Why do small business taxpayers stay with their practitioners? Trust, competence and aggressive advice

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Abstract

Self report survey data were used to examine the experiences of 181 small business taxpayers with their tax practitioners. Commitment to tax practitioners, defined in terms of satisfaction and retention of services, was high among respondents. Using hierarchical regression modelling, commitment was associated with using a local certified public accountant, having a letter of engagement, receiving cautious, competent and aggressive advice (once expectations were controlled), and believing the tax practitioner trustworthy. Trust was related to receiving competent and cautious advice. Receiving aggressive advice contributed to commitment independently of the highly endorsed persona of being professionally competent and trustworthy.

Keywords

small business taxpayers, tax practitioners, aggressive advice, trust, commitment

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Introduction

Small business taxpayers entertain a set of highly ambivalent attitudes toward paying tax and remitting taxes to government. They dislike big government and report more conflict with tax authorities than other taxpayers (Ahmed and Braithwaite, 2005). Compliance costs are widely regarded as being high for small business (Chittenden et al., 2003; Noble, 2000). Collecting taxes from small business owners relies on self-regulation. Additional record keeping and reporting is burdensome. Small business owners are more likely to experience taxation as a painful loss (Kamleitner et al., 2012).

Add to this a flair for entrepreneurship, a penchant for informality, and a desire to run their businesses free from outside interference (Dalley and Hamilton, 2000), it is not surprising that small business owners express distaste for taxation (Kirchler, 1999). Opportunity to act on their distaste by evading tax is high in small businesses (Joulfaian and Rider, 1998; Kamleitner et al., 2012). Small business owners can avoid third party oversight and paper trails, with a high volume of financial transactions that include cash payments. At the same time, small business taxpayers have as strong a need to obey the law as anyone else. As a group they pride themselves on being law-abiding citizens (Ahmed and Braithwaite, 2005; Taxpayer Advocate Service, 2012).

Negative attitudes to taxation and ambivalence about paying tax, combined with the complexity of tax law and uncertainty, lead many small business owners to seek the services of a tax practitioner, accountant, a business or tax adviser (Blackburn et al., 2010; Webley et al., 2002). Research suggests that small businesses seek advice on tax matters because they want to file an accurate return, while also saving as much tax as they can through legal channels (Hite et al., 1992). In this way they are like the vast majority of taxpayers (Collins et al., 1990; Devos, 2012; Tan, 1999). Unlike most taxpayers, however, business taxpayers and their tax advisers can be highly interdependent. Tax advisers can become business confidants (Blackburn et al., 2010), and over time can assume significant influence over the reputation and financial viability of a small business. Due to the role that tax advisers play in the lives of small business owners and their business success, it becomes important to ask the question: What are the characteristics that are associated with the commitment of small business owners to their tax practitioner?

Factors influencing commitment to a tax practitioner

Research in the marketing domain has indicated that there is a direct link between customer satisfaction (and service quality) and future retention (or commitment/ loyalty) of service providers, and that satisfaction with services is related to confirmation or disconfirmation of expectations (Brown and Swartz, 1989; Fullerton and Taylor, 2002; Garbarino and Johnson, 1999).

In the tax literature, there are some indications that this may also be the case. Taxpayers are reported to have unmet expectations when it comes to seeking advice from a tax adviser in order to save tax (Chang and Bird, 1993; Christensen, 1992). Taxpayers have reported willingness to change tax advisers if they are not given the advice they expect (Hite and McGill, 1992). Niemirowski et al. (2003) found that 47% of the tax advisers they surveyed had clients who had threatened to take their business elsewhere. The association between unmet expectations and intention to change advisers appears to be a plausible thesis in the small business tax context.

Cautious and aggressive advice

Consistent with the proposition that taxpayers will change their tax advisers if expectations are unmet is the segmentation of the tax practitioner market in terms of levels of aggressive advice. Increasingly tax practitioners are signalling special expertise to capture their market share (Braithwaite, 2005; Karlinsky and Bankman, 2002). Research suggests that there are practitioners and taxpayers who seek out each other for basic no-fuss, no-risk tax advice, and practitioners and taxpayers who seek out each other in relation to aggressive advice. In between are a group of tax practitioners whose advice might be called “contingent”, meaning that the tax practitioner is responsive to the tax environment both in terms of what clients want and what tax law and guidance protocols from tax authorities allow (Wurth, 2013; also see Spilker, Worsham and Prawitt, 1999 for the importance of context).

Research has shown that the majority of taxpayers who seek the assistance of a tax practitioner express a preference for conservative advice (Hite and McGill, 1992; Sakurai and Braithwaite, 2003; Tan, 1999). That said, there are suggestions in the literature that taxpayers who normally prefer conservative advice may defer to the expert opinion of a more aggressive adviser (Murphy, 2002; Tan, 1999). While some taxpayers give instructions as to how aggressive or cautious they want their practitioner to be, others do not take control of the situation. Some expect their practitioner to know what they want without telling them, and others leave tax matters to their practitioner to sort out for them (Ashby and Webley, 2008; Tan, 2011). The absence of clear communication may explain some of the disappointment taxpayers express in relation to their tax practitioners.

Communication complications around type of advice

Disappointment with advice may arise also when conditions around tax issues change. Tax practitioners try to match the expectations of their clients, offering aggressive advice to aggressive clients and conservative advice to conservative clients (Cloyd, 1995; LaRue and Reckers, 1989; Schisler, 1994). That said, tax practitioner behaviour is not always so unwavering across tax issues. Tax practitioners are more likely to offer aggressive advice when tax law is ambiguous. When the law is unambiguous, tax practitioners lean more toward an enforcer role rather than an exploiter role (Klepper et al., 1991). In other words, tax practitioners assert their professional judgment as to what is legally defensible.

These modes of adaptation by tax practitioners bring risks around expectations from clients, particularly if practitioners fail to explain the reasons behind a switch from exploiter to enforcer roles. Taxpayers who experience the exploiter role on one occasion may, unrealistically, come to expect such advice across situations, not understanding the fine discriminations that the tax practitioner is making in practising his/her craft. This may explain why some taxpayers express disappointment with their tax practitioner's service and want a change, even if the advice being given is protecting them from penalties and/or audit.

Professional competence and trust

While there are arguments and evidence to support the proposition that taxpayers will shop around for the advice that they want, there are also arguments for why clients might stay with one practitioner. As in other professional relationships, taxpayers solicit the advice of tax practitioners as experts on what are often complex tax matters (Brien, 1998; Frowe, 2005). They may not always defer to this expertise, but in general, taxpayers rely on their tax practitioners to do the right thing by them. Doing the right thing by taxpayers means being trustworthy. Trustworthiness is inferred from the degree to which a tax practitioner abides by a set of professional norms (Brien, 1998). Acting with competence, being reliable and dependable, and explaining options clearly are all professional norms. They are behaviours that tax practitioners demonstrate to taxpayers in order to gain their trust. Competence and trust are at the heart of what professionals offer to clients (see Dyer and Ross, 2007; Gooderham et al., 2004 for small business context) and underpins the maintenance of their relationship (Blackburn et al., 2010). McAllister (1995) has produced evidence to show that trusting relationships are important for cooperation, and that demonstrating concern and care are a more important part of these relationships than task performance.

On occasion some taxpayers undoubtedly challenge their practitioners to find more ways to lower the tax they pay. But how practitioners respond is equally important for how taxpayers cope with unmet expectations. The work that tax practitioners do in dialogue with clients, educating, persuading and encouraging taxpayers to accept responsibility for their decisions, is significant (NAO, 2010; Tomasic and Pentony, 1991). If the taxpayer finds the message convincing and reassuring, grievance about unmet expectations will subside. The taxpayer acquiesces in the face of what they see as their tax practitioner's competence and professional experience: They trust their practitioner.

Business planning services and trust

The issue of professional trust has emerged as an important concept in the literature on business advisory services (Blackburn et al., 2010; Jarvis and Rigby, 2012). Offers to extend services beyond tax advice to include business management have been treated with caution by many small businesses. However, they are more likely to be open to such advice when they already have trust in their tax practitioner or accountant (Dyer and Ross, 2007; Gooderham et al., 2004; Jarvis and Rigby, 2012). Once a small business becomes reliant on an adviser for a cluster of services, commitment to that particular adviser may receive a considerable boost, above and beyond the trust factor. Changing advisers may prove more trouble than it is worth.

The present study

On the basis of this literature, this study postulates four hypotheses to explain why taxpayers commit to their tax practitioner:

Hypothesis 1 (Instrumental hypothesis): Experiences of aggressive or cautious advice, once expectations have been controlled statistically, will predict greater commitment.

Hypothesis 2 (Trust hypothesis): The experience of professional competence and trust in a tax practitioner will predict greater commitment.

Hypothesis 3 (Communication hypothesis): The use of written agreements to clarify the services offered by a tax practitioner will be associated with greater commitment.

Hypothesis 4 (Enmeshment hypothesis): Small businesses receiving business advice as well as tax advice will display greater commitment.

Method

Participants and procedure

The questions and sample used for this study were a subset of the data collected from a larger cross sectional survey of small and large businesses in New Zealand developed and administered by Tan (2009). The survey was conducted using a self-administered questionnaire, the Business Taxpayer Survey, to elicit business taxpayers' perceptions of tax and tax practitioners as well as demographic and background information on the respondent and their firm.

The sample of businesses was derived from two sources. A random sample of 1,400 business taxpayers' addresses was obtained from the New Zealand Yellow Pages business search service and a further 100 companies were randomly selected from the New Zealand Exchange (NZX). The survey was mailed to businesses. The questionnaire was addressed to the managers or business owners of the firms taken from the Yellow Pages. For the listed companies, it was addressed to the Chief Financial Controller[1]. One reminder letter with another copy of the questionnaire was sent three weeks after the first mailing.

Of the respondents, 222 came from the Yellow Pages sample and 40 from the NZX. The usable response rate was 21%, not high, but comparable to many other surveys carried out particularly in Australia and New Zealand (Hasseldine et al., 1994; Sandford and Hasseldine, 1992). Respondents were divided into two groups to check for non-response bias, as those who respond late are usually regarded as similar to non-respondents (Armstrong and Overton, 1977). As only a negligible number of variables used in the questionnaire showed a significant difference between early and late respondents, the data set is considered to not have any serious known response related problems.

A subset of this sample was used for this study of small businesses: businesses that reported having fewer than 20 full-time employees. In total, 181 businesses belonged in this category. The vast majority (97%) of businesses in New Zealand are regarded as small enterprises as they have less than 20 employees (Ministry of Business, Innovation and Employment, 2013).

INSERT TABLE 1 ABOUT HERE

A breakdown of the small business sample is provided in Table 1 in terms of the firm’s social-demographic characteristics and use of tax practitioners. Owners, directors and CEOs completed the survey in 83% of cases.

Seventy-eight percent of businesses employed a local or regional Chartered Accountancy (CA) firm to help them with their tax work and about 16% used a ‘Big 4’ CA firm.[2] The remainder also sought tax advice outside their business, but instead relied on the services of non-chartered accountants (3%) or law firms (3%).

Fifty percent of the businesses had an annual turnover of \$500,000 NZ (about \$426,550 US) or less. The majority of businesses used their tax practitioner’s firms for tax purposes only (66%). A further 23% made use of business advisory services as well as tax advice. Previous research suggested that small businesses limited their contact with advisors, possibly due to costs of time and money (Tan, 1997). While this still appears to be the case for most firms, the number using business advisory services is not insignificant.

The period of time over which a practitioner’s services had been used was considered an important indicator of turnover of clients among tax practitioners. The data revealed a considerable range in the duration of engagement of businesses with their tax practitioner. Forty-two percent had been with the same practitioner for 5 years or less, 26% for 6-10 years, 24% for 11-20 years, and 7% for over 20 years. Most had a reasonably stable relationship with their tax practitioner, with 85% reporting no change in the past 3 years.

In terms of reliance on the tax practitioner for expertise and advice, 73% of respondents reported having at least a medium amount of tax knowledge themselves and 27% described their own knowledge as low or very low. A significant number of small business taxpayers were willing to question the advice of their tax practitioner: 61% said that occasionally or frequently they expressed disappointment at the advice, 95% would discuss alternatives with their tax practitioner, and 53% would seek another opinion.

Almost half of the respondents had had some involvement with the New Zealand tax authority (the Inland Revenue Department (IRD)): 27% had had one audit and 15% had had more than one audit. A sizeable fifty-eight percent had never been audited by the IRD.

An engagement letter from the tax practitioners' firm was reported as being held by 55% of small business taxpayers. The letter specified the work to be performed, the security and confidentiality of private and personal information, and the cost of the tax services.

Measures

Expectations and experiences of tax advice and service. Based on previous work (Braithwaite, 2000; Chang and Bird, 1993; Christensen, 1992; Collins et al., 1990; Hite et al., 1992), a list of 17 items was compiled of services and advice on taxation offered by tax practitioners and expected by their clients. The items covered professional competence, and judgment around risk and opportunity.[3] Respondents used a scale from 1 = "strongly disagree" to 5 = "strongly agree" to rate each of these 17 items, first in terms of what taxpayers expected, and second in terms of what taxpayers experienced.

The 17 items were reduced to a set of 10 items that at face value represented three concepts:[4] (1) caution in giving tax advice; (2) readiness to give aggressive advice; and (3) competence in explaining and providing clear tax advice. Responses to these 10 items in terms of expectations were factor analysed using a principal components analysis with varimax rotation.[5] The purpose was to produce a smaller set of relatively independent concepts that could be used in a multiple regression analysis. The same procedure was used with responses to the 10 items rated in terms of taxpayers' experiences.

The results for the expectation ratings revealed three factors that corresponded to the concepts of caution in giving tax advice, readiness to give aggressive advice, and competence in explaining and providing tax advice. This third factor focuses on being informative, in the sense of providing small business taxpayers with knowledge and understanding that they did not have previously. The loadings of the 10 items on these three factors are presented in Table 2. The means for the individual items and their standard deviations also appear in Table 2. Means for items ranged from 3.3 to 4.8 on a five-point scale. It is of note that expectations were very high that tax practitioners would prove themselves capable of explaining complexities, offering solutions and providing clarity. Expectations of being given aggressive advice were lower, sitting just above the midpoint of the 1-5 "strongly disagree" to "strongly agree" scale.

When responses to the 10 items in terms of experience were examined using a prinicipal components factor analysis with a varimax rotation, a different factor solution emerged. The results appear in Table 3. Two factors emerged, one representing basic competence and cautious advice, the other representing aggressive advice. The means and standard deviations of the experience items are provided in Table 3. Experience ratings tended to be lower than expectation ratings, but the general pattern was similar with competence highest and aggressive advice lowest. That said, it is of note that the range in the experience means is more restricted (3.1 to 4.2).

INSERT TABLES 2 AND 3 AROUND HERE

The factor analyses in Tables 2 and 3 were used to develop scales to represent: (1) expectations of cautious advice; (2) expectations of aggressive advice; (3) expectations of competence; (4) experience of cautious advice and competence; and (5) experience of aggressive advice. Scales were formed from the items that defined the factor, that is, the items that loaded more than .40 on the factor. Responses to the set of items defining each factor were averaged to give a mean score for each business taxpayer on the three expectation concepts (cautious advice, aggressive advice and competence) and the two experience measures (cautious advice and competence, and aggressive advice).

The means and standard deviations for these five scales and their intercorrelations are provided in Table 4. Expectations for all kinds of advice and service were above the midpoint of the scale, suggesting high expectations of tax practitioners among their small business clients. Their experience ratings, while below expectation ratings, were nevertheless still positive, falling above the midpoint of the scale.

INSERT TABLE 4

Trust in practitioner. Taxpayers' trust in their practitioner was measured by using a 4-item scale, which was adapted from Braithwaite (2000). Participants were asked to indicate their agreement (on a rating scale from 1 = "strongly disagree" to 5 = "strongly agree") to the following statements: My tax practitioner (a) is open and honest with me in dealing with my firm's tax matters; (b) is a trustworthy person; (c) acts in the interest of my firm rather than his/her own interests; and (d) has high integrity. The scores were averaged to give a mean of 4.42 (SD = .59). The alpha reliability coefficient was .91.

Commitment to practitioner. Respondents were asked to indicate their level of agreement on a five-point disagree-agree scale with the following two statements: (a) Overall, I am satisfied with my tax practitioner's services; and (b) I will continue to use the same tax practitioner again for my firm next year. Commitment on these two measures was high. Only 14% expressed reservations about the service and only 10% were unsure about staying with the same practitioner. These measures were adapted from Christensen's (1992) survey questionnaire. Responses to the two items were highly correlated (r = .71, p < .001). As those with a high level of satisfaction were more likely to express willingness to retain their practitioners' services, the two items were summed and averaged to arrive at a single index with an alpha coefficient of .83 labelled commitment to a tax practitioner (M = 4.05; SD = .69).

Validation check. This study examines the expectations and experiences that correlate with commitment to a tax practitioner. Business taxpayers may or may not be aware of the connections uncovered through correlational and regression analyses. By the same token, it is highly likely that business taxpayers will have their own story of when a change in tax practitioners is warranted. With this in mind, small business taxpayers were asked under what conditions they were likely to change their tax practitioner. They responded on a four-point rating scale from not likely to definitely. Seventy-five percent said that it was very likely or definitely the case that they would change if they were treated in an unprofessional manner; 68% if the practitioner did not inform them of risks associated with the advice; 60% if the practitioner gave incorrect advice; and 48% if the tax practitioner seemed less confident than usual. Only 19% said that it was very likely or definite that they would change if the tax practitioner gave advice that was too conservative.

Results

The hypotheses were tested using point-biserial and Pearson product-moment correlation coefficients, one way analysis of variance, and hierarchical multiple regression analysis.

Bivariate analyses

Initially, the dependent variable, commitment, was correlated with the likelihood of respondents leaving their tax practitioner if the service was inadequate. These items were considered a validity check since they reflected a respondent's willingness to change tax practitioners, and therefore might be expected to correlate negatively with practitioner commitment. The validity check was supported for four of the five indicators, with the fifth, weakest indicator just failing to reach statistical significance. Commitment correlated least well with willingness to leave if the respondent received service that was unprofessional (r = -.127, p = .09). Significant negative correlations with commitment emerged for not being informed of risks associated with tax advice (r = -.150, p < .05), being given incorrect advice (r = -.166, p < .05), if their tax practitioner seemed less confident than usual (r = -.171, p < .05), and if the advice given was too conservative (r = -.176, p < .05).

For purposes of identifying appropriate control variables for the hierarchical multiple regression analysis, the dependent variable, commitment, was correlated with the following firm characteristics: (a) enterprises that changed their tax practitioner in last three years (scored yes = 1, no = 0); (b) enterprises with short, medium, long or very long term relationships with their tax practitioner (scored in 4 intervals (1-5 years = 1;6-10 years = 2; 10-20 years = 3; more than 20 years = 4)); (c) enterprises that used CAs from a Big 4 firm, or a CA from a local firm, or a non-chartered accountant, or lawyer (scored local/niche = 1, Big 4 = 0); (d) enterprises that sought business advisory services (BAS), other financial services, and only tax services from their practitioner's firm (scored BAS and other services = 1, tax only = 0); (e) enterprises that had never been audited by the IRD, or had been audited once, or at least twice (scored 0, 1, 2 respectively); and (f) tax knowledge (rated on a scale from very low = 1 to very high = 5).

Of these variables, only one was significant: whether or not the small business used one of the Big 4 Accounting Firms or whether they used a local CA, non-CA or lawyer. Commitment was lower for small businesses who had engaged the services of one of the Big 4 Accounting Firms and higher for those who had local or niche service providers ($r = .163$, $p < .05$). This variable will be used as a control variable in the regression analysis predicting commitment.

The correlational analysis looking at the relationship between the use of a suite of services beyond tax suggested that enmeshment with a service provider as specified in Hypothesis 4 was not associated with greater commitment to that provider for small businesses. As a further test, a one-way analysis of variance was carried out comparing three groups (Tax only, Tax + other financial services but not BAS, Tax + BAS) in terms of commitment to their practitioner. The means for the groups on commitment were highest for the BAS + Tax group (M = 4.21, SD = .70), second highest for the Tax only group (M = 4.02, SD = .68), and lowest for the Tax + other financial services but not BAS group (M = 3.81, SD = .70). The differences were not statistically significant: the F value for the analysis of variance was 2.295 ($p = .104$). A Least Squares Difference test on pairs of means showed a significant difference between the BAS group and the other financial services group ($p < .05$), but this did not work in favour of the hypothesis. There is no evidence that enmeshment in other services was associated with commitment. In other words Hypothesis 4 was not supported.

Support was found, however, for Hypothesis 3. Small business owners with an engagement letter were more likely to be committed to their tax practitioner (r = .213, p < .01).

Hierarchical multiple regression analysis

On the first step of a hierarchical multiple regression analysis, one background variable and one communication variable were added to the equation: (a) local or niche practitioner versus Big 4; and (b) use of an engagement letter. Both variables made a significant contribution to the variance accounted for in commitment. Commitment was higher when a local or niche practitioner was used and when an engagement letter was used.

INSERT TABLE 5 AROUND HERE

Next, the expectation variables were entered so that expectations were statistically controlled before experiences were entered into the model.

On the third step the experience variables of receiving cautious and competent advice, and receiving aggressive advice were included in the model. At this stage, two major changes occurred. Both kinds of experience contributed positively to explaining variation in commitment. Higher commitment was associated with the experience of cautious and competent advice, and with aggressive advice, after expectations had been controlled. When these experiential variables were included, the use of a local or niche practitioner weakened considerably as a predictor of commitment, suggesting common variance between this background variable and one of the experiential variables. The correlation matrix for the regression analysis showed that the variable that had the strongest correlation with using a local or niche provider was the experience of receiving cautious and competent advice (r = .261, p < .01). This suggests that local and niche practitioners, in general, provide to small businesses a more cautious and competent service, and this in turn, is associated with high commitment.

In the fourth and final step, trust in the tax practitioner was included in the model. Both use of an engagement letter and receiving aggressive advice remained significant as predictors in Model 4. Other significant loadings weakened as trust became a major contributor in the regression model. The explanation in Model 4 for the non-significance of experience of cautious and competent advice parallels the explanation for the non-significance of local and niche providers in Model 3. The experience of cautious and competent advice correlated most highly with receiving aggressive advice (r = .62, p < .001), but second most highly with trust (r = .59, p < .001) (see Table 4). When all three variables were in the regression equation, the individual contribution of the variable, the experience of cautious and competent advice, is likely to be dominated by the others, in particular, the new variable, trust.

The regression model presented in Table 5 provides support for both Hypotheses 1 and 2. Receiving services that were competent, cautious and aggressive for clients, once expectations were taken into account, was associated with stronger commitment to one's tax practitioner; thereby showing that instrumental, task oriented delivery of services matters. At the same time, the relational variable of trust played a very important role in the prediction of commitment. As expected from previous research, trust was related to professional competence, but it contributed above and beyond professional competence to show that the relationship established between the tax practitioner and the small business was relevant in its own right to retention of one's practitioner. These findings suggest that trust can contribute to commitment when other instrumental indicators around expectations of service are producing disappointing outcomes.

Discussion

This study of 181 small businesses in New Zealand reveals a sector that seeks tax advice primarily from local CA practitioners and has been cautious in embracing additional assistance such as business advisory services. These small business taxpayers were relatively knowledgeable about tax matters and most expected competent and cautious advice from their tax practitioner. Over half of the small businesses had been with their tax practitioner for more than 5 years and had a letter of engagement with their practitioner. Commitment to their tax practitioner was high, but over half expressed a willingness to change if they were not warned of the risks associated with tax advice or if they had been given incorrect tax advice.

Within this sample of small business taxpayers, four hypotheses were tested, three of which were supported. Hypothesis 1 captured instrumental reasons for retaining the services of a tax practitioner: receiving aggressive advice and receiving competent and cautious advice. While aggressive advice retained significance across models, competent and cautious advice lost its significance once trust was entered into the regression model. Competent and cautious advice was aligned with trust in respondents' minds, a coupling of concepts that has been noted by others (Brien, 1998; Frowe, 2005). Previous research also has shown how taxpayers can embrace both aggressive tax options and cautious advice simultaneously (Sakurai and Braithwaite, 2003). In the hands of a competent and trusted adviser, aggressive options are not so much risky as sophisticated and clever. Hypothesis 2 represented relational reasons for staying with a tax practitioner through the variable, trust, and was supported. The higher the trust, the stronger was the commitment to the tax practitioner. Hypothesis 3 was supported and recognised the importance of communication through engagement letters. Those small business taxpayers with engagement letters showed stronger commitment to their practitioner. Hypothesis 4 was not supported. Hypothesis 4 suggested that enmeshment in a suite of services including business advisory services would be associated with stronger commitment to a tax practitioner. This was not shown to be the case.

These results demonstrate the importance of both instrumental and relational factors in explaining commitment to a tax practitioner. The combination of trustworthiness and knowledge of how to aggressively minimize tax appeared to be a winning combination of attributes for tax practitioners seeking clients among this small business sector. The finding also explains how taxpayers can be genuinely shocked when tax authorities disallow claims filed through a tax practitioner. Small business taxpayers clearly like to minimize the tax they pay, but they feel secure in the professionalism of their practitioner. The finding also speaks to the logic behind tax authorities' warnings to taxpayers not to blindly follow tax practitioners offering them advice that is "too good to be true". If trust in the tax practitioner or adviser is not well founded, taxpayers can find themselves with substantial tax liabilities upon audit (for example, see Murphy, 2002) that may threaten the survival of their businesses.

The regression results provided interesting insights into the underpinnings of trust in a tax practitioner. Consistent with the literature (Brien, 1998; Frowe, 2005), trust was linked closely with perceptions of professional competence, which included caution. Professional competence in this setting meant that practitioners were clear about the law, what was possible for reducing taxes and what was not, and were able to explain to their clients in easy to understand language about their tax situation. Trust was most commonly found between small business and local or niche advisers as opposed to Big 4 accountancy firms. This finding sits comfortably alongside the recent study of Marshall et al. (2010), which found that in Australia, the more aggressive tax advice came from the Big 4 tax practitioners. It is an interesting question whether the brand of giving aggressive advice by firms, while attractive to some, puts off potential clients who prefer a more cautious approach. Of relevance in the regression analysis is that when client experiences were entered, the variable measuring use of a Big 4 CA rather than a local or niche practitioner became non-significant.

International research has repeatedly pointed to the importance of establishing trusting relationships with financial advisers if small businesses are to avail themselves of the services of business advisers who can improve the efficiency and productivity of their enterprises (Blackburn et al., 2010; Dyer and Ross, 2007; Gooderham et al., 2004; Jarvis and Rigby, 2012). The findings of this study suggest that in contexts where allegiances lie more strongly with local CAs than multinational accountancy firms, the growth of the small business sector may best be advanced through local initiatives to increase the skill set of local practitioners (de Clercq, Thongpapanl, and Voronov, 2014). Local practitioners may be more able to bridge the gap between professional advisers and small business through better local knowledge and thicker social networks which can carry the message of the added value of engaging with business advisory services (Sarapaivanich and Patterson, 2014).

The most intriguing finding to emerge from this study was the sustained importance of a letter of engagement in relation to commitment. Interpreting this finding is difficult because of issues of causality, but the intrigue lies in the fact that the contribution of this variable in the regression was not suppressed with the inclusion of trust. The engagement letter is not primarily a means of establishing trust; it contributes above and beyond trust to explaining commitment of small business taxpayers to their tax practitioner. Perhaps formalising the nature of the exchange means that small business taxpayers and their tax practitioners have an open and frank discussion about the nature of their relationship, including who will do what for whom. Clear communication may pave the way for commitment. On the other hand, the reverse may also be true. When a small business taxpayer is ready to make a commitment to a tax practitioner, only then are they prepared to sign an engagement letter that entails commitments on both sides. This study cannot disentangle these interpretations. Both at this point remain plausible, awaiting further investigation.

Limitations of the study

Limitations in the current study primarily relate to design and sample. The usual problems of paper and pencil surveys are present in this data set. The researchers do not know how much time or effort went into completing the survey, how reliable and valid the answers are, and whether the respondents had a vested interest in presenting their businesses in a particular way. In defence of the method, the results were generally consistent with other data available and answers to the open-ended questions suggested genuine engagement with the survey. In this context one caveat of which the reader should be mindful is that this study measures small business taxpayers' perceptions of the performance of tax practitioners: We do not know if practitioners actually did offer cautious, competent or aggressive advice. Results have to be interpreted within a self-reporting framework.

One significant methodological limitation is the cross-sectional nature of the data. Understanding the role of engagement letters requires a design which allows for measurement at different time points with the letter of engagement becoming an intervention, possibly in a random control trial.

Also deserving of criticism is the sample of business taxpayers recruited for the study. The sample was drawn primarily from the Yellow Pages and as such was not representative of industry groups nor presumably of new businesses that may not have registered for inclusion in this directory. There is a certain homogeneity in the sample that may have restricted research opportunities, particularly in relation to being the recipient of aggressive, cautious and professionally competent advice. In larger, more varied samples with businesses and tax practitioners, it has been easier to differentiate these three dimensions of skills that tax practitioners offer to their clients (Tan, 2009; Wurth, 2013). Of particular interest in this regard would have been a more varied practitioner sample. The dominant group were identified as Chartered Accountants

(CAs). Few businesses reported using lawyers or non-CAs. The major accounting and tax professional associations in New Zealand (NZICA and ATAINZ)[6] and in their near-by neighbour, Australia (CPA Australia), have professional codes of ethics that recognise public interest as well as obligations towards clients. These may differ from the New Zealand Law Society's Rules of Conduct and Client Care delineating the ethical responsibilities of lawyers. Comparing these practitioner groups in future research, particularly given the findings of Marshall et al. (2010) in Australia, may provide interesting insights into the relative importance of giving aggressive and cautious advice. In the current sample, the correlation between different types of advice is high, placing limits on understanding how and when these experiences conflict and co-exist.

Discussion of this problem gives rise to considering the value of the site of this study. New Zealand is a small tax jurisdiction dominated by small enterprises. Can the findings be generalised? Levels of trust (generally very high) may well be an artefact of this environment in which the study has been conducted. It does not follow from this assertion, however, that trust is not relevant to commitment to a tax practitioner in other jurisdictions. Other studies internationally underline the importance of trust in professional relationships (Blackburn et al., 2010). But it is conceivable that trust operates differently in different contexts. In a globalised world with multinational companies offering services in vastly different contexts, unpacking these differences and demonstrating that one size does not fit all has both academic and practical significance. In the context of this paper, trust had been cultivated and nurtured in a way that aligns it with cautious advice and accounting professionalism. In other contexts, however, where professional ethics are not strong and governance institutions are weaker, trust could be aligned just as easily with the provision of highly aggressive, if not illegal options for avoiding tax. How professional services evolve and compete for clients and how small businesses engage their services does not occur in a cultural vacuum. Context matters, and the strength of governance institutions to ensure high professional standards and lawful conduct is a necessary part of growing small businesses in a sustainable way.

Notes

[1] Or the person who makes or helps to make the tax decisions for the firm.

[2] The Big 4 CA firms were Deloitte, Ernst & Young, KPMG and Pricewaterhouse Coopers.

[3] An open-ended question allowed participants to indicate other expectations which were not on the list. Only two participants suggested other expectations they had of their tax practitioners, i.e. to 'do the job accurately and completely the first time' and to 'have after hours if advice is needed.'

[4] The seven items culled from the original set appear in the note below Table 2. The excluded items had ambiguous relationships with other items. Many were multi-factored or were poorly correlated with other items.

[5] All statistical analysis was performed using SPSS v. 20.

[6] i.e. New Zealand Institute of Chartered Accountants (NZICA) and Accountants and Tax Agents Institute of New Zealand (ATAINZ).

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Table 1. Profile of small businesses that took part in the Business Taxpayer Survey (n = 181)

	Frequency	%
Full time employees		
0	29	16.0
1- 5	91	50.3
6-19	61	33.7
	181	100.0
Position in firm		
Director	72	40.2
Owner-manager	70	39.1
CEO/CFO	7	3.9
Accountant	5	2.8
Financial Controller	11	6.1
Partner	9	5.0
Other	5	2.8
	179	100.0
Practitioners' affiliation		
Big 4 CA firm	28	15.6
A local or regional CA firm	141	78.3
A non CA firm	5	2.8
An attorney/law firm	5	2.8
	179	1000
Turnover		
Up to $40000	13	7.5
>40000-$100,000	18	10.3
>$100,000- $500,000	56	32.2
>$500000 - $1 million	26	14.9
>1 million-5 million	49	28.2
>5 million-$20 million	11	6.3
>$20 million - $50 million	1	.6
	174	100.0
Use of other services		
No other service used	119	65.7
Audit	11	6.1
Business advisory	41	22.7
Other services	5	2.8
Combination of the above	5	2.8
	181	100.0
No of years with current practitioner		
1-5	76	42.5
6-10	46	25.7
11-20	44	24.5
>20	13	7.3
	179	100.0
Level of tax knowledge		
Very low	8	4.4
Low	41	22.8

Medium	106	58.9
High	23	12.8
Very high	2	1.1
	180	100.0
Experience of IRD audit		
No	104	57.8
Once	49	27.2
More than once	27	15.0
	180	100.0
Letter of engagement		
No	80	45.5
Yes	96	54.5
	176	100.0

Table 2. Loadings on three factors emerging from a principal components analysis with varimax rotation for items representing expectations of tax practitioners

Types of advice or service	Mean (SD)	Factor 1 Competent	Factor 2 Aggressive	Factor 3 Cautious
Creative in dealing with tax matters	4.02 (.96)	.196	.779	.135
Able to exploit tax loopholes to firm's advantage	3.90 (1.10)	.168	.789	.010
Provides aggressive advice where tax law is ambiguous	3.28 (1.12)	-.032	.781	.074
Promotes any tax effective schemes	4.32 (.78)	.298	.666	.129
Makes claims only when they are clearly legitimate	4.43 (.70)	.214	.103	.795
Advises not to make deductions in grey areas of tax law	3.98 (.93)	.098	.091	.850
Is up to date with latest changes to tax law	4.79 (.41)	.836	.041	-.024
Reduces uncertainties	4.52 (.55)	.706	.352	.304
Explains tax law using words we understand	4.57 (.61)	.756	.244	.221
Is clear about risks associated with advice	4.48 (.61)	.633	.111	.488
Percentage of variance accounted for prior to rotation		40%	16%	10%

Note: The following items were dropped because they were ambiguous, loading poorly across factors: (1) Deals with tax matters with minimum fuss; (2) Provides conservative advice where tax law is unambiguous; (3) Helps file an accurate return; (4) Helps to minimise tax; (5) Saves considerable time by dealing with tax; (6) Helps avoid tax penalties; (7) Knows many ways of saving tax. After dropping these items, the communalities of the 10 remaining items in the factor analysis were high ranging from .55 to .74.

Table 3. Loadings on two factors emerging from a principal components analysis with varimax rotation for items representing experiences with tax practitioners

Types of advice or service	Mean (SD)	Factor 1 Competent and Cautious	Factor 2 Aggressive
Creative in dealing with tax matters	3.44 (.97)	.273	.807
Able to exploit tax loopholes to firm's advantage	3.24 (.97)	.061	.816
Provides aggressive advice where tax law is ambiguous	3.06 (.99)	.265	.672
Promotes any tax effective schemes	3.47 (.99)	.322	.694
Makes claims only when they are clearly legitimate	4.12 (.65)	.817	.106
Advises not to make deductions in grey areas of tax law	3.74 (.88)	.753	.145
Is up to date with latest changes to tax law	4.17 (.70)	.453	.526
Reduces uncertainties	3.93 (.86)	.649	.492
Explains tax law using words we understand	4.02 (.89)	.656	.310
Is clear about risks associated with advice	3.91 (.76)	.735	.378
Percentage of variance accounted for prior to rotation		50%	12%

Table 4. Pearson product-moment correlation coefficients among small business taxpayers' expectations, experiences, trust and commitment to tax practitioners (alpha reliability coefficients in diagonal)

Small business taxpayers' views on practitioners (M, SD)	1.	2.	3.	4.	5.	6.	7.
1. Expectation of competent advice (4.59, .44)	.81						
2. Expectation of cautious advice (4.21, .70)	.47***	.64					
3. Expectation of aggressive advice (3.89, .77)	.43***	.26***	.78				
4. Experience of competent and cautious advice (3.94, .64)	.38***	.43***	.16*	.84			
5. Experience of aggressive advice (3.48, .70)	.26***	.24***	.39***	.62***	.82		
6. Trust (4.42, .59)	.43***	.24***	.19*	.59***	.43***	.91	
7. Commitment (4.05, .69)	.18***	.08***	.09	.52***	.53***	.53***	.83

** $p < .01$, *** $p < .001$

Table 5. Hierarchical multiple linear regression analysis predicting commitment to tax practitioner from expectations, experiences and trust while controlling for background variables

Predictor	Model 1 Standardized beta (SE)	Model 2 Standardized beta (SE)	Model 3 Standardized beta (SE)	Model 4 Standardized beta (SE)
Use of local CPA practitioner (1) or Big 4 (0)	.21*** (.14)	.20** (.14)	.12 (.12)	.10 (.12)
Provision of engagement letter	.26*** (.10)	.24*** (.10)	.17** (.09)	.15* (.08)
Expectations of competent advice		.16 (.14)	.07 (.12)	-.02 (.12)
Expectations of cautious advice		-.02 (.08)	-.16* (.07)	-.13 (.07)
Expectations of aggressive advice		-.03 (.07)	-.13 (.07)	-.12 (.06)
Experience of competent and cautious advice			.30*** (.10)	.17 (.10)
Experience of aggressive advice			.38*** (.08)	.35*** (.08)
Trust				.30*** (.09)
Adjusted *R2*	.08***	.08**	.38***	.43***