to an improved tax compliance environment for New Zealand. The conclusion is that the new compliance model is a thinking tool with positive sentiment and recognises that compliance decisions and the interface between a revenue authority and its customers remains multifaceted.

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I INTRODUCTION

The Wind and the Sun were contemplating who was the greatest. One day they saw a man walking along a road and decided to settle their dispute by way of a challenge. 'Whoever can remove the man's coat will be the strongest' they decided. The Wind blew and blew, only to cause the man to hold on more tightly to his coat. The Wind eventually gave up in despair. The Sun then radiantly shone upon the man, who in a short while voluntarily removed his coat.¹

Improving taxpayers' voluntary compliance is an important goal of tax authorities worldwide. However, this goal is not always easy to achieve as not all taxpayers respond to their tax obligations in the same way.² There have been myriad studies³ examining tax compliance over the last few decades. In the early days of empirical tax compliance research, the work of Schmolders,⁴ Spicer and Lundstedt,⁵ Vogel⁶ and others challenged the confines of economic self-interest models in the tradition of Allingham and Sandmo⁷ and stressed that non-economic social factors such as social norms and individual morality could have a significant impact on taxpaying behaviour.⁸ In 2015, Inland Revenue adopted a new circular compliance model that visually recognises the importance of focusing on the customer (taxpayer) first, the importance of influencing norms, and the importance of 'upstream' prevention. Rather than reacting to non-compliant behaviour, the emphasis is placed on how it can be stopped (or reduced) from happening in the first instance.

Plato is noted as saying 'when there is an income tax, the just man will pay more and the unjust less on the same amount of income'⁹ indicating attitudes, personal morals, social norms, opportunity, values, as well as trust in the institution are important. Taxation is recognised as a two-way relationship between the payer (customer) and the collector and this intersection of the two parties is very important. The attitude of the tax collector/revenue official can also play a relevant part in this context. The compliance

¹ Adapted from Aesop, 'The Sun and the North Wind' (500BC): University of Massachusetts Amherst, *Aesop's Fables: The Wind and the Sun* <<https://www.umass.edu/aesop/content.php?n=31&i=2>>.

² Lin Mei Tan and Valerie Braithwaite, 'Agreement with Tax Practitioners' Advice under Tax Law Ambiguity' (2011) 17 *New Zealand Journal of Taxation Law and Policy* 267.

³ See, eg, Betty R Jackson and Valerie C Milliron, 'Tax Compliance Research: Findings, Problems and Prospects' (1986) 5 *Journal of Accounting Literature* 125; Maryann Richardson and Adrian J Sawyer, 'A Taxonomy of the Tax Compliance Literature: Further Findings, Problems and Prospects' (2001) 16 *Australian Tax Forum* 137; Ken Devos, *Factors Influencing Individual Taxpayer Compliance Behaviour* (Springer, 2014).

⁴ Gunter Schmolders, 'Survey Research into Public Finance: A Behavioural Approach to Fiscal Theory' (1970) 25(2) *Public Finance* 300.

⁵ Michael W Spicer and Sven B Lundstedt, 'Understanding Tax Evasion' (1976) 21(2) *Public Finance* 295.

⁶ J Vogel, 'Taxation and Public Opinion in Sweden: An Interpretation of Recent Survey Data' (1974) 27(1) *National Tax Journal* 499.

⁷ M Allingham and A Sandmo, 'Income Tax Evasion: A Theoretical Analysis' (1972) 1(3-4) *Journal of Public Economics* 323.

⁸ M Wenzel, 'An Analysis of Norm Processes in Tax Compliance' (2004) 25 *Journal of Economic Psychology* 213.

⁹ Goodreads, *Plato* <<https://www.goodreads.com/quotes/93726-when-there-is-an-income-tax-the-just-man-will>>.

model's interface is at the junction of where the taxpayer (customer) and the revenue authority meet.

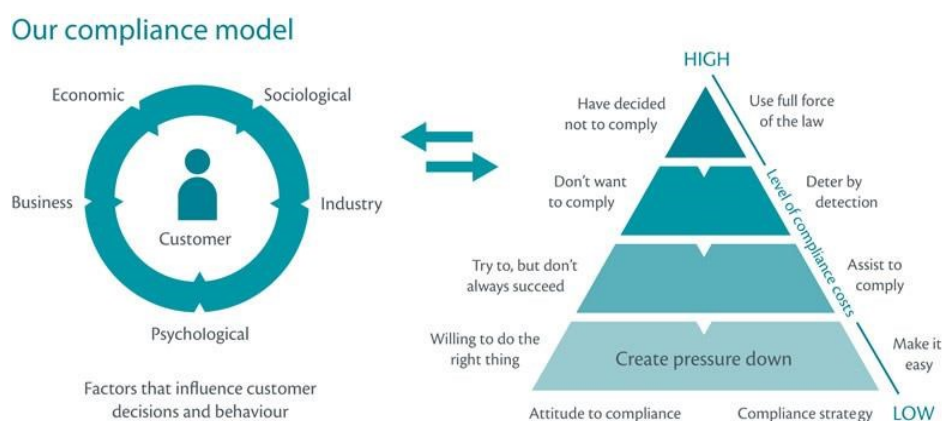
Section II of the paper provides a brief history and background to the Braithwaite Compliance Model. The Braithwaite Compliance Model was used by Inland Revenue from 2001 until late 2015. Section III introduces the new circular compliance model, a 'thinking tool', adopted in 2015 from a health care context. This section provides a conceptual background to the new model. Section IV provides an overview of the three moveable wheels around the 'Customer' centre, the 'Behaviour Wheel', the 'Principles Wheel', and the 'Activity Wheel' contributing to the model's One, Three, Five, Seven aesthetic. It also considers Inland Revenue's customer and the customer lifecycle as well as the importance of personal, social and societal norms. Section V provides a brief discussion, limitations and conclusion.

II BACKGROUND

A The Braithwaite Compliance Model

The Braithwaite Compliance Model (Figure 1) was first introduced in New Zealand in 2001 and was transformational as it changed the way Inland Revenue looked at customers and how they thought about their compliance approach. The Braithwaite Compliance Model was formally introduced in Australia by the Australian Taxation Office (ATO) in November 2000 to improve compliance. In Australia there had been some opposition to the model being introduced with some staff seeing it as a threat to the validity of their roles. Others saw the cooperative compliance model as bringing some compassion to their work. One of the ATO challenges in promoting the Braithwaite Compliance Model was to convince auditors that the model enhanced their role rather than diminished it.¹⁰

Figure 1: The Braithwaite Compliance Model¹¹



¹⁰ Robert B Whait, *The Conception and Promulgation of Cooperative Compliance in Australian Taxation Policy: A Historical Study* (PhD Thesis, University of South Australia, 2013) 186.

¹¹ Source: Inland Revenue, New Zealand Government.

Inland Revenue had been enforcement focused and bringing in the Braithwaite Compliance Model helped the transformation of Inland Revenue to more of a service organisation.¹² The Model's key message was that most people 'wanted to comply' and only a small proportion did not. Inland Revenue could help these customers by 'making it easy' for them to comply.

The author understands the Braithwaite Compliance Model was very well regarded within Inland Revenue and popular amongst Inland Revenue staff. They liked the simplicity, and staff possibly created further simplicity to the model in the way they used it.

Whether Inland Revenue staff fully understood the Braithwaite Compliance Model is a matter for debate. Staff understood key messages from it with the 'make it easy' message appearing to resonate well with staff. One reason for considering the compliance model 'refresh' or change was that Inland Revenue considered they had moved beyond the Braithwaite Compliance Model and that it had not kept pace with changes in compliance thinking both within Inland Revenue and across the world. There was nothing wrong or 'broken' with the model, it was more about where Inland Revenue wanted to go with its compliance approach. One of the major issues considered by Inland Revenue was, instead of reacting to non-compliant behaviour, how could they stop it from happening in the first place. Nowhere in the Braithwaite Compliance Model was 'prevention', a 'top of the cliff approach', explicitly stated.

Linked with the prevention goal was clearly wanting customers to get it 'right from the start'. The 'Right from the Start' approach is very evident in the Organisation for Economic Co-operation and Development (OECD) literature¹³ and their approach to tax compliance. The 'Right from the Start' approach was first developed by the Swedish Tax Agency. The Braithwaite Compliance Model was very much a model to change how Inland Revenue staff *thought* about customers, whereas the new circular compliance model is designed to help focus Inland Revenue staff to think about how they should *help* customers.

New Zealand Inland Revenue, following the Australian Taxation Office (ATO), adopted the Braithwaite¹⁴ Compliance Model in 2001. In 2015 the Braithwaite Compliance Model was superseded by a new circular model adapted from a healthcare context. The proposal to develop a new model was signed off by Inland Revenue in November 2014. A person instrumental in the adoption of the new compliance model was on secondment to Inland Revenue having come from the Netherlands Tax and Customs Agency and was at the time one of the Co-chairs of the Small/Medium Enterprise Compliance Subgroup of the OECD.

¹² For discussion on the 'service' paradigm of tax administration, see James Alm et al, 'Taxpayer Information Assistance Services and Tax Compliance Behavior' (2010) 31 *Journal of Economic Psychology* 577.

¹³ See Organisation for Economic Co-operation and Development (OECD), 'Forum on Tax Administration: Small/Medium Enterprise (SME) Compliance Subgroup: Information Note: Understanding and Influencing Taxpayers' Compliance Behaviour' (OECD Publishing, November 2010); OECD, 'Tax Compliance by Design: Achieving Improved SME Tax Compliance by Adopting a System Perspective' (OECD Publishing, 2014); OECD, 'Right from the Start: Influencing the Compliance Environment for SMEs' (OECD Publishing, 2012).

¹⁴ Also referred to as the Ayres-Braithwaite model. See New Zealand Productivity Commission, *Regulatory Institutions and Practices* (June 2014) <<https://www.productivity.govt.nz/sites/default/files/regulatory-institutions-and-practices-final-report-ch3.pdf>> ch 3.

In 2014 Inland Revenue's Customer Strategy Team, based in Head Office, Wellington, introduced what they considered a more customer-centric focus, and a 'Right from the Start' approach, which is a fundamental part of the new compliance model. The 'Right from the Start' approach has four dimensions: acting in real time and up front; focusing on end-to-end processes from a customer viewpoint; making it easy to comply and difficult not to; and actively involving and engaging customers and stakeholders. A question sometimes considered is why do taxpayers (customers) comply with their obligations? Institutional theory¹⁵ posits that institutions themselves do not determine behaviour. Instead they provide a context that helps in understanding why actors make the choices they do.¹⁶ In late 2015 the new circular compliance model was integrated into Inland Revenue.

The author interviewed an Inland Revenue senior staff member to gather a background for this paper. A general observation of the Braithwaite Compliance Model was that some Inland Revenue staff understood it in its entirety; some people understood the model in full in terms of how the BISEP¹⁷ aspect on the left (Figure 1) interacted with the 'pyramid' on the right; but a lot of people found it difficult to apply (the BISEP side) and what they ended up doing was ignoring it and focusing on the 'pyramid' side of the model. A common experience of the Inland Revenue senior staff member¹⁸ as she would travel around Inland Revenue offices during the new circular model's integration phase would occur when she asked staff if they knew what the 'old model' was. There were many comments describing the old model similar to this one as follows:¹⁹

... Quite curious – they would all go 'I know what it is, it is a pyramid' and they would form a pyramid with their thumb and index finger. That is part of the model, it's only half of it, and one of the things we found is that people found the pyramid really easy to understand – (at the bottom of the pyramid) willing to do the right thing ... make it easy, (at the top of the pyramid) they don't want to comply, use the full force of the law ... they would ignore the five factors that went into determining the customer's attitude in the BISEP.

The two middle segments of the pyramid model ('Don't want to comply' and 'Try to, but don't always succeed') would also often be ignored. The staff understood some of the key messages but not the depth of the model. Part of what Inland Revenue were trying to do with implementing a new compliance model was to bring back the BISEP so that the depth around it is recognised.

¹⁵ Institutional theory has been described as a focus on the effects of institutions in society on political outcomes, including policy formation. M McKerchar, *Design and Conduct of Research in Tax, Law and Accounting* (Thomson Reuters, 2009) 81, [4.200].

¹⁶ L Marriott, *The Politics of Retirement Savings Taxation: A Trans-Tasman Comparison* (CCH Australia, 2010).

¹⁷ The BISEP model addresses the different attitudes to compliance. It shows that there are a range of attitudes and they often differ depending on the situation. 'Business, Industry, Sociological, Economic and Psychological' (BISEP) are factors that influence taxpayer decisions and behaviour.

¹⁸ The Inland Revenue senior staff member was instrumental in the new circular compliance model's integration into Inland Revenue.

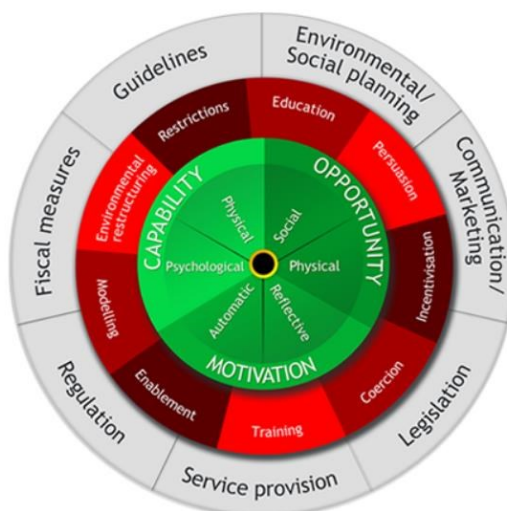
¹⁹ Interview with Inland Revenue senior staff member (Wellington, 9 February 2017).

III THE NEW CIRCULAR MODEL – IT IS NOT A MODEL, IT’S A THINKING TOOL

A Conceptual background

The new Inland Revenue circular compliance model has ancestral links to the University College of London Centre for Behaviour Change and its Behaviour Change Wheel (Figure 2). This model was developed for a healthcare context and Inland Revenue thought it translated well to their enforcement-based approach.

Figure 2: Behaviour Change Wheel, University College of London Centre for Behaviour Change²⁰



B An overview of the design – The ‘moveable wheels’ aesthetic

The design of Inland Revenue’s new compliance model (Figure 3) and the deliberate ‘spinning wheels’ is very symbolic, it is a more conceptual flexible, changeable approach. The cardboard version of the circular Compliance Model has moveable ‘wheels’ that allow Inland Revenue staff using the model to vary their compliance approach to suit.

The new circular model is more customer-centric, and this was addressed very literally having the ‘Customer’ in the centre of the circular model. The compliance approach varies depending on the customer, allowing Inland Revenue to pivot and change their compliance approach to suit. The model is also applicable in a strategy context, for example, Inland Revenue may be wanting to develop an industry approach for a particular type of taxpayer.

One of Inland Revenue’s design decisions was that the wheels would not align to give an ‘answer’. Starting at the centre with the one element, the ‘Customer’, the model then goes outwards with a Three, Five, and Seven aesthetic. Inland Revenue also did not want the model to be prescriptive, instead it is a thinking tool, its elements are interconnected, and

²⁰ Source: Susan Michie, Lou Atkins and Robert West, *The Behaviour Change Wheel: A Guide to Designing Interventions* (Silverback, 2014) 18 <www.behaviourchangewheel.com>.

it is symbolic in the sense that the 'Customer' is in the centre. It is a thinking tool to help staff come up with innovative approaches.

Figure 3: Inland Revenue's new circular compliance model (2015) – a thinking tool²¹



The new circular compliance model in some ways brings together both the BISEP aspect and the 'pyramid' aspects of the Braithwaite Compliance Model into the one platform. This was a deliberate design decision by Inland Revenue and although it does make the new circular compliance model more complicated visually, it was important to have a model that staff could not simplify and therefore only concentrate on a part of it, essentially losing its effectiveness.

The digital collateral for the new model could be delineated to just look at the grey 'Customer' centre, or look at the 'Customer' centre with 'Capability, Opportunity and Motivation', or look at the 'Principles' wheel listed around the outside of the 'Capability, Opportunity and Motivation' wheel. In other words, the new model has holistic 'layers' that could be built on but the priority was to have the new model looked at as a complete model, rather than as sometimes happened with the Braithwaite Compliance Model where only half of the model was generally looked at (usually only the 'pyramid' side). Inland Revenue wanted to make sure that the overall Behaviour Change Wheel was always in view because that was one of the main things Inland Revenue were wanting to bring in, a deeper understanding of the factors that form customer behaviour.

²¹ Source: Inland Revenue, New Zealand Government.

1 The 'Customer'

(a) Social policy organisation

Inland Revenue's customer base includes 84 per cent 'individuals', with many of this group having very little direct contact with the revenue authority. New Zealand is culturally diverse and any compliance model would have to recognise the diversity of taxpayers. While some taxpayers may have minimal contact with Inland Revenue, the contact they have can have an effect on their future compliance attitudes. For example, in an audit context a 'good' audit experience, perhaps where the taxpayer has had some education in response to a tax issue, may leave the customer with an impression that Inland Revenue are approachable and 'making it easy' for them to comply. Likewise, an audit where there has been tensions between a tax investigator (now called Customer Compliance Specialists), might set a negative stance towards Inland Revenue for the future. Inland Revenue regard every contact with a customer as an opportunity to influence norms towards better compliance. Over half of the contacts Inland Revenue has with its customers are in relation to social policy such as child support, Working for Families, KiwiSaver and paid parental leave. In designing the new compliance model, it needed to reflect how Inland Revenue deals with that social policy/individual customer group, although the model is equally applicable to other customer groups (refer to Figure 4 below).²²

Figure 4: Inland Revenue customer groups²³



Inland Revenue does not see itself solely as a tax collector: they are actually self-described as a tax and social policy organisation. Inland Revenue's responsibilities are to ensure

²² The circular compliance model in a physical form was given to Inland Revenue staff with adhesive stickers to represent the different taxpayers – individuals; microbusiness/self-employed; small- and medium-sized enterprise; high-wealth individuals; significant enterprise; and not-for-profits – thereby demonstrating that all customers are at the centre of Inland Revenue's compliance thinking.

²³ Source: Inland Revenue, New Zealand Government.

that customers get their entitlements as well as pay their required tax. The Braithwaite Compliance Model did not fully reflect these dual responsibilities.

The circular compliance model works by starting at its centre with a customer-centric approach to facilitating compliance. The grey shadowy figures around the outside of the 'Customer' are not 'shadowy Inland Revenue staff keeping a look out over the customer',²⁴ instead they reflect what and who is in the customer's environment. A taxpayer's peers have been loosely defined as a taxpayer's associates, including friends, relatives, acquaintances, and co-workers.²⁵ Also, those peers who influence the taxpayer are more likely to be those held in esteem by the taxpayer.

A customer's environment is important in determining whether the customer complies or not. If a customer is surrounded by non-compliant peers, this can influence their behaviour. Likewise, if a customer is surrounded by people who are generally compliant and 'doing the right thing', this too can influence their behaviour.

(b) The customer 'lifecycle'

Inland Revenue's approach predicates itself on a customer 'lifecycle'. It begins with the birth of a person and ends with death, and everything in between. This translates well with their self-description of being a tax and social policy organisation. The customer is born, starts school, gets married, has a baby, starts a business, goes overseas, may have a relationship breakdown and eventually dies. Of course, not necessarily in that order, apart from the birth and death aspects:²⁶

We are thinking about seeing our customer lifecycle and how we can best respond to that. ... looking at their past behaviour might influence what we do. Not necessarily that they have had a tax debt once so they are always in a certain camp. But it might be we know that this person is a 'repeat new business establisher' and their new businesses tend to go into liquidation so what actually can we do to make sure they are setting up right, properly. That might be working more across government in terms of this particular company, this particular business person might need some help on boosting their financial literacy and understanding how they get good business processes in place.

Inland Revenue's view is that quite often business success (as opposed to failure) is due to its early stages. Although not initially tax focused, how well a customer establishes and puts in place processes to manage its cash flow will actually ultimately end up flowing through to their tax position. If the customer has good systems and processes in place then accurate data flows out from that and goes into their tax return. They tend to also be better about paying tax and filing on time. Inland Revenue will try to identify key events with inherent compliance risk in a customer lifecycle to target them proactively with tailored interventions.

²⁴ Interview with Inland Revenue senior staff member (Wellington, 9 February 2017).

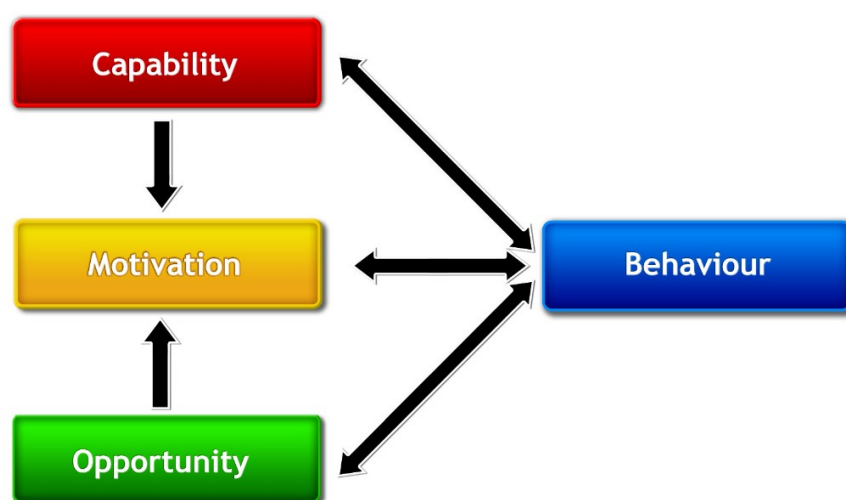
²⁵ Jackson and Milliron, above n 3, 136.

²⁶ Interview with Inland Revenue senior staff member (Wellington, 9 February 2017).

IV THE BEHAVIOUR CHANGE WHEEL

The new circular Inland Revenue compliance model uses the Behaviour Change Wheel, a synthesis of 19 frameworks of behaviour change found in the research literature.²⁷ None of these frameworks were found to be comprehensive in themselves. In addition, few of them were conceptually coherent or clearly linked to a model of behaviour change. Some of the frameworks assumed that behaviour was primarily driven by beliefs and perceptions, while others placed greater emphasis on unconscious biases and yet still others focused on the social environment. All of these were recognised as being important and needed to be brought together in a coherent manner. The Behaviour Change Wheel aimed to address these limitations by synthesising the common features of the frameworks and linking them to a model of behaviour that was sufficiently broad that it could be applied to any behaviour in any setting,²⁸ including tax administration. The Behaviour Change Wheel consists of three layers. The hub of the wheel identifies the sources of the behaviour that could prove fruitful targets for intervention. Once the 'Customer' and their environment and personal situation are understood, the focus then shifts to the outer layers of the model. The Behaviour Change Wheel has as its first 'layer' a model of behaviour known as COM-B (Figure 5).²⁹

Figure 5: COM-B component of the circular compliance model³⁰



The COM-B initials stand for 'Capability', 'Opportunity', 'Motivation' and 'Behaviour'. The model recognises that 'Behaviour' is part of an interacting system involving all these components.³¹ The central tenet of the model is that for any behaviour to occur there must be capability, opportunity, and motivation. Briefly, 'Capability' is about how well a

²⁷ Susan Michie, Maartje van Stralen and Robert West, 'The Behaviour Change Wheel: A New Method for Characterising and Designing Behaviour Change Interventions' (2011) 6 *Implementation Science* 42.

²⁸ Michie, Atkins and West, above n 20, 17.

²⁹ When the author first saw the COM-B model he thought of the fraud 'triangle'. When the new circular compliance model is discussed internally within Inland Revenue, 'Means, Motive and Opportunity' is referred to because it helps understanding, particularly with an enforcement-based organisation. It is something that makes sense in an enforcement framework.

³⁰ Michie, Atkins and West, above n 20, 11.

³¹ Ibid 11.

customer can meet their obligations and access their entitlements. It includes their knowledge of the rules applicable to them and their access to tools and assistance. Factors that will impact on a customer's capability include whether they are aware of the tax and social policy rules relevant to them, their ability to access Inland Revenue assistance and resources (their ability to access the internet or phone services), their access to specialist advice or tools, their ability to speak and read English, and their level of education. 'Opportunity' includes whether the customer earns income not taxed at source, if they are in an industry where cash payments are common, and if they are overseas. Motivation comprises the factors that create both the desire to comply and to follow through. Factors may include whether the customer is under financial pressure, their personal beliefs on tax and social policy, and the social norms that impact on the customer.

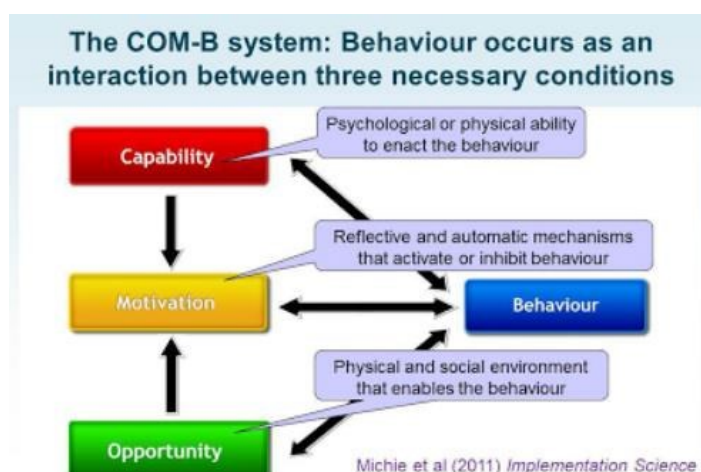
Each of these components can be divided heuristically into two types. 'Capability' can be either 'physical' (having the physical skills, strength or stamina to perform the behaviour), or 'psychological' (having the knowledge, psychological skills, strength or stamina to perform the behaviour). 'Opportunity' can be 'physical' (what the environment allows or facilitates in terms of time, triggers, resources, locations, physical barriers, etc), or 'social' (including interpersonal influences, social cues and cultural norms). 'Motivation' may be 'reflective' (involving self-conscious planning and evaluations, ie, beliefs about what is good or bad), or 'automatic' (processes involving wants and needs, desires, impulses and reflective responses).³² These components interact as illustrated in Figure 6 by the interlinking arrows so that, for example, increasing opportunity or capability can increase motivation. Increased motivation can lead people to do things that will increase their capability or opportunity by changing behaviour.³³ By way of example, owning a bicycle (opportunity) or being able to ride a bicycle (capability) might increase motivation to ride a bicycle but motivation alone will not improve the riding skills or afford access to a bicycle unless the individual acts (behaviour) on this motivation to buy a bicycle or to practice bicycle riding.³⁴ Care must be taken regarding assumptions, for example it would be easy to assume that young drivers crash frequently because of a lack of driving experience. However, the issue might be not so much a lack of skill but of motivation. Young drivers are motivated to drive in ways that increase the risk of crashing, particularly driving too fast and not paying sufficient care and attention.³⁵

³² Ibid 59–60.

³³ Ibid 59–61.

³⁴ Ibid 61.

³⁵ Ibid 58.

Figure 6: The COM-B system – behaviour occurs as an interaction³⁶

According to Michie, Atkins and West the components can be construed at any level from individual or group through sub-populations and even populations,³⁷ allowing Inland Revenue in the tax context to develop an approach for a particular type of taxpayer.

Inland Revenue recognised that 'Capability, Opportunity and Motivation' from the COM-B system related well in a tax context for their staff because of the 'Means, Motive and Opportunity' aspects to it, and in addition the model is simpler than the BISEP. It is easier to recall than reciting the 'Business, Industry, Sociological, Economic and Psychological' factors. Advanced users of the circular compliance model would understand how the arrows interplay, for example how 'Capability' and 'Opportunity' can influence 'Motivation', but for most Inland Revenue staff all they needed to know was that there are the three factors. The goal is to determine what is driving the customer's behaviour.³⁸

A taxpayer may 'want to comply' and are normally compliant, but in a particular period in their life they might become non-compliant and paying their tax bill drops low down on the list because they are struggling to pay their food or power bills. Or they might actually want to comply and have the money and capability to comply but life is a bit too difficult at the moment – they might be suffering a bereavement or have a significant health issue such as depression, cancer or something equally serious. So, it is about wanting to do the right thing but it is also about having physical and emotional resources to carry through and do it. Understanding the context in which non-compliance occurs will guide Inland Revenue's intervention. So, it might be:³⁹

Yes, we know this person will ultimately pay, we just need to give them an extension of time because there's a valid reason why. They will file, we just need to give them a

³⁶ Ibid.

³⁷ Ibid 61.

³⁸ A tax avoider, for example, has high capability because they understand the rules inside out, and that is how they are able to work around them. They have the motivation not to comply and obviously their social/personal norms are such that they are willing to not comply. They have some opportunity not to comply, because there is a grey area within the rules.

³⁹ Interview with Inland Revenue senior staff member (Wellington, 9 February 2017).

breather ... or it's a financial pressure situation in which case let's enter into an instalment arrangement etc. ... they might be eligible for hardship relief ... depends on the situation. Basically let's understand what is going on with the customer and what's driving their behaviour.

Neither the Braithwaite Compliance Model nor the new compliance model are expected to be an operational guideline. The new circular compliance model is more of a 'this is why we do things and how we want you to think' tool. The new model's message for their staff is that it 'pervades everything we do'.⁴⁰ Inland Revenue's desire is that the new compliance model would influence how Inland Revenue design their approach towards taxpayers. Rather than having a prescriptive compliance model Inland Revenue also realise their role may change in the future as it has in recent years having increasingly become a tax and social policy organisation:⁴¹ 'Things change, our customers change, and our role changes. We respond to something, it guides us rather than tells us what to do.'

A The 'Principles Wheel'

The 'Principles Wheel' shows the five key principles to Inland Revenue's compliance approach briefly discussed in sub-sections 1 to 5 below. Of the five Principles, the top three⁴² come from the 'Right from the Start' approach.⁴³ There are actually four elements in the 'Right from the Start' approach and a decision was made by Inland Revenue to combine two of the elements⁴⁴ to remain consistent with the One, Three, Five, and Seven aesthetic of the model.

1 Build compliance right from the start

This is the most obvious reference to the 'Right from the Start', OECD-inspired approach, and in a way is almost like a Mission Statement because that is Inland Revenue's end goal: to help people to do the right thing up front, get their entitlements, and pay their taxes. The goal is to get people to 'do the right thing' before they actually take the step of taking a tax position, with Inland Revenue working in real time to help customers comply. Examples might include: direct educational messages to customers at the time they need it in their lifecycle; performing systems audits and record keeping checks; working with private providers to imbed tax compliance into accounting software packages; and interventions that encourage good systems and processes and support continued compliance. Their work is not limited to simply correcting individual transactions. With regard to Inland Revenue Community Compliance Officers, Inland Revenue is taking a

⁴⁰ Ibid.

⁴¹ Ibid.

⁴² 'Build compliance right from the start', 'Understand and involve the customers and stakeholders', 'Make it easy to comply and difficult not to'.

⁴³ Inland Revenue, New Zealand Government, *Making Tax Simpler - Proposals for Modernising the Tax Administration Act: A Government Discussion Document* (December 2016) ch 4.

⁴⁴ The 'Right from the Start' approach is defined in terms of four dimensions that are considered central to the compliance environment: (1) Acting in real time and up-front, so that problems are prevented or addressed when they occur; (2) Focusing on end-to-end processes rather than only on the revenue body processes and trying to make taxpayers' processes fit into them; (3) Making it easy to comply (and difficult not to comply); and (4) Actively involving and engaging taxpayers, their representatives and other stakeholders, in order to achieve a better understanding of taxpayers' perspectives and to cooperate with third parties.

proactive compliance stance. The people in this role are now starting to run seminars in the weekends and at night for customers as they realise that many of their customers are small business owners and weekends and nights are the only free times they have to attend. In addition, there are a number of online Inland Revenue videos⁴⁵ explaining the basics of income tax, expenses, depreciation, Goods and Services Tax (GST) obligations, and so forth. Inland Revenue also recognise that there are some people who do not have the time to come out at night, such as business owners who are also single parents. As they have to look after their children, they can sit down at home and watch a short video.

2 *Making it easy to comply and difficult not to*

One of the myths that Inland Revenue wanted to dispel was the perception that 'making it easy' was just providing educational material. There is actually a lot more to 'making it easy', such as simplifying processes (ie, making processes both fraud-proof and fool-proof) so people do not unintentionally make mistakes. Data analytics significantly help Inland Revenue in designing their systems, based on an increased understanding of their customers and their behaviour, and might shape the way Inland Revenue deploy their proactive actions. Where appropriate, Inland Revenue would automatically share information with other government agencies.

A deliberate addition to the new compliance model, which was not in the Braithwaite Compliance Model, is adding the 'and difficult not to' wording to the principle of 'make it easy' to comply. It is natural to look at a compliance model and predominantly think about the audit function. One aspect Inland Revenue have been trying to change for a long time is about changing people's perceptions of compliance and whose responsibility it was. The view that compliance was only a function of audit was one perception Inland Revenue were trying to change and make it clear that everyone within Inland Revenue has a contribution to make in terms of facilitating compliance. For example, it is important for the role of Inland Revenue policy staff because they draft the legislation with which customers have to comply. The legislation drafter's role is also important in terms of making it easy to comply, and they also have a role as a 'lever' in terms of reducing opportunities to not comply.

3 *Provide certainty*

One of Adam Smith's maxims in his 1776 treatise *The Wealth of Nations* was that the tax each individual is bound to pay ought to be certain and not arbitrary.⁴⁶ Simplicity and certainty are desirable features of a good tax system. If these criteria are not met, taxpayers will find it difficult to comply with the tax laws and to apply them to their specific circumstances.⁴⁷ 'Provide certainty' is making sure that customers know what they have to do and how they should do it. One aspect that is incredibly important to customers is that they have confidence knowing what they have filed is correct. Inland Revenue compliance model design staff listened to some of the call centre calls and calls

⁴⁵ See, eg, Inland Revenue, New Zealand Government, *Introduction to Business Videos* (30 June 2015) <<http://www.ird.govt.nz/help/demo/intro-bus-vids>>.

⁴⁶ Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776) ch 2, part 2, 892.

⁴⁷ Stephen Barkoczy, *Foundations of Taxation Law* (CCH Australia, 2013) [1.7].

made to Inland Revenue Complaints Management.⁴⁸ A large volume of calls came from customers who just wanted to know if what they had filed or prepared was correct.⁴⁹ Inland Revenue want to provide knowledge certainty to customers as well as process certainty, confirming that returns have been filed or payments have been received. Inland Revenue will confirm the accuracy of a tax or social policy position where appropriate.

4 *Influencing norms*

There had been considerable research into how the determinant 'attitude' affects behaviour.⁵⁰ Psychologists define attitudes as a learned tendency to evaluate things in a certain way.⁵¹ This can include evaluations of a particular object, person, thing, or event. Attitudes are often the result of experience or upbringing, and they can have a powerful influence over behaviour. Inland Revenue consider 'attitude' is an overrated determinant of behaviour.⁵² The Braithwaite Compliance Model was an attitude-based model where the application would be to first look at the BISEP, determine the factors that make up a customer's attitudes, and then consider the Inland Revenue response. As conceptualised by Ajzen's 1991 theory of planned behaviour, behaviour is only partly predicted by attitudes.⁵³ Braithwaite states that attitudes and behaviour need to be treated as separate dimensions with some relationship to each other.⁵⁴

Fishbein and Ajzen perceive attitudes as an individual's disposition to respond favourably or unfavourably to an object, person, institution or event, or to any discernible aspect of the individual's world.⁵⁵

The OECD Small/Medium Enterprise (SME) Compliance Subgroup⁵⁶ undertook research into the role of norms and tax compliance behaviour. They recognised that influencing taxpayer norms is not an activity in which most revenue bodies have a great deal of experience, instead tending to focus on short-term, output-driven indicators of performance. 'Influencing norms' is one of the five 'Principles' in the new circular compliance model and was not specifically shown in the Braithwaite Compliance Model. Inland Revenue have stated that everything they do influences norms and Inland Revenue staff must understand the importance of their role in this respect. There is an idea that influencing norms is all about marketing but every contact Inland Revenue has with customers will influence norms.

It is also not just about what Inland Revenue do overtly – for example, through media campaigns aimed at tradespeople who perform undeclared cash jobs – but it comes from everything Inland Revenue do: the publications they send out, the way they design the

⁴⁸ Interview with Inland Revenue senior staff member (Wellington, 9 February 2017).

⁴⁹ Ibid.

⁵⁰ Erich Kirchler, *The Economic Psychology of Tax Behavior* (Cambridge University Press, 2007) 49.

⁵¹ Kendra Cherry, 'Attitudes and Behavior in Psychology', *verywellmind* (online), 26 April 2018 <<http://www.verywellmind.com/attitudes-how-they-form-change-shape-behavior-2795897>>.

⁵² Interview with Inland Revenue senior staff member (Wellington, 9 February 2017).

⁵³ Kirchler, above n 50, 49.

⁵⁴ Ibid 57.

⁵⁵ M Fishbein and I Ajzen, *Belief, Attitude, Intention and Behaviour: An Introduction to Theory and Research* (Addison-Wesley, 1975), as cited in Kirchler, above n 50, 49.

⁵⁶ OECD, 'Forum on Tax Administration', above n 13.

website, the 'Making Tax Simpler' series of publications. All of those things will influence norms.

Norms can be of a personal, social, or societal nature. The way norms are operationalised and measured in research can at times heavily overlap with taxpayer's personality characteristics, value orientation, personal versus social norms and commitment to them, as well as societal norms, trust in institutions and cultural standards. Conceptualisations vary from internalised individual standards of what is correct behaviour, over awareness and acknowledgement of socially approved standards of correct behaviour, to societal and cultural standards resulting in imposing rules and laws.⁵⁷ Kirchler states that the lack of clearly distinctive measures makes it difficult to aggregate results from different investigations and to draw clear conclusions. It is, however, generally assumed that higher moral standards correlate positively with tax compliance, but the relationship is complex.⁵⁸

(a) Personal norms

A person's tax ethic is related to personality factors, such as moral reasoning, authoritarianism and Machiavellianism, egoism, norm dependency, and values.⁵⁹ Various studies have demonstrated the role of personal norms for taxpaying behaviour. Schwartz and Orleans⁶⁰ provided early experimental evidence that appeals to a taxpayer's personal conscience could increase their tax compliance.⁶¹ There are also a number of studies by way of survey showing that general honesty, ethical convictions concerning taxpaying, or the anticipation of experienced guilt due to non-compliance were significantly related to tax compliance.⁶² Studies on effects of personal taxpaying norms, ethics, and morality rarely ask for the origin of these personal norms. Personal tax norms are, to a large extent, based on the process of social learning and absorption from the environment and thus have a social basis.⁶³ Personal norms need not be understood as stable and enduring personality characteristics, but rather, because they are largely of a social nature, as depending on and varying with the groups and social norms to which one refers at any given point in time.⁶⁴ Studies that test and thus control for the effects of personal norms may underestimate the role of social norms for tax compliance.⁶⁵

(b) Social norms

There is evidence that social norms impact on taxpaying behaviour. The OECD SME Compliance Subgroup holds the view that influencing social norms is one of the most effective ways of ensuring a community pays its required taxes. Social norms are defined as representing a pattern of behaviour that is judged in a similar way by relevant others

⁵⁷ Kirchler, above n 50, 59.

⁵⁸ Ibid.

⁵⁹ See *ibid* for further discussion.

⁶⁰ R Schwartz and S Orleans, 'On Legal Sanctions' (1967) 34 *University of Chicago Law Review* 274.

⁶¹ See also Marsha Blumenthal, Charles W Christian and Joel Slemrod, 'Do Normative Appeals Affect Tax Compliance? Evidence from a Controlled Experiment in Minnesota' (2001) 54(1) *National Tax Journal* 125.

⁶² Wenzel, above n 8, 214.

⁶³ Ibid.

⁶⁴ Ibid.

⁶⁵ Ibid.

and therefore is sustained by social approval or disapproval.⁶⁶ Taxpayers who perceive others as behaving according to socially accepted rules and who communicate with others about appropriate behaviour will adopt the socially shared norms and behave appropriately. If the reference group signals that non-compliance will be tolerated, then compliance will decrease.⁶⁷ A number of studies found that people with more non-compliant attitudes or behaviours perceived tax non-compliance to be more prevalent among people known to them.⁶⁸ The direction of causality underlying this finding is ambiguous.⁶⁹ The findings seem more consistent with taxpayers' perceptions of tax compliance among friends and people known to them, but there have been negative findings for the perceived prevalence of tax non-compliance among taxpayers in general.⁷⁰ Peer influence was recognised in the seminal work of Jackson and Milliron.⁷¹ Wenzel concludes that this would suggest that social norms are not a promising channel for regulation attempts, because campaigns could hardly address the norms of each taxpayer's more immediate peer groups, while broader societal norms could be targeted but seem less relevant to people. Social norms do not exist in an unstructured social field, rather others' beliefs and behaviours become normative when people refer to these others as a relevant reference group. Wenzel considered that a better appreciation of the role of social norms requires an understanding of how people structure their social field, whereby they consider some social norms as relevant to themselves while they reject other social norms. Wenzel concludes that we need to recognise the significance of social norms even where they become an invisible part of our personal ethical views. The simple polarity between personal and social norms of tax compliance needs to be overcome and the process whereby external social norms become part of a person's own norms and values should be addressed.

Taylor argued that social identity is an important factor and that attitudes and fairness perceptions depend on the group with which a person identifies (eg, friends, occupational group or the nation).⁷² Taylor suggests that identification at the superordinate level (eg, the nation) is more relevant than identification at the subgroup level (eg, occupational group). From this Taylor concludes that communication of behaviour and, thus, social norms, should focus on the superordinate level of identification. Kirchler states that by combining Taylor's and Wenzel's arguments, tax authorities should communicate social norms on the collective level, which may enhance a feeling of civic duty as a societal norm that is likely to enforce compliance.⁷³

Kirchler concludes with the statement by Taylor that:

the appeal to civic virtue is associated with a qualitative shift in self-perception from 'me' to 'us', a corresponding shift in who is included in the frame of reference, and a

⁶⁶ James Alm, Gary H McClelland and William D Schulze, 'Changing the Social Norm of Tax Compliance by Voting' (1999) 52(2) *Kyklos* 141.

⁶⁷ Kirchler, above n 50, 65.

⁶⁸ Wenzel, above n 8, 215.

⁶⁹ *Ibid.*

⁷⁰ *Ibid.*

⁷¹ Jackson and Milliron, above n 3, 136.

⁷² N Taylor, 'Understanding Taxpayer Attitudes through Understanding Taxpayer Identities' in Valerie Braithwaite (ed), *Taxing Democracy: Understanding Tax Avoidance and Evasion* (Ashgate, 2003) 71.

⁷³ Kirchler, above n 50, 70.

corresponding decrease in personal self-interest and more concern about outcomes for all.⁷⁴

(c) Societal norms

Norms are conceived as behaviour standards on three levels: the individual; the social; and the collective. On the individual level, norms define internalised standards of how to behave. On the social level, norms determine the behaviour of a social group (for example, friends, acquaintances and vocational group), based on shared standards. On a collective or national level, norms become cultural standards, often mirrored in the actual law.⁷⁵ On the cultural level, norms have been addressed mainly under the terms tax morale⁷⁶ and civic duty, and also under the term cultural norms.⁷⁷ Research on tax compliance has focused on personal ethics and subjective perception of behavioural habits in taxpayers' reference groups.⁷⁸ Kirchler writes that cultural norms and societal institutions are perceived as important in determining tax compliance and suggest that the success of taxes depends on cooperation.⁷⁹

5 Understand and involve the customer and stakeholder

This key principle is about understanding the customer and their environment by way of using data and research, and 'involving' refers to how Inland Revenue want to use a co-design approach – part of their drive to be more customer-centric. It recognises that Inland Revenue must actually talk to customers and the people around them. Inland Revenue state they seek to understand the customer's needs more and can design solutions that will actually work for them. It also shows how Inland Revenue can work with others to facilitate compliance. Further, it is part of creating a more cohesive and connected public service. It also involves Inland Revenue working with industry bodies such as Chartered Accountants Australia and New Zealand (CAANZ), CPA Australia, the Bankers Association and a wide range of people that can help Inland Revenue in facilitating compliance.

With regard to data analytics and the Business Transformation of Inland Revenue,⁸⁰ this should improve the ability for Inland Revenue to analyse information more effectively and use that data to shape what they do. It can significantly contribute to Inland Revenue's understanding of their customers and shape how Inland Revenue design their systems based on the increased understanding of customers and their behaviour.

⁷⁴ Ibid.

⁷⁵ Kirchler, above n 50, 71.

⁷⁶ M E Kornhauser, 'Tax Morale Approach to Compliance: Recommendations for the IRS' (2007) 8(6) *Florida Tax Review* 599. See also J Alm and B Torgler, 'Culture Differences and Tax Morale in the United States and in Europe' (2006) 27(2) *Journal of Economic Psychology* 224.

⁷⁷ Kirchler, above n 50, 71.

⁷⁸ Ibid.

⁷⁹ Ibid.

⁸⁰ Business Transformation is a multi-stage transformation of Inland Revenue. By 2021 it will modernise Inland Revenue's tax systems. It involves streamlining processes, policies, and online services. For further information on Business Transformation, see Inland Revenue, New Zealand Government, *Our Business Transformation Programme* (29 January 2018) <<http://www.ird.govt.nz/transformation/bt-programme/bt-programme-section-contents.html>>.

Understanding on an individual level of the motivation to pay taxes is a question often considered by researchers.⁸¹ Motivation as an element of behaviour can change over time. People's desire to comply and actually follow through can vary at different points in their life. It could be quite different between taxes/payments such as Child Support and Student Loan. Many customers are more compliant in relation to Child Support but there are also some who think their Child Support deductions are inherently unfair. Anecdotally individual cases within Inland Revenue show that people have been very motivated to pay their Child Support because they see that as benefitting their child, and less motivated on other taxes or social policy obligations.

Does the new circular compliance model capture societal differences amongst different taxpayers? With the 'Customer' in the centre of the new model this includes understanding of their environment, which could be religious, industry, whānau⁸² and so forth.

The circular compliance model should be a model to apply to all taxpayers, including large corporates. Inland Revenue already works closely with larger taxpayers in an ongoing risk review relationship. Many New Zealand customers are small to medium (SME) enterprises.⁸³ To seek to understand and involve the SME more is a great sentiment, but in practice, how do Inland Revenue measure this in a tangible way.

B The 'Activity Wheel'

The final wheel of the model is the 'Activity Wheel'. It has seven key approaches (which are not the only ones) that can be used to implement strategy for a customer or a customer group. The approaches are: Enforce, Educate, Design, Legislate, Collaborate, Analyse, and Service. The 'wheel' was strictly not necessary for the circular compliance model to work but when Inland Revenue ran user testing with front line staff before the model was finalised literally all of those using the model in testing indicated that they wanted the 'Activity Wheel' to remain because it gave them direct visibility between their role and the circular compliance model. It actually helped reinforce the fact that everyone in the organisation has a role to play in facilitating compliance. In many respects the 'Activity Wheel' is very important as it sets in motion the action to be taken by Inland Revenue.

⁸¹ M McKerchar, 'Why Do Taxpayer's Comply? Past Lessons and Future Directions in Developing a Model of Compliance Behaviour' (2001) 16 *Australian Tax Forum* 99–137.

⁸² An extended family or community of related families who live together in the same area. The primary economic unit of traditional Māori society. In the modern context the term is sometimes used to include friends who may not have any kinship ties to other members.

⁸³ While there are various definitions for SMEs, Inland Revenue define SMEs in New Zealand as enterprises that 'have an annual turnover more than \$30,000 or PAYE deductions more than \$4,000 and an annual turnover less than \$80 million and employ less than 50 employees'. Inland Revenue, New Zealand Government, *Better for Customers: SME's Compliance Costs in 2016* (November 2016) 19. Large enterprises are defined by Inland Revenue as 'A non-individual entity which by itself or as a part of a business group has an annual turnover exceeding \$100 million (calculated based on GST101 returns)'. Inland Revenue, New Zealand Government, *Registered Customers by Group 2008 to 2017* (27 November 2017) <<http://www.ird.govt.nz/aboutir/external-stats/customers/reg-by-customer-group>>.

1 *Layout and components of the wheel*

The Western world reading patterns are from top to bottom and left to right. 'Enforce' is fixed at the top left with someone outside of Inland Revenue perhaps thinking that 'Enforce' was shown as an 'eleventh hour' response. Enforcement is very important as it actually helps with 'influencing norms'. Enforcement is useful for compliant taxpayers because it reassures them that, if they are 'doing the right thing', Inland Revenue is going to make it fair by responding to the people who are not doing the right thing. It does have a deterrent effect for some customers but actually it is mainly about reassuring the vast majority of taxpayers who are compliant that actually the system is fair.⁸⁴ Briefly, 'Enforce' is the law, 'Educate' is trying to inform taxpayers more. An example of this would be by way of guides but also Community Compliance Officers who can sit down with a customer and show them the 'how'. They will talk to the customer about a process. 'Design' refers to the Inland Revenue Service Design and Implementation staff designing the processes and systems. When a legislative change comes in these staff will help develop the processes and systems to integrate the change.

'Legislate' refers to the work of policy, 'Collaborate' refers to a lot of people within Inland Revenue, including the Software Development Liaison Unit, people working directly with industry groups and the Large Enterprises group. 'Analyse' refers to the Insight and Intelligence Unit who develop the profiles of customers, and the 'Service' staff are the Customer Service Officers.

2 *No 'road show'*

A lot of communication material was released within Inland Revenue around the circular compliance model upon its introduction. Inland Revenue set up a compliance intranet site, which contains a lot of resource material, and developed an E-Learning module. A digital version of the model was developed and is available on the intranet.

An Inland Revenue team 'conversation guide' was also developed for use in teams where it could either use a scenario from one of their own cases or environment, or use several pre-set scenarios that had been developed.

A staff member can interactively apply the circular compliance model to different scenarios and customer groups. Users would have to work through their 'Capability, Motivation and Opportunity' to determine which of the principles apply and which activities apply to the 'Customer' in the given scenario.

Scenarios were chosen for an Investigations, Large Enterprises, Hidden Economy, Design, Call Centre and Collections environment. Scenarios are for each of the six customer groups defined on the model (individual, sole trader, micro business, etc). Videos were produced as well as featured news articles and posters. In addition, when being integrated into Inland Revenue, a staff competition was held where staff answered several questions and went into a prize draw.

There was a deliberate decision not to have a 'roadshow' to promote the new compliance model to practitioners and customers. Customers do not need to know all the law in relation to tax and likewise they did not need to necessarily know what Inland Revenue's

⁸⁴ Interview with Inland Revenue senior staff member (Wellington, 9 February 2017).

approach was to compliance. By comparison, the Braithwaite Compliance Model was heavily communicated when introduced. Many customers and tax agents really were not that interested in understanding the compliance model because they thought that Inland Revenue will 'do what they do' anyway. The circular compliance model and Inland Revenue's compliance focus is not secret. If a person wants to find out about the new compliance model and compliance focus they can do so if they wish.

V DISCUSSION, LIMITATIONS AND CONCLUSION

It is self-evident that judgement pervades human experience.⁸⁵ Inland Revenue consider the person best placed to make a decision in relation to a customer is the front-line staff member. Internal delegations have been extended to match this change. Inland Revenue take the view that staff are trained and trusted in relation to interacting with their customer base. There has been extensive investment to train staff with a range of tools and scenarios available on the Inland Revenue intranet to assist staff develop their skills and judgement in relation to a customer. The customer under the new circular compliance model is considered from a whole of life viewpoint, from birth to death, and everything in between.

Although the BISEP actually had the customer in its centre, it appears that the BISEP component of the Braithwaite Compliance Model could sometimes be ignored by Inland Revenue staff. The focus was more on the 'pyramid' side of the model with staff predominantly identifying taxpayers at the top (have decided not to comply and therefore use the full force of the law) or the bottom part of the pyramid (willing to do the right thing, therefore let's make it easy). Inland Revenue staff were less likely to see customers more in the middle two sections of the model. The 'Customer' is in the centre of the new compliance model and their characteristics will be assessed by an Inland Revenue staff member. The new compliance model is a 'thinking tool', not a prescriptive platform. The basis of the model is flexibility, the goal being a model to help Inland Revenue staff understand their customers and allow them to work proactively and tailor approaches to make compliance easier.

Inland Revenue staff have to apply the law fairly and impartially. Section 6 of the *Tax Administration Act 1994* refers to the responsibilities on Ministers and officials to protect the integrity of the tax system. Section 6(2) defines the 'integrity of the tax system' to include taxpayer perceptions of that integrity and the rights of taxpayers to have their liability determined fairly, impartially, and according to the law. The onus is on the tax administrators to perform in a manner that upholds the integrity of the tax system.

New Zealand is a multicultural country, and the diversity is reflected in the taxpayer's backgrounds. Likewise, Inland Revenue staff are from diverse backgrounds and care must be taken in relation to unconscious bias. Although emotions and perception may have basic similarities across cultures there are significant differences as well.⁸⁶ The

⁸⁵ Thomas Gilovich, Dale Griffin and Daniel Kahneman (eds), *Heuristics and Biases: The Psychology of Intuitive Judgment* (Cambridge University Press, 2002).

⁸⁶ Interpersonal accuracy in relation to culture and ethnicity: Hillary Anger Elfenbein and Elizabeth A Luckman, 'Interpersonal Accuracy in Relation to Culture and Ethnicity' in Judith A Hall, Marianne Schmid

boundaries between cultures are becoming more porous as interaction between people across distinct cultures is increasingly common and necessary. The ability to read non-verbal cues is an important element of social interaction.⁸⁷

The influence of the OECD can be seen in the new Inland Revenue circular compliance model. In 2010 the OECD Forum on Tax Administration (FTA) report 'Understanding and Influencing Taxpayers' Compliance Behaviour' was building on the compliance pyramid by introducing a model of five drivers of taxpayer behaviour: economy, norms, deterrence, opportunity and fairness. The view was that while enforcement responses would always be required for the deliberately non-compliant, a supporting, educating or enabling approach is likely to be more efficient and effective for taxpayers that want to comply. It is through a better understanding of taxpayer behaviour that revenue authorities can make more effective use of their resources to develop strategies that will have a sustainable impact on taxpayer compliance.⁸⁸

A 2012 report released by the OECD FTA entitled 'Right from the Start: Influencing the Compliance Environment of Small and Medium Enterprises'⁸⁹ stated that 'prevention and cure are, in this way, complementary aspects of any balanced regulatory strategy'. The Braithwaite Compliance Model did not emphasise prevention. Inland Revenue recognise the importance of prevention and the benefits it brings.

There are several limitations with this paper. First, only one senior Inland Revenue staff member was interviewed to gather background. However, the person interviewed was active in the development of the current Inland Revenue compliance strategy. This paper has sought to provide an overview of the new circular compliance model. How is the change in compliance model assessed? For an effect to be attributed, there must be a clear counterfactual. Clearly a comparison between the two compliance models and their effectiveness would not produce a usable result.

Inland Revenue did not seek external feedback in relation to the proposed new compliance model in its early stage of development. Unlike a discussion document that may impact on tax policy or procedure, the circular compliance model is a thinking tool for Inland Revenue staff, with consultation sought and feedback provided internally. A feasibility study of the proposed new circular model was not conducted.

No taxpayers were interviewed in this paper, to add a so-called balanced view. In part this is due to many taxpayers not even being aware that Inland Revenue have a compliance model, let alone aware of the change to a new circular model. The circular compliance model was groundbreaking in a tax context by being adopted and modified by Inland Revenue for their purposes, therefore no comparisons have been made with overseas jurisdictions that may use other compliance models.

In reality the new compliance model is a thinking tool, designed to get all staff, especially the front-line staff, to consider the customer in the centre of their analysis. Inland Revenue consider they have moved from being a tax collector and enforcement

Mast and Tessa V West (eds), *The Social Psychology of Perceiving Others Accurately* (Cambridge University Press, 2016).

⁸⁷ Ibid 344.

⁸⁸ OECD, 'Forum on Tax Administration', above n 13.

⁸⁹ OECD, 'Right from the Start', above n 13.

organisation to more of a tax and social policy organisation. Inland Revenue's social policy role and the new compliance model reflects this wider ambit of 'Customer'.

Inland Revenue have moved like most revenue authorities to a position of having the 'wind and sun' aspects in their tax administration environment. The 'sun' of understanding the taxpayer is a proactive action in the modern tax administration environment. Does the new circular compliance model really make a difference to Inland Revenue or their compliance activities? Connecting with the customer to understand them should be a part of any revenue compliance strategy. The new circular model is a pictorial representation of a compliance strategy. Understanding the customer, designing a customer experience where it is easy to comply, influencing norms and focusing on building compliance right from the start. It is primarily a thinking tool.

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