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Changes in tax behavior after the audit abolishment

A study based on the micro-entrepreneur's perspective

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Preface

We would like to start by expressing our gratitude for our tutor, *Urban Ask*, at the *University of Gothenburg, School of Business, Economics and Law*. His guidance, thoughts and support during this semester have been invaluable for us!

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Abstract

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Title: Changes in tax behavior after the audit abolishment – a study based on the micro-entrepreneur's perspective

Introduction: Since a changed regulation in November 1, 2010 smaller businesses could choose if they want to use an auditor or not. The businesses that may have free audit duty are called micro-enterprises. They alone stand for 39 percent of the nation inaccurate taxation. Our view has been that, through qualitative interviews with micro-entrepreneurs, clarify the tax behavior status in Sweden today. The study aims to clarify how their tax behavior has changed since 2010 and if the 39 percent nation inaccurate taxation can be explained by the abolition of mandatory auditing.

Methodology: The study made use of qualitative interviews. In the interviews, a semi-structured interview guide served as a base, but the respondents have been encouraged to open up the discussions. The study has been structured around four themes as follows: Functions of accounting (the main theme), principal-agent theory, legitimacy theory and tax compliance. The study follows these themes through the sections *frame of reference*, *empirical results* and *analysis*.

Analysis and Conclusion: The results of the study have shown that the principal-agent relationship between micro-entrepreneurs and the Swedish Tax Agency has changed since the audit requirement was abolished in 2010. The accounting knowledge in the micro-enterprises has been reduced. Some micro-entrepreneurs have chosen to compensate for this by buying in external knowledge in the form of an accounting consultant. The change in the principal-agent relationship has not affected the micro-entrepreneur's legitimacy towards the STA. They do however believe that their own legitimacy has been reduced by the change of law, in the eyes of banks and investors. The result of the study shows that the proportion of the inaccurate taxation among micro-entrepreneurs in Sweden has increased due to a change in tax behavior. Micro-entrepreneurs have changed the way they handle their tax reports and accounts, i.e. not the tax compliance.

Keywords: Principal-agent theory, Information asymmetry, Legitimacy theory, Accounting, Tax compliance, Micro-enterprises, Micro-entrepreneurs, Audit requirement abolish, Accountant, Accounting consultant, Tax preparation, Tax report

Abbreviations and Terms of use

STA - Swedish Tax Agency.

VAT - Value-added tax, in Swedish *moms*.

Accounting consultant: Translation of the Swedish word *redovisningskonsult*. We also use the word *Accountant* to vary the language. These two words have the same meaning in the study.

Auditor: Translation of the Swedish word *revisor*.

Swedish tax law: Translation of the Swedish word *skattelagstiftning*.

Tax offensive act: Translation of the Swedish word *skattebrottslag*.

Legitimacy: This word is used to discuss trust and confidence regarding tax authorities and micro-entrepreneurs.

Micro-enterprises: Businesses that do not comply with more than two of the following three criteria:

- Criteria 1: Not more than 3 million in net sales
- Criteria 2: Not more than 1,5 million in total assets
- Criteria 3: Not more than three employees.

The word *micro-businesses* will be used to vary the language.

Micro-entrepreneurs: The owners of the *micro-enterprises*.

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1. Introduction

1.1 Background and discussion

In 2006 the government set up an investigation into the audit removal of small incorporated businesses. The commission's mandate was to review the rules and provide suggestions for changes in law. Sweden was virtually alone in the EU to have the audit requirement for small businesses. Hence that the EU's rules on audit make it possible for member states to exempt smaller businesses from the audit.

If Sweden were to follow EU Directive's thresholds, a turnover below €12m and a balance sheet below €6m (Directive 2013/34/EU), it would mean that 97 percent of all incorporated businesses in Sweden would be exempt from the audit requirement. Several bodies including the Swedish Tax Agency (STA) and FAR (the Institute for auditors and consultants) felt that a change to the EU limit values would lead to too much change, with consequences difficult to foresee.

In the proposition, "A voluntary audit"¹ (Proposition 2009/10: 204), which was published in April 2010, the government chose to follow respondents' proposals to limit thresholds values. This led to 70 percent of all incorporated businesses were abolished from mandatory auditing. Regulations that became effective November 1, 2010 means that if not more than two out of three criteria are met; incorporated businesses can choose not to use an auditor. The criteria are as follows;

- Criteria 1: Not more than 3 million SEK in net sales
- Criteria 2: Not more than 1,5 million SEK in total assets
- Criteria 3: Not more than three employees.

The incorporated businesses that have the option to choose free audit and comply with not more than two of the criteria are called micro-enterprises. Enterprises may overdraw more than two of the criteria for a single year, but not two year in a row. According to the Government proposition (Proposition 2009/10: 204) micro-businesses in Sweden are seen as follows:

"In many small and medium-sized incorporated companies owners and their leading executives are the same people. Audit's roles to protect the owners' interests are less than in larger businesses. Many small businesses also have no external sources of funding or long-term creditors, why the audit of such businesses is irrelevant even for the category of stakeholders" (Proposition 2009/10: 204, p.66).

FAR's Secretary General Dan Brännström (2012) writes on his website that in July 2012 there were 353 000 incorporated businesses that had free audit in Sweden. Out of these, about 31 percent or 108 000

¹ In Swedish "En frivillig revision"

incorporated businesses, opted out of their auditor. Brännström has received the data from Bolagsverket. Among the newly started businesses, 65 percent have opted to have an auditor.

Previous research based on the audit requirement abolition has discussed why micro-enterprises have chosen to keep their auditor. The results of the studies show that many micro-entrepreneurs have chosen to continue to hire an accountant mainly for not getting an impaired credit (DW Blackwell 1998).

Senkow, Rennie, Rennie and Wong (2001) state in their study that a relationship between the perceived usefulness of audit services in relation to its cost exists. According to the study, it is likely that the greater a firm's perceived utility of the audit is in relation to its costs, the greater the likelihood that they will choose auditing of the company's accounts.

According to a survey made by Collis (2010) one of several identifiers for if a company choose an auditor or not is dependent on the size of their turnover. Further Collis argues that it may be because the marginal cost of auditing decreases as sales increases. The British companies that were the subject of Collis survey were those with a maximum turnover of £ 4.8m, a balance sheet total of maximum £ 2.4m and a maximum of 50 employees.

The removal of the audit requirement for smaller companies will generate a saving of 914 million SEK for small businesses in Sweden 2012. This will lead to that the STA will change their routines and scrutinize in particular the incorporated companies whose declaration stating that they do not use an auditor. One should expect that the STA will give priority to small businesses in the future, due to the fact that the STA have limited resources. This may mean that the incorporated companies that have an auditor will not be examined as hard as before (Ramert 2010).

The STA has found that micro-enterprises perceive and have problems with their tax preparation. They alone stand for 39 percent of the nation inaccurate taxation. It is the micro-entrepreneurs without an auditor who are audited harder, because they have the largest incorrect tax reporting (STA 2013).

A function of accounting is to report the tax reporting. The form of income tax return is based on the business's accounting (STA 2014). Which tasks as accounting consultants today perform has become an area that many researchers have investigated and the results are different from various researchers (De Loo, Verstegen and Swagerman 2011). One result of the research shows that accounting consultants' duties consist of traditional accounting tasks, such as bookkeeping and the preparation of annual accounts and annual report (De Loo et al 2011; Verstegen, De Loo, Mol, Slagter and Geerkens 2007; Zoni and Merchant 2007). Other researchers argue for new results, which say that accountants have moved away from this type of tasks. They argue that today their job also comprise a form of being an advisor and business partner to the management. This by supporting decision making regarding the business (Burns and Baldvinsdottir 2005; Caglio 2003). A third research shows instead that an accounting consultant's job is more complex than the other two research results show. They argue that the tasks consist of both the traditional accounting data and to advise the client management (Burns and Vaivio 2001; De Loo et al 2011; Halling 2010).

Audit and internal control is needed due to the problem that may arise in the relationship between two parties, the agent and the principal. The relationship can be described as it is the principal who delegates tasks to the agent for him to perform these. The problem is that the agent does not always do what is best for the principal, but also think about what is most beneficial for him personally (Jensen and Meckling 1976). A principal cannot constantly monitor an agent's work. Moral hazard describes the problem when the agent can exploit information asymmetry that arises between the parties for their own gain. The agent is the party who will always have more information and choose how it should be presented to the principal (Miller 2005).

The state of maximum efficiency in the relationship between principal and agent has been insured by the auditor's independent role. An independent party reduces the risk of shirking by agents. If the agent is acting correctly there is no need to require a review, but on the other hand, the principal has no knowledge of if the work performed is optimal if there is no audit (Kren and Kerr 1993). After the conditions were changed in 2010 it is today possible for micro-enterprises not to choose an auditor. If the auditor, as an independent party between the agent and the principal, not gets elected there is a risk that the principal loses confidence in the agent. Hence this fact Pauly (1974) argues that there is no reason to expect a worse outcome due to if the independent party is eliminated.

Participants in an experiment, regarding law compliance, tended to be less compliant in cases where they felt that there were ways to circumvent laws and exploit information asymmetry. For example, people that had more cash than card payments in their activities and also those who had a greater understanding of various tax deductions. Another outcome from the experience is that noncompliance is counteracted most if the risk is high for discovery (Robben, Webley, Weigel, Wärneryd, Kinsey, Hessing and Scholz 1990).

In cases where the tax authorities treat taxpayers well it is reflected in the degree of compliance. Good treatment gives high compliance and vice versa. In particular, it increases taxpayers' willingness to pay taxes. They get a higher tax morale when they are well treated by the authority. In cases when the tax officials act improperly toward taxpayers, consider them as 'subjects', they actively respond by trying to avoid taxation (Frey and Feld 2002).

It has been shown that decisions by authorities who hold a high degree of legitimacy is more likely to be complied. This can be achieved by making decisions that are perceived as fair (Tyler 2006). An additional way to increase legitimacy is for organizations to give voluntarily information about themselves. This could be information beyond what the law demands in different areas, such as environmental liabilities (Bansal and Clelland 2004).

1.2 Purpose and contribution

The purpose of this study is to describe how tax behavior has changed in micro-enterprises since the audit requirement was removed in 2010, using the following questions:

- 1. How has the principal-agent relationship changed since the audit requirement was removed?*
- 2. How does a changed principal-agent relationship affect the legitimacy of tax authorities and micro-entrepreneurs?*

The questions above will be answered from an accounting perspective. Accounting in the form of tax reporting requires that entrepreneurs do not exploit the information asymmetry between themselves and the tax authority. It requires a high level of tax compliance which in itself requires a high degree of legitimacy. Without legitimacy entrepreneurs would not be as compliant as they are towards the tax authorities (Frey and Feld 2002).

1.3 Outline

Introduction	A brief background to the topic is presented and is followed by a discussion of the problems that exist today and our contribution to this subject.
Frame of ref.	This chapter will describe relevant theories.
Methodology	An analysis comparing the frame of reference with the empirical findings.
Empirical results	A presentation of the empirical results are displayed.
Analysis	An analysis comparing the frame of reference with the empirical findings.
Discussion and Conclusion	A conclusion is presented in this section. A discussion and suggested further research follows.

2. Frame of reference

2.1 Introduction

In this section we will present the study's theoretical framework. It is organized in accordance with the study's four selected themes: Accounting, principal-agent theory, legitimacy theory and tax compliance. The theoretical framework will later on, in the analysis, be compared to the empirical findings of this study. In the end of this section we present an analysis model that will be used in this study.

2.2 Functions of accounting

Accounting consultants today perform different tasks. Research investigating which task they do perform differs in results from various studies (De Loo, Verstegen and Swagerman 2011). Research in this area goes back decades and can be compared to more recent research. Hopwood (1983) writes that accounting is considered a key role in organizational functions. It is used to assess costs and the benefits of corporate actions, financial planning and reporting of a company's performance. The accounting is tightly welded to organizational functions, and used to set the modern organizations functions in economic terms. A more recent study today shows similar results. De Loo et al (2011) write that regular bookkeeping and preparation of the financial reports are traditional accounting tasks.

Another function of accounting is to support the tax reporting. The form for income tax return is based on the business's accounting. The income tax return pronouncement is then used while filling out tax forms, which is demanded from the STA on a yearly basis (STA 2014). A business shall in their tax reports inform whether or not an external accountant has assisted in conducting the business's accounting and in the preparation of the annual financial statements. Indication must also be given to whether the financial statements have been audited or not (Ramert 2010).

Accounting also has a larger and wider role in society and organizations than the direct intent of accounting. Accounting in action thus differs from the intended functions of accounting (Mellemvik, Monsen and Olson 1988). When the accounting has been implemented in a company, it becomes an organizational and social phenomenon. It is then used by many operators in an organization for different intentions (Burchell, Clubb, Hopwood, Hughes and Nahapiet 1980). Mellemvik et al (1988) argues that one of the accounting's main functions is to support an organization legitimacy process. This does not correspond directly with the intended function of accounting. Another important role of the accounting is to exert control over behavior through rules.

Other research argues that accountants today have more of an advising role. They act as business partners and make business decisions (Burns and Baldvinsdottir 2005; Caglio 2003). Additional research claims that an accounting consultant's work consists of a mix of traditional accounting work and

providing advice. The accountant thus both perform traditional accounting services as bookkeeping and preparing the annual reports, as well as give business advice (Burns and Vaivio 2001; De Loo et al 2011; Halling 2010).

A study conducted in the Netherlands finds that the environment changes the role of accountants. Management accounting in addition to regular bookkeeping services are influenced by changes of law and the financial status of the organization (De Loo et al 2011). The adoption of a new enterprise resource planning system (ERP-system) may also affect the role of the accountant. An ERP-system provides accountants with a powerful structure tool and can be used to add value to their work. This will lead to increased legitimacy towards the profession of accountants (Caglio 2003).

Small business owners often use their accountant as an advisor as well as conducting the business's bookkeeping services. However, different businesses utilize their accounting consultant for business advice in various degrees (Gooderham, Tobiassen, Døving and Nordhaug 2004). The role of the accountant therefore differs in different businesses. But traditionally the accountant's role is to be responsible for the accounting (De Loo et al 2011).

The relationship between the owner of a small business and the accountant tends to be long term, and many small businesses use the same consultant from the business's inception. This regardless of whether they feel completely satisfied with their accountant or not. However, some small business owners think that they lack sufficient accounting knowledge to determine if their accounting consultants are doing a good job or not (Marriott and Marriott 2000). Gooderham et al (2004) also argue that the relationship between a small business and its bookkeeper usually goes way back, but say that the length of the relationship is not crucial to the degree of satisfaction experienced with the service that the consultant delivers. Confidence in the accountant is instead dependent on the quality of his work.

Gooderham et al (2004) also believe that an important reason for small businesses to ask for advice from its accountant is his/her ability to see connections and draw conclusions based on the business's accountancy. Even if small business owners have low confidence in the work that the accountant executes, they are reluctant to change consultant. They may tell themselves that the services that are provided for them are adequate. The owners may also be lacking sufficient knowledge of the business's books to be able to comment on the matter.

Lack of knowledge can also mean that small businesses do not use their accounting system to its full capacity. Marriott and Marriott (2000) also believe this results in a knowledge gap that the consultant can cover. The study also showed that in cases in which the entrepreneur decided to abolish the auditor, they had not felt that the benefits from keeping the auditor measured up to the charge. Study participants also expressed that an accounting consultant is used more to provide necessary information to a third party, rather than to provide information the business itself would benefit from.

Accounting is a topic that may not receive sufficient attention from all small businesses, which means that you miss the potential of information that can be obtained from company records (Salvato and

Moore 2010). It may also occur that an outside party, such as a bank, demands reports from the business owner when he/she is applying for a loan. If the owner is not capable, or anyone else in the small company, to provide the report the bank is asking for, he will need to buy in the service from his accountant. But for the owner himself, who has paid for the information to be produced, the analysis may be considered unnecessary (Marriott and Marriott 2000).

Marriott and Marriott (2000) also believe that many small business owners would benefit by hiring financial expertise from an accountant. However, their study showed that small business owners are reluctant to do this because of the costs involved. In conclusion the authors say that *"The Underlying problem stems from Weaknesses in the financial awareness of the owner managers"* (Marriott and Marriott 2000, p.486).

For a small business to be interested in buying knowledge from an outside consultant, such as his accountant, the company must have some form of strategic intent on expansion. This, along with the ability to use and learn from the advice the accountant gives, leads to increased capabilities in the enterprise (Gooderham et al 2004). In family businesses, hire of knowledge leads to increased sales and survival. This is because the accountant can fill the knowledge gap in the company. The use of an outside consultant therefore relates positively to the company's sales growth. For this to be true however, it is necessary that a good strategic process exists within the company (Barbera and Hasso 2013).

The functions of accounting are to assess costs and benefits of corporate actions and financial planning Hopwood (1983) and to support the tax reports demanded yearly from the STA (2014). But accounting in action sometimes differs from the intended functions of accounting, giving accounting a larger role in organizations than the direct intent. Such wider roles are for example to support an organization legitimacy process and exert control over behavior through rules (Mellempvik et al 1988). Small businesses that use an accountant to conduct traditionally accounting services often use he/she as an advisor as well (Gooderham et al 2004; Burns and Baldvinsdottir 2005; Caglio 2003). An important reason for this is the accountant ability to see connections and draw conclusions based on the business's accounting (Gooderham et al 2004). Salvato and Moore (2010) argue that accounting is a topic that may not receive sufficient attention from all small business owners, which means that you miss the potential of information that can be obtained from company records. Marriott and Marriott (2000) supports this and says that lack of accounting knowledge in businesses conducting their bookkeeping without the use of an accountant can result in the fact that small businesses do not use their accounting systems to their full capacity. A reason for this may be that the small business owner do not consider that the use of an accounting system for operational decisions to be a function of accounting.

2.3 Principal-agent theory

Principal-agent theory emerged in the 1970s and has its basis in economic research. The theory's basic model assumes two parties, the agent and the principal, and it is the problems in this relationship that make need for audit and internal control (figure 2.3.1). The relationship can be described as it is the principal who delegates tasks to the agent for him to perform these. The problem is that the agent does not always do what is best for the principal, but also thinks about what is most beneficial for him personally (Jensen and Meckling 1976). The principal can however control the agent through incentives and monitoring. Principal-agent theory involves components as self-interest, asymmetric information and contracts:

- Parties acting primarily by self-interest, i.e. their aim are not consistent with the other party.
- Asymmetric information, which means that the parties can distort and or conceal information.
- Both parties are trying to design the contract so that it is as beneficial as possible for themselves. A contract also helps to allocate risk between the two parties (Macintosh 1994).

Applied to a business it is often described that the owner is the principal and the management is the agent. When no desires between these parties are consistent, it is difficult for the principal to control the company. A common belief is that the agent puts their personal goals foremost, that is to maximize its own welfare, resulting in a conflict of interest with the owner. This is called agent problem or agency cost (Hawley, Core and Larcker 1999). There is no perfect solution to the problem but there are options to reduce agency costs. A common solution is that management compensation is added to the business' financial performance and/or stock development. This leads to that the parties' agendas become more coherent. Furthermore, the agent can be compensated if the principal believes that the financial statements are reliable because of the agent who helps to control agency costs. To avoid the establishment of a culture of self-interest in the company at the expense of the owners it is important that the internal controls are good. It is worth noting, however, that even the best internal control system may fail if the management tries to manipulate or not doing their responsibilities properly. It is therefore vital that management monitors its contract and manage their affairs (Mintz 2005).

Often the agent problem is linked directly to events that may have financial consequences for the agent. This may involve, for example that the agent has compensation that is linked to performance and the agent therefore chooses the accounting policies that lead to maximum results and thus to a maximum compensation. The principal use an accountant to ensure that the principal's interests are safeguarded and that the agent is evaluated. The principal uses accounting information to determine if the agent reached the targets set for the business (Artsberg 2003).

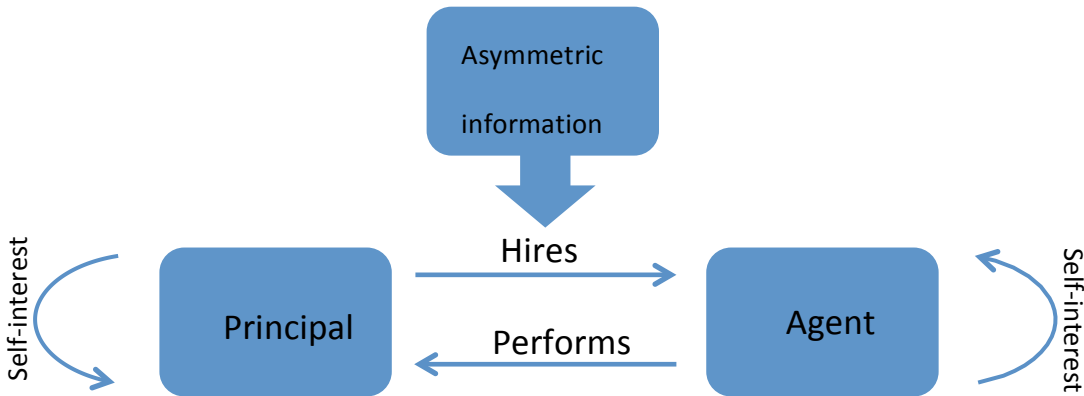


Figure 2.3.1

It is not possible for the principal to constantly monitor the agent's work. In cases where a player does not get hit fully by his/her own action there is a possibility of immoral behavior. Moral hazard describes the problem when the agent can exploit information asymmetry that arises between the parties for their own gain (Miller 2005). The agent is the party who will always have more information and choose how it should be presented to the principal.

Another principal-agent problem arises when the principal does not have access to all the information available when the decision is taken. This means that the principal cannot determine whether the agent takes the decision which is the best (Adams 1994). Scapens (1985) argues that the state of maximum efficiency, or pareto-optimality, occurs when neither side can increase their wealth at the expense of another.

Pareto optimality has been insured by the auditor's independent role in the relationship between principal and agent. An independent party reduces the risk of shirking by agents. At the same time as it increases confidence it also creates a cost, based on what the auditor charges. If the agent is acting correctly there is no need to require a review, but on the other hand, the principal has no knowledge of if the work performed is optimal if there is no audit (Kren and Kerr 1993).

Daily, Dalton and Cannella (2003) claim that individuals generally act in their own interest and thereby they are especially reluctant to sacrifice their interests for those of others. For the agent to not distort the information on a large scale to the principal, a desire for an auditor occurs. It appears to serve as a seal so that the accounts are correctly performed. The businesses that need audit have increased in situations where the principals in the form of bank or investors have demanded this (Seow 2011).

After the conditions were changed in 2010 it is today possible for micro-enterprises not to choose an auditor. If the auditor, as an independent party between the agent and the principal, not gets elected there is a risk that the principal loses confidence in the agent. Hence this fact Pauly (1974) argues that there is no reason to expect a worse outcome due to if the independent party is eliminated.

2.4 Legitimacy theory

Both businesses and government agencies have many reasons for seeking legitimacy by the outside world. What is to be considered as legitimacy can be defined in different ways. Tyler (2006, p.376) writes "*Legitimation refers to the characteristic of being legitimized by being placed within a framework through which something is viewed as right and proper*". Why one would want to be regarded as legitimate by the outside world, or need to be perceived this way, have been discussed through. Two sides debate the need of legitimacy for authorities. While some theorists argue that it is not possible to rule without legitimacy, others claim that it is possible, but more difficult than if one holds legitimacy from different stakeholders (Tyler 2006).

While assessing whether a measure to achieve a higher degree of legitimacy is to be considered effective, one should have the reason for seeking legitimacy in mind. There are different types of legitimacy that one can try to achieve; pragmatic legitimacy, cognitive legitimacy and moral legitimacy. Pragmatic legitimacy is measured by the advantage one receives by reaching a higher degree of legitimacy from the closest stakeholders. This often involves direct contact with the company's settings. Cognitive legitimacy is based on the understanding of the behavior rather than interest or evaluation. Moral legitimacy concerns the question of right and wrong - what's the right thing to do? One way to view moral legitimacy is by using consequential legitimacy – a sort of moral legitimacy - which means that organizations are judged by what they achieve. A problem with this way of judgment is that it is difficult to assess, since achievements are valued differently by different parties (Suchman 1995).

One way to achieve legitimacy is to express an opinion in favor of the environment. This can be a way to draw attention away from some parts of the organization which may lead to a lower degree of legitimacy, and help maintain a good image of the company over all (Bansal and Clelland 2004). By possessing legitimacy it will also be easier to introduce new decisions and be obeyed. It has been shown that people have an easier time accepting decisions by authorities who hold a high degree of legitimacy. This can be achieved by making decisions that are perceived as fair (Tyler 2006). No organization, however, can fully satisfy all of its stakeholders' interests, as various parties assess different actions in different ways. The management of an organization can affect in what degree company activities are to be perceived as positive in the eyes of the stakeholders (Suchman 1995).

Tyler (2006) argues that justice, in addition to help create legitimacy, also can help to maintain this. More instrumental theories of legitimacy on the other hand, claim that the ability to award rewards and punishments is what gives an organization influence. Today research argues that it is crucial that an organization follows fair procedures to hold a high degree of legitimacy, unlike earlier thoughts about it being the specific gain or loss of a decision which decided how the outside world perceived an organization.

An additional thing that has been shown to increase legitimacy is for organizations to give voluntarily information about themselves, for example information beyond what the law demands in areas such as environmental liabilities. This also gives the company the ability to determine which decisions and activities which has been conducted that will be communicated to its stakeholders (Bansal and Clelland 2004).

2.5 Tax compliance

"A Purely economic analysis of the evasion gamble implies that most individuals would evade if they are 'rational', because it is unlikely that cheaters will be caught and penalized".

(Alm, McClelland and Schulze 1992, p.22)

As old as taxation is, as old is the problem of tax compliance. Calculating the level of avoidance is difficult, if not impossible. Estimates in Sweden show that six percent of the population does not comply with tax laws (STA 2012). Rationally, it should however be a bigger problem than it is because of the unlikeliness to be caught and penalized. Hence this fact most countries have a low deterrence (Frey and Feld 2002).

In cases where the tax authorities treat taxpayers well it is reflected in the degree of compliance. Good treatment gives high compliance and vice versa. In particular, it increases taxpayers' willingness to pay taxes. They get higher tax morale when they are well treated by the authority. In cases when the tax officials act improperly toward taxpayers, consider them as 'subjects', they actively respond by trying to avoid taxation (Frey and Feld 2002).

By making use of motivational factors that are not economic it is possible for an anticipated noncompliance to decrease. There are a myriad of different factors that can be applied. Many psychological factors can affect, such as remorse, envy, guilt and shame. With the help of social and moral influences, these factors can be implemented. As a preference for honesty, morale can be cited as a utilitarian welfare or in the form of a rule in accordance with Kantianism. More studies are needed to determine which of these factors that is most successful and how this should be incorporated into a standardized framework (Andreoni, Erard and Feinstein 1998).

By using a sophisticated business simulation model on participants from Spain, Sweden, USA and Belgium, Robben, Webley, Weigel, Wärneryd, Kinsey, Hessing and Scholz (1990) found how law compliance was affected. Those who participated in the experiment tended to be less compliant in cases where the participant felt that there were ways to circumvent laws and regulations. For example, people that had more cash than card payments in their activities and also those who had a greater understanding of various tax deductions. Further the authors argue that noncompliance is counteracted most if the risk is high for discovery.

In the U.S. criminal and civil penalties are applied to taxpayers who understate their tax preparation. Penalties are divided into negligence and substantial understatement on one side and cases of fraud on the other. The latter includes intentional wrongdoing. Penalties at a 75 percent rate of the portion of the payment can be applied up to \$100,000. Understatement and negligence are considered as misdemeanors and punished as well, but at a lower rate and maximum \$25,000 (Andreoni et al 1998).

In accordance with the Swedish tax law the one who, either

- otherwise than orally willfully makes a false statement to government or
- fails to provide the authority with the declaration, income statements or other prescribed information

causes a risk of tax evasion or incorrectly credited or refunded to him or herself or another, §2 tax offenses act. Anyone who voluntarily takes action that leads to the tax to be imposed, credited or refunded with the right amount, the §12 tax offenses act, does not get convicted of tax offenses. Regarded as a petty offense taxpayers are sentenced for tax misdemeanor and punished by a fine under §3 tax offenses act. If a tax crime is serious, taxpayer are sentenced to jail for at least six months and up to six years in accordance with §4 tax offenses act (SFS 1971:69).

2.6 Analysis model

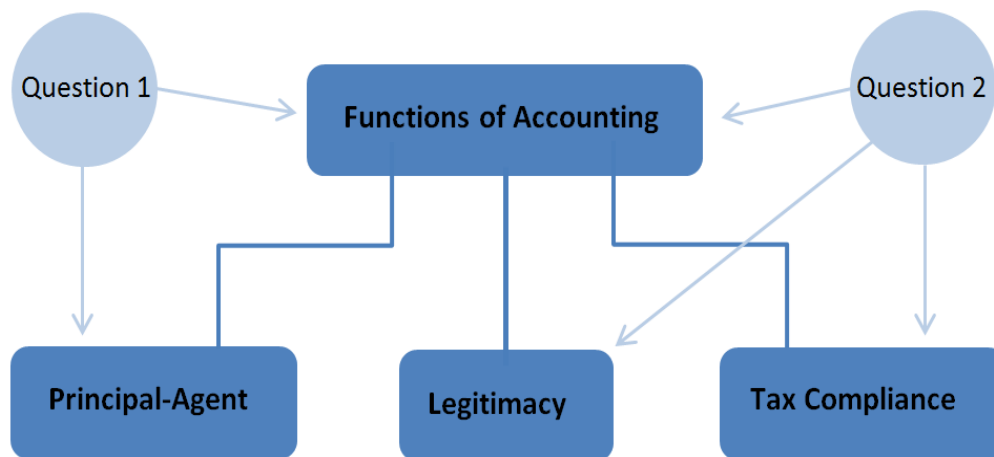


Figure 2.6.1

In this study we have chosen to apply the above analysis model (figure 2.6.1). Our main topic is 'functions of accounting' and this is used as an overlying theme to answer the questions of this study. To discuss this subject we have broadened the study with three subtopics which are 'principal-agent theory', 'legitimacy theory' and 'tax compliance'.

Accounting as a function in the form of accurate tax reporting requires that micro-entrepreneurs do not exploit the existing information asymmetry between themselves and the tax authority. This is discussed with use of the principal-agent theory. Principal-agent theory will also discuss how the relation between the micro-entrepreneurs and the STA has changed since the audit removal and what these changes have led to. Before the change the auditor possessed knowledge and this is no longer present in the businesses that do not make use of an auditor anymore. To not take advantage of information asymmetry a high level of tax compliance is required which in itself requires a high degree of legitimacy. Frey and Feld (2002) argue that without legitimacy entrepreneurs would not be as compliant as they are towards the tax authorities.

A micro-entrepreneur has full visibility of its own accountings. The accounts are the basis for the tax report and are submitted to the tax authorities. The micro-entrepreneur will always have more information about its accounts, compared to the STA. Because of this, there is a possibility for the entrepreneur to exploit the information asymmetry that exists between the two parties. It is possible to distort and/or conceal information that is submitted in the tax report. Because of this, micro-entrepreneurs are assumed to be agents and the Swedish tax agency is assumed to be the principal in this study.

Our first question in this study relates to the main topic accounting and also the principal-agent theory. Previously, the relationship was different when the auditor controlled the accountings, and reduced the risk for shirking (see figures 2.6.2 and 2.6.3). The study discusses how the relationship and information asymmetry between the STA and the micro-entrepreneurs has changed since the audit abolishment.

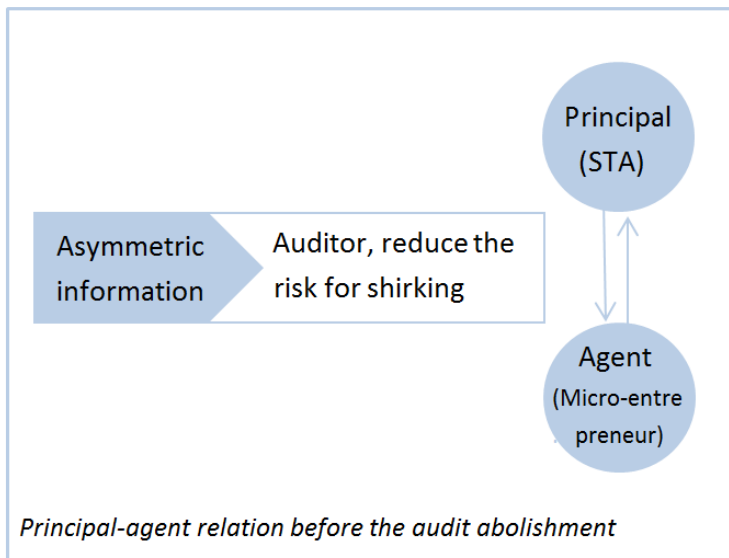


Figure 2.6.2

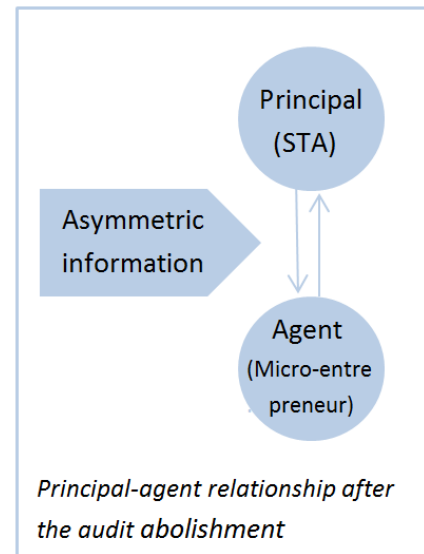


Figure 2.6.3

The second question is discussed via accounting, tax compliance and legitimacy theory. When the auditor was removed there is no longer an independent party between the STA and the micro-entrepreneurs. The study is investigating whether the removal of the auditor has affected how micro-entrepreneurs comply with tax laws when filing their tax report, which is based on their accountings. This is discussed together with their view of legitimacy regarding the tax authorities, as well as their confidence in their own enterprise. A high legitimacy leads to high tax compliance and vice versa (Frey and Feld 2002).

The empirical section and the analysis will both follow the same order. The study begins with the main topic functions of accounting and this is followed by the subtopics in the following order; principal-agent, legitimacy and at last tax compliance. This is to facilitate seeing similarities and differences.

3. Methodology

3.1 Introduction

In this section we will describe how we have implemented the study and present which scientific approaches we have used. For the data collection and analysis, one can choose different methods. We will describe the choices that we have made in the implementation and the reasons for these. We will then describe how the respondents in the study have been selected and how we proceeded to contact them. We continue by describing how we collected the data for the study and how this data was analyzed. Finally we make an assessment of the study's trustworthiness.

3.2 Choice of subject

Our topic concerns a possible change in the tax behavior of micro-entrepreneurs since the audit requirement was abolished, from a micro-entrepreneur's perspective. Micro-entrepreneurs alone stand for 39 percent of the nation inaccurate taxation (STA 2013). This study investigates if the tax behavior in micro-enterprises has changed since the abolishment of mandatory audit duty. Tax reports are based in the business's accounting (STA 2014). To investigate the reason behind inaccurate tax reporting we have therefor chosen to originate in the subject of accounting.

We have also chosen to do the study from a user perspective. That means we have chosen to interview micro-entrepreneurs that today have chosen to not use an auditor. This is to investigate the reason behind the 39 percent that are derived from micro-enterprises (STA 2013). To do so, we needed to talk to micro-entrepreneurs to get their views on the possible difficulties and opinions of the change of law.

3.3 Qualitative method

In order to answer the questions chosen in the study, interviews have been used. A qualitative approach allows the researcher of a problem to look deeper into the topic (Jacobsen 2002). A qualitative method, as opposed to a quantitative method, puts more focus on the respondent's views of the topic (Bryman and Bell 2007).

Audit secrecy has only been abolished in four years, and is thus a new phenomenon. In this study we have chosen to use qualitative information as the study is exploratory. We have chosen to look deeply into the subject and the questions discussed with the respondents, in order to collect as much information as possible. This way, we increase the chance of obtaining the information needed to answer the study's questions, even though it has been difficult to find any information on the subject in existing research.

The interviews conducted have been semi-structured but based on a structured interview guide. The form has been used as a base during the conversations. This is a reflection of the qualitative proceedings as a quantitative method tend to be based on a more strictly basis than a qualitative interview (Bryman and Bell 2007). The reason the interviews have been conducted as semi-structured with an interview guide as a base is to ensure that certain questions were answered (Cohen and Crabtree 2006). The aim has also been to encourage the respondents to talk freely and decide parts of the content.

3.4 Structure of the study

To get a clear thread through the study and be able to easily compare the theoretical framework with the empirical basis, the study has been constructed through four themes: Accounting, principal-agent theory, legitimacy theory and tax compliance. The sections *Theoretical framework*, *Empirical results* and *Analysis and discussion*, has followed a structure around these four themes.

While deciding the order of the four themes, we have taken into account the purpose of the study and the study's questions (see section 1.2, Purpose and contribution and 2.6, Analysis model).

The purpose will be answered by the study's two questions. These are directly linked to the main topic functions of accounting. To be able to discuss the subject more deep we have chosen to apply three subtopics which in order are principal-agent theory, legitimacy theory and tax compliance. The topics are presented with the main topic at first and followed by the subtopics in the order mentioned. This is to facilitate seeing similarities and differences and helps to explain the concept of tax behavior in this study.

3.5 Selection of the respondents

We have selected micro-enterprises to be interviewed on the basis of the variables that follow. Please note that the variables hold no particular order.

- It should be an incorporated business,
- The business should not use an auditor,
- The business must have existed for at least three years,
- Their location is in Västra Götaland.

In addition to these criteria we have chosen to interview both micro-entrepreneurs who employ an accounting consultant and those who manage their accounts themselves. We interviewed five from each group. This is to get the view of current regulations from both groups, to be able to understand why micro-entrepreneurs alone stand for 39 percent of the nation inaccurate taxation (STA 2013). The purpose of the study has not been to directly compare these two groups, but to make sure opinions from both micro-entrepreneurs with an accountant and without one were collected.

The requirement that the businesses must be incorporated is related to the study's topic based on the enterprise to not make use of an auditor. The abolition of the mandatory auditor requirement is applicable to incorporated businesses. In addition, the businesses' financial statements are public, which means we could search for information within this corporate group.

The reason we have chosen to study businesses that have existed for at least three years is that we want the businesses to have had time to form an opinion about their bookkeeping and accounting. If we chose a too newly developed business, we would risk that the respondents failed to respond to all the questions in the interview guide. We also had a time limit for the writing of the study, so we have chosen firms located in the area where we study, Västra Götaland. This to make sure we had time to meet all respondents for the interviews face to face. If we instead had chosen to use telephone interviews, we would have been able to interview firms from other locations as well. But we have chosen not to, given the fact that we both wanted to attend all interviews and reduce the risk of misunderstanding and misinterpretation. By meeting the respondents in real life, the meetings also became more intimate. This made it easier for the respondents to open up and give developed and editable answers, and to express themselves with body language.

The reason we wanted to have as few restrictions as four is that this is an exploratory study. It makes us want to get an as broad base from the interviews as possible. By simply limiting the essay according to the points above, we have managed to get a diverse group and most likely a larger spectrum of opinions. A disadvantage of not delineate the respondents is that we cannot compare the businesses with each other in equal measure. However, it is a conscious choice, and we find that we get more out of reaching out to different types of industries.

3.6 How to find and contact respondents

To find micro-enterprises that met the criteria and limitations that we have chosen for the study, we have used the database Business Retriever. In this one can make a choice of several different criteria, and limit the range of net turnover and ratios that you might be interested in. We inserted the criteria and the limitations we chose to make use of in the database and got a list of businesses that matched our search. The result was 68 enterprises.

From this list we searched for contact information in the form of email addresses and phone numbers in the cases that we were missing this information in some businesses. As a first contact, we compiled an introductory email that we sent out to all businesses which email addresses we possessed, about 80 percent of the matching businesses. In the introduction email we gave a short presentation of ourselves and our essay and explained what kind of topics we wished to discuss if they chose to participate in the study. We also made it clear their participation would be anonymous. About 20 percent of the businesses contacted declined to participate in the study immediately after the first contact, while about five percent of the contacted respondents agreed to participate already after this email. The

other respondents that we had not received answers from, we called up to specified phone number. We then successively filled the vacancies in both groups - those who currently use an accounting consultant and those who have chosen not to – until we got hold of ten respondents matching our selection. After this we decided when and where to meet the respondents via phone, email or text.

3.7 Table of respondents

<i>Employ an accounting consultant</i>					
<i>Age</i>	<i>Gender</i>	<i>Line of business</i>	<i>Duration</i>	<i>Business startup</i>	<i>Economic education</i>
35	Man	Construction	35 min	2004	No
41	Man	Business development	60 min	2002	High school education
44	Man	Research	30 min	2000	University education
60	Woman	Restaurant	40 min	2008	No
61	Woman	Leadership training	45 min	1992	Bookkeeping course

<i>Do not employ an accounting consultant</i>					
<i>Age</i>	<i>Gender</i>	<i>Line of business</i>	<i>Duration</i>	<i>Business startup</i>	<i>Economic education</i>
41	Woman	PR/media	50 min	1998	University education
43	Woman	Dentist	40 min	2001	Bookkeeping course
49	Man	Plumbing	60 min	2003	No
52	Man	Hair dresser	45 min	1998	Bookkeeping course
68	Man	Management	60 min	1984	University education

The interviews have been conducted from 2014-02-25 to 2014-03-25.

3.8 Design of the interview guide

The structure of the interviews has followed the interview. The questions are designed to encourage open discussions in order to get a deeper insight into the respondents' views on, among other things, their tax reporting. The questions have thus been mostly open, and could not be answered with just a yes or a no. Initially, general questions about the micro-enterprises' management and general routines were asked, in order to get the conversation started and get a background view of the enterprise. The interview guide is attached in Appendix 1.

3.9 Conducting the interviews

In this study we have made interviews, which provide a great opportunity for adapting the language and provides flexibility during the discussions. The interviews have not been formalized and have been guided much by the interviewee's answers. This has meant that the respondent's thoughts, reasoning and sentences have been free, and we have thus been able to collect a rich material. During the interviews, we used the interview guide in a written form. This is to ensure that we got the answers to some specific questions and areas, such as our four themes.

During the interviews both essay writers have participated and we recorded the conversations to document them. We found that it was the best way for us to be able to concentrate and listen better. Direct answers to the questions we did note during the interviews in order to get some raw data available instantly. None of the interviewees hesitated to accept to be recorded when they were initially told that they will remain anonymous.

Prior to the meetings, we asked whether the participants wanted to meet at their office or at the School of Business, Economics and Law at Gothenburg University. All have chosen to come to the school for the interviews. The meetings took place in a small classroom where we placed the respondent on one side of a square table and the two of us on the opposite side. During the talks we offered coffee and a cinnamon bun to create a pleasant atmosphere, and reduce any nervousness on the part of the interviewee if possible. At the meetings we, as the interviewers, wore neutral clothing to reduce the respondents' possible biases and preconceptions.

3.10 Information analysis

The information from the interviews has been analyzed in steps. First, we compiled and transcribed the information relayed from the respondents. The information has been divided into four different sections from our chosen themes. That included what was said during the interviews and how the discussion progressed. This has been compiled in this study's empirical section, section 5. Both essay writers have discussed and read the summary of the interviews to avoid any misunderstandings by either party. After this, the analysis and empirical material was compared with the theoretical framework. The theoretical framework has been based mostly on research about small businesses and family firms, since research regarding our subject and micro-enterprises has been limited. The reason we chose small businesses and small family firms is that these are similar to micro-enterprises in size, operations and regulations. We then discussed the comparisons and analyses. Finally, the data was compiled in the section *Conclusions*, section 6. This section also answers the chosen questions in this study, from section 1.2, *Purpose and Contribution*, with starting point in the study's analysis section.

3.11 Trustworthiness

When using qualitative data, it is important to assess the quality of the substrate. This can be done using various criteria. Researchers who use qualitative methods can make use of the criteria reliability and validity. Guba and Lincoln (1994) argue that one should use other criteria, criteria that are being used by quantitative researchers. They believe that it is necessary to specify the conditions for assessing the quality of the data that provide an alternative view to reliability and validity. Criticism that there is an absolute truth in the social world is the basis for the four criteria; dependability, transferability, conformability and credibility. Together, these criteria form an image of trustworthiness, which will be assessed in this study.

Guba and Lincoln (1994) argue that in order to meet the criterion of dependability, as a parallel to reliability, the researcher must look at the data from an auditing-perspective. This means that complete records must be held of elections of respondents, the approach used during the interviews, the chosen interview guide and the design of the study. This criterion is met in this study by the method section which describes the selected approaches and how the research has proceeded. All conducted interviews have also been recorded in audio.

As a qualitative study often focuses on an intensive study of a small group of respondents, often with characteristic commonalities, qualitative data can be based on the social significances in the group of respondents which has been examined. This affects transferability (Bryman and Bell 2007).

In this study, transferability may be affected by the limitations that have taken place while choosing the respondents. For example certain requirements are that the respondents should not make use of an auditor and that the respondents chosen are practicing in the same region - Västra Götaland, Sweden. However, transferability is increased by the fact that the study is not limited to a particular industry or requirement of time regarding how long the firm has existed.

Conformability in a study is achieved only by ensuring the objectivity of the researcher. Complete objectivity may be impossible, but good faith should be applicable and the researcher should not have any overly clear personal views regarding the questions investigated (Bryman and Bell 2007). In this study the conformability is strengthened by a clear description of the answer given by the respondents, and the proceedings of the interpretations of the data. However, all quotes from the empirical material, which are contained in section 4, have been translated by the authors of this study from Swedish to English. This may affect the conformability since it allows the possibility for misunderstandings. To avoid this both essay writers have made the translations together. The fact that both essay writers have participated in the interviews has also increased the conformability of the essay.

This study deals with sensitive information such as tax evasion and tax compliance. It is possible that respondents may have chosen to withhold information during the interviews or lied in their responses. We have tried to avoid this as much as possible. In this study, all the respondents are anonymous and during the interviews we have tried to create a comforting atmosphere to encourage candor.

Regarding criteria credibility, credibility may be affected by the fact that social reality can be interpreted from different angles. To establish credibility good practice must be followed (Bryman and Bell 2007). In this study the credibility has gained more validity by the fact that the authors have been well-acquainted with the topic. This results in higher trustworthiness. The fact that our respondents have been conducted with both micro-entrepreneurs with an accountant and without one has also been to our advantage. This has ensured representativeness and opinions from different groups.

The trustworthiness of this study may therefore generally be seen as indisputable, based on a clear dependability in the form of the methodology section. Also, the group of respondents is not too narrow despite a clear target market, and the objectivity is increased through descriptions of how the findings have been interpreted and the fact that a high number of interviews has been conducted. The fact that all interviews were conducted anonymously is also a support for the trustworthiness of the study.

4. Empirical Results

4.1 Introduction

This chapter presents the interview material. We have chosen to divide the interview results according to the four themes which this study follows. We have divided this section after the study's four themes to illustrate the content in a clear way.

4.2 The role of accounting and external accountants

As previously mentioned half of our respondents use an external accountant while the other half manage their accounting themselves. During the interviews we discussed the relationship between respondents and their consultants, with the group currently employing an accountant. The discussion showed that two of ten respondents have changed their accountant since starting the enterprise. In both cases, there have been outside circumstances that have caused the change. For example, one respondent had earlier used his auditor as a sort of accountant as well, and had had to switch to another accountant in 2010 when he decided to stop using an auditor. No respondent was outright dissatisfied with their accounting consultant's work. However, four of ten respondents employing an accountant indicated that they did not know enough about what their accountant did do to assess whether his job was good or not. The respondents also said that they did not possess sufficient financial knowledge themselves to judge the work done by their accounting consultant.

"I do not have the ability to manage the business's book-keeping myself, which is the reason I use a consultant. Perhaps there are those who are better than the guy that I employ, but I have not received any complaint from the STA so he must be doing something right."

(Entrepreneur of the group that makes use of an accounting consultant.)

To not have received any complaints from the STA seems to be an important factor while judging the work of your accounting consultant, according to the respondents. Two other factors that respondents assessed as positive in their consultant were easy availability and agreeable treatment.

The respondents who did not employ an accountant in the current situation indicated that the main reason for this was the cost this involved. Four of five of this half of the respondents had used the services of an accounting consultant earlier. They had stopped doing so when they felt able to handle their accounts themselves.

The group that made use of an accountant today said that the primary reason for this was to prepare the annual financial statements (financial statement and balance sheet), tax planning and VAT compliance. One respondent had also at some point asked their accountant to establish an activity

report requested by a banks or investor. This cost had been considered as necessary to obtain credit or acquire a loan. However, none of the respondents who had done this had used the generated report for any other purpose or further business decisions.

Regarding the accounting knowledge that the respondents possess, four of five respondents who discussed the subject in the group employing an accountant, believed that the accountant compensated for the knowledge that they themselves lacked. The consultant thus covered the existing knowledge gap between the micro-enterpriser and his consultant.

In the group not employing an accountant, all respondents indicated that they believed that an accounting consultant was more knowledgeable in the subject of accounting than themselves. However, three in the group believed that the extra knowledge assimilated by an accountant was not necessary for their own business. They believed that their business, because of its small size, did not require the same amount of tax planning as a large enterprise, such as SKF. Two of the respondents said that a decision regarding their own accounting would not affect the financial outcome to any greater extent.

"It costs me more to pay for an accountant than what he can earn for me by turning numbers and manipulate the financial statements. While in a large enterprise an accounting choices may make a huge different in the financial statement ant therefor save the enterprise a lot of money, maybe thousands of dollars or whatever currency they use."

(Entrepreneur of the group that does not use an accounting consultant.)

When we asked the respondents if and how they made use of their accounting in their business, four in the group who employed an accounting consultant said that they took a look at the enterprise's accountings at regular intervals (monthly to quarterly). The generated report could then be used for tax planning. In the group who did not make use of an accountant, bookkeeping was used for preparation of the financial statements and tax accounting annually. Only one respondent in this group would look at the accounts before making tax decisions.

While discussing regulations concerning accounting and bookkeeping, eight of ten respondents considered the updates in the regulations to be constant difficult to keep track of. They seemed to believe that there could be rules that could be favorable for them as micro-enterprisers to use, but which they were unaware of. This belief was expressed in both different groups.

"There are probably more that I can do...," a respondent from the group without an accountant said, "...but it would take me too long and be too hard to find the rules favorable for me to be worth my time."

(Entrepreneur of the group that does not use an accounting consultant.)

4.3 The relation between micro-entrepreneurs and the Swedish Tax Agency

During the interviews the discussions, which have addressed the relationship between entrepreneurs and the STA, have been interesting and rewarding to this study. Historically, business owners, especially small business owners, have been quite unconcerned with the relationship. They have not had any further contact with the tax agency.

The relationship has been built around two poles, the micro-entrepreneur on one hand and the STA as a principal on the other. Between these poles, the auditor existed as an independent party. Micro-entrepreneurs, as agents, have had access to all his or her accounting and an accurate picture of their tax reports. These have been checked by an auditor and then sent off to the STA. No direct relationship between the agent and the principal has been found. Eight of ten respondents have not had any contact with the STA.

Six respondents talked in terms of having felt a distance to the STA. Those entrepreneurs have experienced the authority only as a controlling function. The opinions have been that the STA was trying to frame the entrepreneurs. Respondents used the auditor as a security between themselves and the authority. This means that the independent party, the auditor, created some security towards the principal. The micro-entrepreneurs were by having an auditor secured in a step before the tax reports were submitted.

After the auditor secrecy was abolished in 2010 the relationship between the STA and the micro-entrepreneurs changed. All the respondents found the abolishment as a positive alteration. They do not consider the independent party, which was represented by the auditor, as necessary. Although an independent party can boost the confidence of a business, none of the interviewees thought that the relationship with the STA would have deteriorated since the decision regarding auditor secrecy.

"I think the change has been good, the cost for the auditor has disappeared and the relationship to the STA has grown. It feels better to cooperate more with the accounting consultant and then have direct contact with the STA".

(Entrepreneur of the group that makes use of an accounting consultant.)

The image of the tax authority today is generally better. Two of ten respondents choose to contact the STA when they have issues. Most of the interviewees who still have this archaic image are often those who still have not tried to make contact. The STA has implemented an organizational change, regarding customer satisfaction, which has contributed to more customer focus and that is evidently shown in the interview group (SIQ 2011).

"Since 2010, I keep better track of my business's accounting, I have learned a lot from the accountant".

(Entrepreneur of the group that makes use of an accounting consultant.)

When the auditor obligations were removed, the micro-entrepreneurs got a closer contact and relationship with their accounting consultant. The consultant was given a bigger role than before the auditor requirement, and cooperation has led to entrepreneurs having a greater understanding of their own accounting. Respondents who are not using an accounting consultant have said that they continued as before the change of law. When the auditor was removed, the independent party, who possessed a large accounting knowledge, disappeared. The reduced knowledge has not to any great extent been filled according to the respondents.

Those that do not use an accountant consultant unconsciously utilize information asymmetry that exists between the entrepreneurs and the STA. This is not cheating, but caused by ignorance of how the accountings should be managed in order to file a correct tax return. Entrepreneurs have all financial information available but have still given incorrect information. In the group with an accounting consultant, knowledge that has disappeared with the auditor today has been recaptured through the closer relationship with their consultant.

"I've been doing my accountings the same way all the time, both before and after 2010. I've been uncertain a few times but have asked a colleague for advice. Sometimes it takes a great amount of time, but mostly it is alright".

(Entrepreneur of the group that does not use an accounting consultant.)

The micro-entrepreneurs who use a consultant in their accounting work do not consider that they are trying to exploit the information asymmetry that exists, not before the change in auditor claim, and not after. They have a better overview and insight in their own micro-enterprise and have also developed a greater economic knowledge. It has led to more discussions about how to manage operational and accounting decisions.

Respondents without any collaboration with an accountant do not perceive that they are turning the asymmetry into an advantage. The entrepreneurs believe to have almost the same extent of knowledge as before the audit abolition, and therefore their perception is in line with their experience from before the audit annulment. Together with the same knowledge as before they have not found any reason to search for loop-holes to rake advantage of the STA.

When the principal-agent relationship changed, with the removal of the auditor duty, a result was that accounting knowledge disappeared. Respondents who use the services of a consultant have adapted to the new relationship by expanding the collaboration with the consultant. They have also increased their accounting knowledge and view the STA as an authority that they can turn to if they have any issue. But in most cases, they turn to their accountant instead.

The interviewees in the group who are not using an accounting consultant have, in the new situation, lost some knowledge that the auditor possessed. The result has been that a knowledge gap has emerged and with it an increased risk of errors in the tax reports. It is also this group who still hesitate to contact the STA, although there is a tendency that indicates that they are more willing to contact the STA after

the auditor requirement was removed than they were before. Three respondents say that they sometimes ask colleagues or acquaintances if they have trouble. In the same breath they add that this course of action in the future may lead to hiring a consultant. In the group without an accounting consultant, two respondents tell us that a few times may have taken a chance instead of finding out the correct answer.

4.4 Views on legitimacy

When the interviews were guided towards issues regarding legitimacy, the respondents gave their views of the tax agency as authoritarian. The topic has been discussed both in the group which today employs an accounting consultant, and those respondents who choose to manage their accounts themselves.

What emerged in the discussion was that the view of the STA's legitimacy has changed in the last decade, according to nine of ten respondents. The STA used to be seen as a sort of threat - an authority that was looking to penalize. Today however, the respondents have the idea that the STA seeks more to stop tax evasion than to frame entrepreneurs who are mistaken in any clause of the tax preparation. Several respondents also say that they especially do not think there is any reason for the STA to point out a small error that occurred by accident, as it is often these sums are as small as 1000 Swedish crowns.

"It probably costs more than it's worth to fix the occasional receipts missing, or point out an error in the representation. I cannot see any purpose other than to show that control may occur to ensure that small business owners persist to handle their accounting according to the rules".

(Entrepreneur of the group that makes use of an accounting consultant.)

The answers that we got from the other respondents also state that this is the general perception of the tax audit in small businesses today. That vision has changed during the last decade according to a majority of our respondents. Two respondents though, said that their view of the STA had not changed at all, or that it was not something they had thought about.

The fact that you can find a certain hesitancy concerning confidence towards the STA today is evidenced by the fact that eight of ten respondents rather avoid to call the STA for help. They prefer to turn to their accountant if they have one, or acquaintances, for answers. This is partly because they have a closer relation to them and also since they subconsciously fear that calling to the STA will result in a tax review. Even though all respondents also say that they know this is not the case, they still argue this way. Here is an example:

"Obviously, I know that there are no records of those who call in with questions. And even if there were records like that, it would rather be a sign of honesty to call in for help. It would show that you wish to do right. Perhaps the reason you prefer to not call in for help is connected with the fact that you think the

tax agency believes they will find more mistakes in your accounting if you have called in with a question and shown that you are not too sure about how you handle your books."

(Entrepreneur of the group that does not use an accounting consultant.)

The respondents were discussing legitimacy towards the STA as well as other stakeholders and received follow-up questions. The respondents were asked how they believe abolition of a mandatory auditor for small micro-enterprises may have affected the trust between micro-entrepreneurs and stakeholders such as banks and investors. Both groups reasoned here that regarding a bank or investor one would have greater confidence in a small business if you made use of an independent auditor. Therefore they believe it is good that the possibility still exists today. However, four respondents said they believed the legitimacy could decrease by the fact that they have chosen not to use an accountant, even though it is not mandatory today.

Our empirical findings also show that the confidence towards the regular micro-entrepreneurs has changed. One reason is that, even if one would not deliberately manipulate the books themselves, one would think that the fact that an independent part in the form of the auditor has disappeared has opened up the opportunity for others to shirk with their books.

Nine of the ten respondents note that their legitimacy towards the STA has not changed. No matter if one's confidence before the abolishment has been strongly or less strong regarding the STA, the view has not changed by the fact that the mandatory auditor is removed.

"I am the one who is being scrutinized; I am not the one who examines. If the legitimacy has been reduced, it is against me, as it is the control of me as a small business owner that is now faltering."

(Entrepreneur of the group that makes use of an accounting consultant.)

In short, legitimacy towards the STA has not been affected in either group of our respondents. If the confidence in the STA was high before year 2010, it is just as high today, and vice versa. However, two respondents from each group believed that their own legitimacy as micro-entrepreneurs has declined. Mainly their belief is that their status in the eyes of stakeholders such as banks and investors has changed, but also from the STA. Therefore, our empirical findings show that it could be better to continue using an independent auditor.

The respondents' view upon the STA as a controlling authority has changed in the last decade. However, this seems not to be linked to the fact that the mandatory auditing duty regarding this group of small businesses was abolished. It is simply so that the STA's reputation has gone from a belief that they are looking to frame small business owners, to now wanting to get the accounting as straight as possible.

The answers that differ from the views above are few. These respondents say that their view of the STA has not changed or that they have not given thought to the matter. No respondents claim that the legitimacy towards the STA from their point of view has decreased over the last decade, or more specifically by the fact that the mandatory auditing duty was abolished.

4.5 Perspectives on tax compliance and tax evasion

On the theme of tax evasion, respondents answered questions about how they have acted legally about their tax reporting. None in either group responded affirmatively when asked if they had cheated, but there was still a lot of discussion around the topic. Thoughts that were present with the interviewees were often related to items in the accounts that they felt unsafe around. Seven of ten micro-entrepreneurs responded that they feel that the hardest part is dealing with VAT correctly.

No one in this study has been caught for tax evasion, but two have received complaints. There were smaller misdemeanors and something they could correct and then send to the STA again. The respondents who have had a reprimand have been in contact with tax authorities over the phone. The perception was that they were treated well and were able to get help to fix what was wrong. After receiving a complaint the micro-entrepreneurs says that they became more cautious in their reporting. Not anyone experienced it as unpleasant to get a note and it was largely the result of a correct and friendly conversation with the STA.

"I have not contacted the Tax Board with questions; I feel an anxiety about being scrutinized if I do, even though I know that it is not going to happen. But somewhere it still takes mind to call".

(Entrepreneur of the group that makes use of an accounting consultant.)

When the aspect about the fact that rationally there is a small chance of being caught in case you try to execute tax evasion was discussed, the respondents responded that they did not want to manipulate their accounts. It was felt that the sense of deliberately cheating was unsatisfactory. The knowledge of cheating with the risk of audit formed the basis for their decisions. A large part of the business owners, six of ten, told us that the fear of being audited is often in their minds. The risk of an audit is always present. Five of ten of respondents said that they do not want to contact the STA which is caused by a fear of being scrutinized. While highlighting that they are aware that no extra examination will be done, they still all choose not to take the risk.

Those two respondents who have been in contact with tax authorities, say they have got a better picture of the STA than they previously had. They say that their willingness to talk to the STA has grown. At the same time, the fear of examination exists. Surprisingly few know about the penalty for tax evasion. Everyone knows that the punishment is a fine but eight of the respondents do not know what the size of the fine is. During the interviews we got the feeling that it is the punishment in itself that the respondents are trying to avoid, the amount is not what matters.

When we discussed what the STA could do differently to reduce the distance to the entrepreneur, and open up a dialogue, two of the respondents suggested that they would like to have a personal contact. They felt that it would open up for conversation and partially remove the feeling of being extra-checked because of the contact. Other suggestions that came up were that the tax reporting would be facilitated. Everyone think that one or several parts of the form is difficult to fill. There was not proposed any

concrete suggestions about how that would happen, but many pointed out that the challenge is VAT, to keep updated on new rules and all the dates that micro-entrepreneurs need to keep track of.

Two of ten respondents say that they sometimes make mistakes with small sums, for example, a receipt is sometimes handled wrongly. When that is the case, it is never more than 100-200 SEK. In the aftermath of that discussion they highlight the fact that they feel especially vulnerable as micro-entrepreneurs. They argue that larger firms are able to, for example, do group contributions and tax planning in a different way. It is again seen in three of five respondents from the group who do not make use of an accountant.

"Sometimes it feels hopeless, at least half of what I earn is lost in tax, I can't do anything to go around that fact, as a small business owner I don't have an option like larger businesses that can execute group contribution."

(Entrepreneur of the group that does not use an accounting consultant.)

During the interviews we felt that there is a duality around making contact with a tax office. Those who have had contact reflect that it has been positive, but there is a fear of being audited. The interviewees who have had the most number of contacts are the most satisfied. The respondent says that the STA has really taken the time and put themselves into his or hers problems. The perception is that you really get help. It tends to be that those who have trouble getting the enterprise to work are those who have received the very best treatment. The respondents have felt so vulnerable when their business has been in crisis that they not have seen any obstacle to call and get help. We do not hope that entrepreneurs will have to be in crisis to achieve the best contact and the image of the authority, but there is a tendency in that direction.

The respondents in the group without an accountant ask a colleague or friend when they have a problem. One of the participants, however, says that after the abolition of the audit, he has a few times gambled in the report. The perception is that they can manage without an auditor. They did not consider that the auditor contributed with any knowledge. However, they had discussions with the auditor between 2-5 times a year, and they always asked about items in the accounts they were unsure about. Without the auditor it seems to be a risk that compliance deteriorates, eight of ten still claim that they have enough accounting knowledge. However, from the interviews we see that, because of the removal of the auditor duty, the risk of inadvertent errors has increased. The errors have been completely oblivious or relied on what you think is correct.

5. Analysis

5.1 Introduction

We have divided the analysis according to the study's four main themes. First we analyze how the cooperation between micro-entrepreneurs and accounting consultants has changed since there no longer is mandatory to use an auditor. We then continue to discuss the micro-entrepreneurs' thoughts on how the relationship with the STA have changed since the audit requirement was removed. In which way they find the fact that the independent party no longer exists and what the effects of that are. The following section deals with the legitimacy and how micro-entrepreneurs and the STA's ditto has changed after 2010. Finally we discuss how the micro-entrepreneurs look at tax compliance, and if there is any difference before and after the abolition of audit duty.

5.2 The role of accounting and external accountants

Marriott and Marriott (2000) write that the relationship between a small business and their accountant tends to be long term. This is regardless of whether you feel fully satisfied with the work that the consultant does. Our empirical evidence shows that two of the respondents who use an accountant have ever changed this. In these cases the changes were due to an external change, for example while switching from using an auditor to an accountant. The auditor had previously been used as a bookkeeper as well as for auditing, and at the change the auditor referred to an accountant instead. In none of the cases, the change was due to the quality of the work that the accountant had done.

Gooderham et al (2004) also argue that the length of the relationship between a small business owner and its bookkeeper does not determine how the accountant's quality of work is perceived. Instead it is the confidence that the small business owner feels for his accountant that determines this. According to our empirical information this trust depends on whether the micro-enterprise has received any complaints from the STA on their filed tax return. If you have not received any complaint, the respondents do not think that there is anything to complain about. Generally it seems to be factors other than the work that the accountant provides that determines how the micro-entrepreneurs view their accountants. Factors such as availability and agreeable treatment are important for the respondents.

Small business owners may also lack sufficient financial knowledge to assess their accounting consultant's work (Gooderham et al 2004). This is indicated by our study. Two of the respondents using an accountant say that they do not know enough about what their consultants are doing, or that they lack the skills, to assess their work. If you do not feel capable of assessing your accounting consultant's work based on the quality of his work, it is natural to judge from other factors. Factors that are

comprehensible, such as availability and agreeable treatment. Our study showed that these were important.

Small business owners use their accountants for advice to different degrees (Gooderham et al 2004). Our study shows that the reason why one uses their consultant for advice is that this can cover up a knowledge gap that exists between the micro-entrepreneur and the consultant. However, six of ten respondents believe that the extra knowledge that the consultant can provide is not necessary for their micro-enterprises. They believe that the cost, compared to the external knowledge received, is too great. Research has shown, however, that buying external knowledge has led to increased sales and survival of family businesses (Barbera and Hasso 2013). Marriott and Marriott (2000) argue that many small businesses would benefit from bringing in external expertise, and say *"The Underlying problem stems from Weaknesses in the financial awareness of the owner managers"*.

Our study shows that the group employing an accountant also utilizes their accounts more than the group without an accounting consultant. Four respondents in the first group versus only one in the other group. Our study thus shows that respondents in the group without an accounting consultant believe that the cost exceeds the benefits of buying this knowledge, and the majority of this group does not utilize its accounting for tax planning or business decision. Since the micro-enterprises are similar to small business regarding business structure and governance terms, it is likely that the research by Barbara and Hasso (2013) also applies to the group of micro-enterprises. The micro-entrepreneurs would then benefit from purchasing external knowledge in terms of sales and survival. This however, requires an intention to some sort of expansion (Gooderham et al 2004) and a good strategic process within the company (Barbera and Hasso 2013).

Due to lack of knowledge, small business owners do not utilize their systems to full capacity (Marriott and Marriott 2000). Accounting has been shown to be an area that does not get enough attention from small business owners according to Salvato and Moore (2010). This research is also likely to be applicable to micro-enterprises. We can see this in our study as the respondents themselves said they did not use their accounts to their full capacity. There are constant updates of laws and regulations. Eight of ten respondents said that they thought there were rules as they themselves, as micro-entrepreneurs, should keep track of. But they also thought it was hard to stay updated on the changes being made. One half has compensated for this by using an accounting consultant whose job is to keep abreast of these changes and updates, and be familiar with the rules that are favorable for their clients.

5.3 The relation between micro-entrepreneurs and the Swedish Tax Agency

The micro-entrepreneurs argue that information asymmetry before the audit abolition was not something they took advantages of. Nor now or after the change, when there is greater scope for moral hazard (Miller 2005). The respondents consider that they are not exposing STA to negative information

asymmetry. In the group which uses an accounting consultant the free audit has not indicated any tendencies regarding utilization of the information asymmetry. Information asymmetry is larger today than it was before 2010. However, it has not led to an increased immorality in the group.

In the group of respondents who do not have a consultant, there is no intention to exploit asymmetry. They do not believe that the change has led to changed behavior regarding moral hazard. The experience is not that today's new situation brings out the possibility of trying to withhold information from the principal, the STA. In the study, one can see that this group has dropped in accounting knowledge, when the auditor was removed. It could mean that the potential asymmetry has decreased as micro-entrepreneurs would no longer have as good skills. With the audit abolition, the accounting knowledge was reduced in the group without an accounting consultant, which probably reduces rather than increases the potential for moral hazard.

The problem regarding the fact that the agent has more information and can affect the principal's ability to take care of its interests is shown to have decreased (Braun and Guston 2003). In the group not using an accountant it is shown that the reduced knowledge from the elimination of the auditor has not been covered by new knowledge added. Nevertheless interviewees tell us that they have enough knowledge. However our empirical study indicates that this group has not had an increase in information asymmetry. E.g. one of the interviewees, in the group without an accountant, admits that he has gambled in his tax reporting due to lack of knowledge.

When we discussed the audit requirement abolition, and the fact that it is no longer a requirement to have an auditor, both interview groups agreed with each other. None of the micro-entrepreneurs felt that what the auditor had possessed in knowledge was missing after the amendment about using an auditor. Kren and Kerr (1993) argue that an independent party reduces the risk for agents to shirk. Despite this, both groups were consistent in their statement concerning the auditor. Respondents thought of it as an expense and did not see any connection between having an auditor and increased credit. The role as an independent party and mark of accounting quality is not something that entrepreneurs experienced as positive enough to want to keep their auditor. The consensus of both groups is that the abolished requirement was a positive change. Pauly (1974) argues about the reason for not expecting a worse outcome just from removing an independent party. Both groups that we have interviewed have had the same reason.

If the agent is acting correctly there is no need to require a review, but on the other hand, the principal has no knowledge if the work performed is optimal if there is no audit (Kren and Kerr 1993). The entrepreneurs were before the audit abolition forced to have an independent party to provide proof that the tax reporting was accurate. All respondents highlight that they did not find that the auditor added anything regarding accounting knowledge to their bookkeeping. Empirical studies show that the auditor's role plays a minor role with regard to the achievement of an optimal relationship between the micro-entrepreneurs and the STA.

5.4 Views on legitimacy

Tyler (2006) argues that justice is something that can be used both to create legitimacy as well as to maintain it. This view differs from earlier research which states that the ability to award penalties and rewards determines the degree of an organization's influence. This is consistent with our empirical findings regarding the legitimacy towards the STA. Our respondents felt that the image of the STA and their trust towards them had improved in the last ten years. However, this was not due to the abolishment of the mandatory audit requirement. Instead, they expressed that it was the image about the STA's work that had changed. Previously, the view of the STA had been experienced as a controlling authority looking to punish businesses. Today, the view has changed to an agency looking to prevent tax fraud and insert justice rather than pointing out minor errors that do not provide any significant impact financially for either the micro-enterprises or the tax authority. Our empirical evidence is therefore consistent with our theoretical framework.

However, a certain fear of the STA still exists today, according to our empirical findings, which show that micro-entrepreneurs are unwilling to call the STA to ask a question regarding their tax reporting. They fear being punished or reviewed, if they appear ignorant of existing laws. Nevertheless, the respondents claim to know this is not the case, which indicates a confidence in the authority. This trust is essential for authoritarians as it increases the ability to implement the decisions being made as well as compliance (Tyler 2006).

Two ways to achieve a higher legitimacy is to work actively with environmental issues and giving volunteer information (Bansal and Clelland 2004). Earlier, before the auditing requirement was abolished, it was mandatory for all incorporated businesses to submit their reports for review by an auditor each year. Today, you can do so by choice, but it is not a requirement. Those small businesses which today choose to continue to use an auditor thus have an extra safety. They volunteer to be audited. Voluntary disclosure of information may increase stakeholder confidence in the enterprise that chooses to be more open with their financial statement, or at least appears to be more transparent. Similarly, our empirical evidence shows that small business owners today may choose to voluntarily be audited, and thus increase its legitimacy among its stakeholders such as banks and investors.

Regarding accounting and auditing, the STA as a controlling authority seeks to achieve practical legitimacy. This is by trying to get a higher percentage of correct tax reports. It is executed by possessing a high degree of legitimacy. This is supported theoretically by research showing that a higher legitimacy increases the chance for an authority's regulatory to be complied (Tyler 2006).

During the interviews, our respondents argued according to moral legitimacy. These discussions arose mainly on issues related to tax compliance. The empirical basis of our study shows that micro-entrepreneurs are trying to do the right thing. In other words, they are trying to submit correct tax reports. The reason for wanting to do so is that the respondents believe this to be the right thing to do. Therefore, they tend to reason towards moral legitimacy. During the discussions the respondents also showed a concern regarding the legitimacy towards themselves as micro-entrepreneurs. They believed

that their own legitimacy as a group had decreased after the audit requirement was abolished. This was clear by the fear that the business environment would believe that micro-entrepreneurs, as a group in general, would tax cheat to a greater extent, now with the mandatory auditing requirement having been abolished. There was in other words a concern from our respondents that other micro-entrepreneurs would not seek moral legitimacy, but consciously would shirk their accounts if given the opportunity.

In conclusion, our empirical evidence has been found to be consistent with the theoretical framework of this study. The change in the view of the STA as the controlling authority goes hand in hand with research showing that justice gives a higher degree of legitimacy, rather than punishment. Also our respondents' arguments that the voluntary use of an auditor may give an added legitimacy from stakeholders such as banks and investors are supported by research on volunteer information.

5.5 Perspectives on tax compliance and tax evasion

Alm et al (1992) argue that in a purely economic analysis regarding tax evasion, the rational action should be cheating. This is because of the low risk of detection. Due to this fact most countries have a low deterrence rate. Respondents in the group with an accountant consultant say that they do not want to cheat and that they have never knowingly cheated. The reason they have not taken the risk is that there is a fear of being discovered. The fact that there is small risk of being discovered does not have great significance in this group. The respondents say it is believed to be an unpleasant feeling and that it feels morally wrong to cheat. This is their reason to stay on the right side of the law.

In the group who do not have an accounting consultant they answered similarly, but one of the micro-entrepreneurs says he on occasion gambles in tax reporting. The reason for his action is based on lack of knowledge of how to submit a proper report and is not dependent on an attempt to cheat. Two of the respondents in this group have received complaints from the STA. They have taken action to correct the problem and have not been punished by a fine. Entrepreneurs in both groups state that they are most afraid of being detected on the basis of moral considerations. It is not the fine itself that is feared.

If the STA treats taxpayers in a fair and friendly manner there is an increase in compliance. Taxpayers show high tax morale if they are well treated by the tax authorities. If they are treated in an unpleasant way taxpayers try actively to avoid paying taxes (Frey and Feld 2002). Those respondents who have been in contact with the STA say that they were well treated. Two of the respondents have been in contact with the STA and the others have not contacted the tax authorities. There is no difference between the groups.

Those who have not been in contact with the STA say that they are afraid of being audited. A half of the respondents have a poor image of the authority. They do not believe they can be helped with their problems and therefore see no reason at all to call and ask questions about their tax reporting. Among these respondents, it is difficult to increase compliance. Tax morale is increased by a friendly and proper

treatment but if the STA is not contacted by the taxpayers, they cannot use this way to increase compliance.

There is a myriad of motivational, non-economic factors, which can be applied to decrease anticipated noncompliance. Such factors are remorse, envy, guilt and shame (Andreoni et al 1998). Respondents in the group with an accounting consultant feel that it is morally wrong to evade taxes. They say they would feel shame and guilt if they cheated. Entrepreneurs think that the feeling of shame is motivating to not evade tax.

Discussions with respondents in the group without an accountant were similar. Everyone in this group would feel shame if they cheated consciously. One respondent has sometimes gambled in his tax reporting and taken a risk not reporting the tax correctly. However, this has never been done to deliberately cheat; instead it depends on an inadequate accounting knowledge.

Participants in an experiment, regarding tax compliance, tended to be less compliant in cases where the participant felt that there were ways to avoid laws and regulations. More cash than card payment is one example when it was shown that compliance was decreased (Robben et al 1990). Further Robben et al argues that noncompliance is counteracted in most cases with a high risk of detection. Participants in the group with an accountant do not agree with the fact that they would cheat more if they have had knowledge of how to avoid taxation. They insist that their tax morale is higher than trying to find loopholes in the rules and thus pay less tax.

One of the participants in the group without a consultant says he thinks it is unfair because micro-entrepreneurs do not have the same opportunities for tax planning as larger businesses have. He thinks it is unfair that they, for example, can give group contribution in order to lower their tax burden. Although he thinks that it is unfair he still does not want to cheat. But he thinks that there should be more tax incentives for micro-entrepreneurs. Others in the group tell us that they would not cheat even if they would know about ways to avoid paying the high taxes.

6. Conclusions and Discussion

6.1 Introduction

In this chapter the study's conclusions will be presented to provide answers to the chosen questions. We give the answers of the questions and then continue with a brief explanation of how the purpose of the study has been completed and what the study has concluded. After this, a discussion based on the author's thoughts and suggestions on areas for further research will follow.

6.2 Conclusions

The purpose of this study was to describe how tax behavior has changed in micro-enterprises since the audit requirement was removed in 2010. The study's first question was; *How has the principal-agent relationship changed since the audit requirement was removed?*

The study shows that the relationship has changed in the sense that knowledge has been lost in the micro-enterprises who choose not to use an auditor. In some micro-enterprises, this reduced knowledge is covered up by the use of an accounting consultant, while others choose to manage their accounts themselves.

Micro-entrepreneurs in our study argue that they do not use the information asymmetry existing between themselves and the STA. Nor have they utilized this before the mandatory audit requirement was abolished. Because of the reduced accounting knowledge in the micro-enterprises, the opportunity for moral hazard also decreased. However, one of the respondents, in the group without an accountant, has sometime gambled in his tax reporting due to lack of accounting knowledge.

This has not been directly demonstrated by low tax compliance. Micro-entrepreneurs do not aim to tax cheat, in either group. However, a respondent without an accountant has sometime chosen to take a gamble while unsure of how to deal with his tax reporting. This has not been shown in the group with an accounting consultant, as these micro-entrepreneurs let their consultants manage their accounts. The decline in knowledge due to the changed principal-agent relationship has therefore affected tax compliance. This is because many micro-entrepreneurs without an accountant consultant choose to take a chance and send in their tax reports despite lack of knowledge of both accounting records, and how to complete the tax forms.

The lack of an auditor has affected the group that does not use an accounting consultant more than the group who does. If the micro-entrepreneurs themselves, or someone close to them, do not possess the necessary accounting knowledge to handle their accounting, their tax reporting suffers. Respondents who have chosen to manage their accounts themselves argue that they are in no need of an accountant.

However, most micro-entrepreneurs would benefit from using an accounting consultant. Previous research has shown that buying in external knowledge has led to increased sales and survival of family firms (Barbera and Hasso 2013). Our study argues that this also applies to micro-enterprises, because micro-enterprises are similar to small businesses regarding management, size and regulation. Our empirical evidence has also shown that the group who uses an accounting consultant also uses its accounting for more business decisions than the group without an accountant.

However, if a micro-enterprise employs an accounting consultant it does not necessarily mean that the businesses' accounting knowledge is sufficient. The relationship between a small business and its accountant tends to be long term, no matter if you are fully satisfied with your consultant's work or not (Marriott and Marriott 2000). Our empirical evidence shows that this also applies to micro-entrepreneurs. If your accountant is doing a bad job, it's very possible that the micro-entrepreneur will keep him/her employed despite this. If this is the case, the use of an accounting consultant does not necessarily result in a positive effect on the business's sales.

The second question in this study was; *How does a changed principal-agent relationship affect the legitimacy of tax authorities and micro-entrepreneurs?*

The micro-enterprises view of the STA has changed, but not because of the audit abolishment. There has been a change in the principal-agent relationship, but in this study, the change did not affect legitimacy towards the STA. However, the micro-entrepreneurs themselves believe the abolition of the mandatory audit requirement has resulted in that their own legitimacy has declined. This is from stakeholders such as banks and investors. They also believe that the voluntary use of an accountant today may increase the legitimacy towards a micro-enterprise from a bank's or investor's perspective. This is consistent with research showing that giving out voluntary information can achieve a higher legitimacy (Bansal and Clelland 2004).

In conclusion, the study shows that the principal-agent relationship between micro-entrepreneurs and the STA has changed since the audit abolishment. This is by loss of knowledge in micro-enterprises, primarily among businesses that do not choose to bring in external knowledge in form of an accountant. This has left tax reporting suffering, since tax compliance has decreased in the group without an accountant, and could be an explanation for why micro-entrepreneurs alone stand for 39 percent (STA 2013) of the nation inaccurate taxation.

However, the changes in the principal-agent relationship have not resulted in a deterioration of legitimacy towards the STA from the micro-entrepreneurs' point of view. The micro-entrepreneurs themselves believe their own legitimacy has been reduced in the eyes of banks and investors. Nevertheless, this can be helped by voluntarily choosing to use an auditor despite not legally requiring doing so.

Our study shows that the proportion of the inaccurate taxation among micro-entrepreneurs in Sweden has increased due to a change in tax behavior. It is the way in which micro-entrepreneurs handle their

accounting and tax reporting that has changed, not the wish to do the right thing, i.e. the tax compliance. Among the micro-entrepreneurs who have chosen to bring in external knowledge in the form of an accounting consultant, the lack of knowledge has been reduced. Therefore the audit abolishment has not had the same effect in these businesses compared to those choosing to manage their accounting and tax reporting themselves.

6.3 Discussion

This study was conducted in 2014, while the new law regarding dispensation of the audit duty for small businesses was introduced in 2010. Whether or not the law has been valid for an optimal time passed for this study to be carried through is debatable. An optimal time passed for this study to have taken place is very hard, if not impossible, to determine. Three, five, ten or twenty years... The purpose of the study is to a great extent critical for this decision. We do however believe that it would be interesting to conduct further studies in the future relating to the change of law to have been valid for a long time. Nevertheless, we ourselves have not noticed that the amount of time passed since the new regulations, four years, has been an obstacle for the study. It is likely that our conclusions would have been affected if the study was made a further five years in the future. Perhaps the problems found among micro-entrepreneurs who do not currently use an accountant would have been solved. Perhaps the tax gap amongst micro-enterprises would have declined. And maybe current regulations would have changed again, either through simplified rules for tax reporting, educational requirements of micro-entrepreneurs or mandatory use of an accountant. These thoughts are only speculations about possible future changes that have risen while this study was conducted. However, it is likely that if any of these changes were implemented, and the current problem with tax reporting and accounting in micro-enterprises without an accountant were more or less eliminated, a study similar to ours would not have taken place.

Furthermore, reflections occurred on a more rigorous comparison between the two groups in the study, i.e. micro-entrepreneurs with and without an accountant. However, this has been breached and resolved through a discussion of the two groups with more or less differences around the different themes. The study aimed to describe how tax behavior amongst micro-entrepreneurs has changed since the audit requirement was removed in 2010. We felt that the point of use of the two groups was to ensure that the opinions of how micro-enterprises managed their accounts and tax reporting in different ways emerged from the study. Not to strictly compare the differences between them.

A thought in retrospect has been that even as we have ensured that our respondents are from both businesses with and without an external accounting consultant, we could have ensured that the businesses were located in central Gothenburg city, as well as at less populated locations outside the city center. This is to ensure that any differences in views on tax reporting and the STA were found in the study. In our case, we have limited ourselves to neither one nor the other, but have received a

distribution that we are satisfied with among our respondents. But it had possibly been able to provide a greater relevance to the study if we had also ensured opinions from different sized communities.

6.4 Further research

Since this study has been exploratory we encourage further research in the area. We would suggest further studies to use a quantitative approach, such as a questionnaire, as well as qualitative information. It would also be interesting to do a similar study in ten years or so, to see if the result of the study differs when the change of law regarding audit requirement has been active for a longer period of time.

Furthermore, we believe it would be interesting to do a follow up on the group that does not use an accountant, since we have found that more problems have occurred in this group than the one employing an accountant. We would like to know how micro-entrepreneurs in the future decide to handle their accounting and tax reporting.

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Appendix 1 – Interview guide

Introductory questions

1. How long has your business existed?
2. Who is responsible for accounting and tax reporting?
3. What kind of educational background has the person who is responsible for accounting and tax reporting? Previous experience?

Accounting

4. Do you use an accounting consultant today?
5. What reason do you have for using an accountant today?
6. Have you always used the same accountant, or have you ever switched?
7. Do you experience that your accountant is doing a good job?
8. What qualities do you perceive as positive of a consultant?
9. How would you describe the relationship between you and your accountant?
10. Do you feel that there is a knowledge gap between you and your accountant?
11. Do you use your accountings in the management of the business?

Legitimacy theory

12. What is your view of the Swedish tax agency as an authority?
13. Do you have confidence in the STA?
14. Have your view of the STA changed the last 10 years?
15. Have your legitimacy towards the STA changed because of the abolition of the audit requirement?
16. Do you feel that you can make contact with the STA regarding tax reporting and accounting in your own business?
17. Do you feel that your own legitimacy (from different stakeholders, lenders) has been affected since the abolition?
18. What do you think about the opportunity of free audit?

Tax compliance

19. Do you feel that it is difficult to follow the tax regulation?
20. Do you feel that the rules and laws change too frequently?
21. Do you experience difficulties filing a correct tax report?
22. Have your willingness to comply with laws and regulations changed since the audit abolition?
23. What aspects of tax reporting do you experience as difficult?
24. Have you contacted the STA with questions? How were you treated in that case? Did you get an answer to your questions?
25. Do you view accounting as a tool for example in business decisions?
26. Are you worried that you will be scrutinized by the STA?