

SME tax compliance costs

2009

Evaluation report 1

Prepared by Evaluation Services
Inland Revenue
August 2010



Inland Revenue
Te Tari Taake

Contents

- Guide to reading this report..... 1**
 - Technical decisions1
 - Glossary2
 - Structure of report3
- 1. Executive summary 4**
 - Evaluation purpose.....4
 - Policy context4
 - Evaluation methodology.....5
 - Tax compliance cost definition5
 - Value of time analysis5
 - Key findings6
 - Overall combined tax compliance costs6
 - Internal compliance costs7
 - Personnel spending time on tax activities8
 - External tax advisor costs8
 - Tax specific compliance costs8
 - Psychological costs11
 - Additional information12
- 2. Background and objectives..... 13**
 - Background.....13
 - Policy purposes13
 - Alignment with other Inland Revenue priorities14
 - Evaluation objectives.....14
 - Defining compliance costs15
- 3. Methodology 16**
 - Overview16
 - Scoping and design18
 - Acknowledgements18
 - Sample design.....18
 - Questionnaire development.....20
 - Cognitive interviewing.....20
 - Pilot.....20
 - Main fieldwork21
 - Respondent samples.....21
 - Response rate analysis.....21
 - Tax advisor sub-survey22
 - Weighting23
 - Data integrity and data processing.....23
 - Database construction.....24
 - Data imputation.....24
 - Calculation of means24
 - Calculation of medians25
 - Treatment of missing information25
 - Presentation of results25
 - Value of time analysis.....26
 - Owners/partners/directors/trustees.....26
 - Paid employees.....27
 - Unpaid friends or relatives28
 - Value of time analysis summary28
- 4. Sample profile 29**
 - Sample profile by business size29
- 5. Internal time compliance costs: All tax activities 36**
 - Internal time spent on specific tax activities36
 - Internal time spent on tax activities by specific types of personnel41

6. Internal compliance costs: Income tax.....	44
Stress associated with provisional tax compliance	48
7. Internal compliance costs: GST	51
Stress associated with GST compliance	54
8. Internal compliance costs: PAYE	57
Stress associated with PAYE compliance	60
9. Internal compliance costs: KiwiSaver.....	63
Stress associated with KiwiSaver compliance	65
10. Internal compliance costs: FBT	68
Stress associated with FBT compliance	70
11. External tax advisor costs	73
Use of, and payment for, external tax advisor services – business survey data	73
Tax advisor sub-survey	73
External compliance costs by tax type.....	74
12. Payroll services.....	78
13. Audit	79
14. Combined compliance costs across all SMEs	80
Internal time.....	80
Overall combined compliance costs.....	84
15. Psychological compliance costs	95
Concluding comments.....	98
Appendices	99
A. Population and sample strata.....	99
B. Sample profile – unweighted data.....	101
C. Internal time – excludes those who spent zero hours.....	108
D. External costs based on tax obligations	110
E. Payment for external tax services – comparison of tax advisor and business survey data	111
F. Analysis by sector.....	112
G. Analysis by age of business	114
H. 2009 Multi-tax questionnaire.....	117

List of Table and Figures

- Figure 1.1: Internal and external compliance costs by business size, regardless of tax types filed/paid 7
- Figure 1.2: Overall compliance costs as a percentage of turnover..... 7
- Figure 1.3: Combined mean compliance costs (internal plus external) by size of business for individual tax types..... 9

- Figure 3.1: Overview of methodology 17
- Table 3.1: Respondent sample numbers as a proportion of overall population 21
- Table 3.2: Response rate analysis..... 22
- Table 3.3: Response rate analysis – tax advisor sub-survey 22
- Table 3.4: Value of time data relating to owners 27
- Table 3.5: Value of time data relating to paid employees..... 27
- Table 3.6: Value of time data relating to unpaid friends or relatives 28

- Table 4.1: Sample profile by business size (number of employees) 29
- Table 4.1: Sample profile by business size (number of employees) (cont.)..... 30
- Table 4.1: Sample profile by business size (number of employees) (cont.)..... 31
- Table 4.1: Sample profile by business size (number of employees) (cont.)..... 31
- Table 4.1: Sample profile by business size (number of employees) (cont.)..... 32
- Table 4.2: Sample profile by tax type 33
- Table 4.2: Sample profile by tax type (cont.)..... 34
- Table 4.3: Tax type by business size 35
- Table 4.4: Use of a tax agent for a particular tax type..... 35

- Table 5.1: Mean (trimmed) annual hours of internal time spent on tax activities by tax type 37
- Figure 5.1 : Internal time spent on tax activities (annual hours) by tax type 37
- Table 5.2: Median annual hours of internal time spent on tax activities by tax type..... 38
- Table 5.3: Mean (trimmed) annual hours of internal time spent on tax activities by business size..... 39
- Figure 5.2: Mean (trimmed) annual internal hours spent on all tax activities by business size 39
- Table 5.4: Median annual hours of internal time spent on tax activities by business size for all tax types 40
- Table 5.5: Mean (trimmed) annual hours spent on all tax activities for each tax type by business size 40
- Table 5.6: Mean (trimmed) annual hours of internal time spent by personnel on all tax activities by tax type..... 41
- Figure 5.3: Internal time spent on all tax activities (mean annual hours) by personnel type by tax type..... 41
- Table 5.7: Median annual hours of internal time spent by personnel on all tax activities by tax type 42
- Table 5.8: Mean (trimmed) annual hours of internal time spent on all tax activities by business size and personnel group 42
- Figure 5.4: Mean (trimmed) annual hours of internal time spent by all personnel on all tax activities by business size..... 43
- Table 5.9: Median annual hours of internal time spent by all personnel on all tax activities by business size 43

- Table 6.1: Summary of internal income tax compliance costs 44
- Table 6.2: Mean (trimmed) annual hours of internal time spent by personnel groups on income tax by business size 45
- Table 6.3: Mean (trimmed) annual internal compliance costs (\$) of income tax by business size..... 45
- Figure 6.1: Annual internal compliance costs (\$) for income tax by business size and personnel group..... 46
- Table 6.4: Mean (trimmed) annual internal compliance costs (\$) of income tax by use of a tax advisor for income tax 46
- Table 6.5: Mean (trimmed) annual internal compliance costs (\$) of income tax by business size and whether business uses tax advisor for income tax 47
- Figure 6.2: Mean (trimmed) internal compliance costs (\$) dependent on whether a tax advisor is used or not 47
- Table 6.6: Mean (trimmed) internal compliance costs of income tax as a percent of turnover 48
- Table 6.7: Percentage of respondents reporting levels of stress associated with provisional tax compliance by business size.... 49
- Figure 6.3: Percentage of respondents reporting banded levels of stress related to provisional tax by business size..... 49

Table 6.8: Mean stress score associated with provisional tax compliance by business size and age of business.....	50
Table 7.1: Summary of internal GST compliance costs.....	51
Table 7.2: Mean (trimmed) annual hours of internal time spent by personnel on GST analysed by business size.....	52
Table 7.3: Mean (trimmed) internal compliance costs (\$) of GST by business size for different personnel groups	52
Figure 7.1: Annual internal compliance costs (\$) for GST by business size and personnel group	53
Table 7.4: Mean (trimmed) internal compliance costs of GST (\$) as a proportion of turnover.....	54
Table 7.5: Stress associated with GST compliance	55
Figure 7.2: Percentage of respondents reporting banded levels of stress related to GST compliance	55
Table 7.6: Mean stress score associated with GST compliance – by business size by age of business.....	56
Table 8.1: Summary of internal PAYE compliance costs.....	57
Table 8.2: Mean (trimmed) annual hours of internal time spent by personnel on PAYE by business size	58
Table 8.3: Mean (trimmed) internal compliance costs of PAYE by business size and personnel groups.	58
Figure 8.1: Annual internal compliance costs (\$) for PAYE by business size and personnel group	59
Table 8.4: Mean (trimmed) internal compliance costs of PAYE per employee	59
Table 8.5: Mean (trimmed) internal compliance costs of PAYE as a percent of turnover.....	60
Table 8.6: Stress associated with PAYE compliance	61
Figure 8.2: Percentage of respondents reporting banded levels of stress related to PAYE by business size	61
Table 8.7: Mean stress score associated with PAYE compliance – by business size and age of business	62
Table 9.1: Summary of internal KiwiSaver compliance costs	63
Table 9.2: Mean (trimmed) annual hours of internal time spent by personnel group on KiwiSaver by business size	64
Table 9.3: Mean (trimmed) internal compliance costs (\$) of KiwiSaver by business size and personnel groups.....	64
Figure 9.1: Annual internal compliance costs (\$) for KiwiSaver by business size and personnel group	65
Table 9.4: Mean (trimmed) internal compliance costs of KiwiSaver as a percent of turnover.....	65
Table 9.5: Stress associated with KiwiSaver compliance.....	66
Figure 9.2: Percentage of respondents reporting banded levels of stress related to KiwiSaver by business size.....	66
Table 9.6: Mean stress score associated with KiwiSaver compliance – by business size and age of business	67
Table 10.1: Summary of internal FBT compliance costs	68
Table 10.2: Mean (trimmed) annual hours of internal time spent by personnel group on FBT by business size.....	69
Table 10.3: Mean (trimmed) internal compliance costs (\$) of FBT by business size and personnel groups	69
Figure 10.1: Annual internal compliance costs (\$) for FBT by business size and personnel group.....	70
Table 10.4: Mean (trimmed) internal compliance costs of FBT as a percent of turnover	70
Table 10.5: Stress associated with FBT compliance.....	71
Figure 10.2: Percentage of respondents reporting banded levels of stress related to FBT by business size	71
Table 10.6: Mean stress score associated with FBT compliance – by business size and age of business.....	72
Table 11.1: Use of external tax advisor services.....	73
Table 11.2: Profile of tax advisor sub-survey sample	74
Table 11.3: Annual external mean (trimmed) compliance costs by tax type and business size	75
Figure 11.1: External compliance costs by tax type.....	75
Table 11.4: Annual external mean (trimmed) compliance costs by tax type and business size (turnover).....	76
Figure 11.2: Mean (trimmed) external compliance costs by business size (turnover)	76
Table 11.5: Mean (trimmed) external compliance costs as a percent of turnover.....	77
Table 12.1: Use of, and payment for, external payroll services	78
Table 13.1: Incidence of Inland Revenue audit and related time and cost incurred by the business	79

Table 14.1: Summary of mean (trimmed) annual hours of internal time spent on all tax activities by tax type and business size (number of employees)	80
Figure 14.1: Mean (trimmed) annual hours of internal time for main tax types by business size (employees).....	81
Table 14.2: Summary of internal time spent on all tax activities by tax type and business size (turnover)	82
Figure 14.2: Mean annual hours of internal time across all tax types by turnover	82
Figure 14.3: Mean annual hours of internal time for main tax types by business size (turnover)	83
Table 14.3: Internal time spent (mean annual hours) on all tax types by age of business and business size (number of employees)	83
Figure 14.4: Mean annual internal hours across all tax types by age of business	84
Figure 14.5: Combined mean compliance costs (internal plus external) by size of business	85
Figure 14.6: Comparison of overall internal and external compliance costs for the three main tax types.....	85
Table 14.4: Summary of mean (trimmed?) annual compliance costs by business size (number of employees).....	86
Table 14.5: Summary of median annual compliance costs by business size (number of employees).....	87
Figure 14.7: Overall compliance costs as a percentage of turnover.....	88
Table 14.6: Summary of mean annual compliance costs by business size (turnover).....	89
Table 14.7: Median compliance costs by business size (turnover).....	91
Figure 14.8: Comparison of overall internal and external costs for the three main tax types by entity type	92
Table 14.8: Summary of mean annual compliance costs by entity type	93
Table 14.9: Summary of median annual compliance costs by entity type	94
Table 15.1: Overall psychological compliance costs and reported stress levels by tax type	95
Figure 15.1: Percentage of respondents reporting each banded level of stress for each tax type	96
Table 15.2: Overall psychological compliance costs by business size (number of employees)	96
Figure 15.2: Percentage of respondents reporting each banded level of stress for each tax type	97

Guide to reading this report

The 2009 tax compliance cost research design has the ability to produce a vast amount of compliance cost information. From an overall combined tax compliance cost, which includes internal and external costs in relation to all SMEs, down to internal time for only those SMEs who deal with a particular tax type. This section is aimed at providing some background to fundamental concepts to aid the understanding and readability of the report.

The executive summary initially introduces readers to the overall combined results for all SMEs, then highlights some of the key results by tax types in relation to only those SMEs which file/pay that tax type. The early chapters in the report act as stepping stones, building up combined costs. Chapters 5 – 13 look at internal time for only those SMEs dealing with that tax type, then external costs, bringing them both together to form chapter 14, Combined tax compliance costs across all SMEs, regardless of whether they file/pay certain tax types.

Technical decisions

1. All means presented have been trimmed, unless otherwise specified. This is consistent with the approach taken in the 2004 baseline survey.

For describing level of compliance cost, the trimming method applied systematically smoothes off the worst distortions that can result from a few extremely high values and deliver results more useful for detecting change over time than (non-trimmed) means. Removing a few (see calculation of means – page 29) extremely high values (even if genuine compliance costs) using such a systematic method (i.e. one that can be repeated exactly over different years) can be justified because of the policy focus on combined compliance costs that exclude rare events affecting relatively few firms.

2. Most percentages do not add to 100%.

This is mainly due to more than one response category potentially applying to the respondent and to some rounding.

3. Suppressing values in tables where cell size is less than 20.

Conclusions drawn from small cell sizes are potentially misleading so values for small cell sizes were suppressed.

4. Weighted values reported in the tables. However, the base sizes, i.e. the numbers given in the brackets, refer to the unweighted sample sizes.

Unweighted base sizes were reported to give an accurate representation of how many of the respondents actually answered the question.

5. Exclusion of FBT nil businesses

As was done in 2004, those who made FBT nil payment were excluded in the analysis. Including such businesses tends to pull down FBT compliance costs. The exclusion of FBT nil payment businesses ensured that only those businesses that truly deal with FBT are included in the computation of FBT costs.

6. Inclusion of KiwiSaver as a tax type.

While KiwiSaver is not a tax it is administrated through the tax administration and its introduction has implications for employer compliance costs. Given the interest in knowing the compliance cost associated with the relatively new KiwiSaver, it was included in this study as a “tax” type, separate from PAYE, through which it is administered.

7. The cell means are not additive by design.

Means for the cells are not additive as the cell sizes vary from cell to cell. This also explains why the marginal values are not merely the sum of the individual cells in the tables, e.g. the means provided for the “All SMEs” column have not been calculated as the sum of the means for the individual components within a table.

Glossary

Small and medium enterprises (SMEs) – Based on the SME definition used in the 2004 baseline study. Business size based on employee numbers is consistent with MED bands as set by Statistics New Zealand to ensure international comparability¹.

Generally, SMEs are active businesses with less than 50 employees or with a turnover of less than \$12.5 million (See Sample design page 24).

Note the report uses SME, businesses and enterprises interchangeably through the report —all meaning SMEs included in the study population.

Psychological costs – Measured in terms of a 7-point stress level scale (See Appendix H: Multi-tax questionnaire Q29 – Q34).

Overall tax compliance costs (See Defining compliance costs page 21)

$$\begin{aligned} \text{Compliance cost} &= (\text{internal time} + \text{external advisor costs}) + \text{psychological costs} \\ &\quad - (\text{cash flow benefits} + \text{tax deductibility}) \end{aligned}$$

In this report, internal time, external advisor costs and stress levels were measured.

¹ Ministry of Economic Development, SMEs in New Zealand: Structure and Dynamics - 2005

Structure of report

Chapters 2 – 4 introduce the survey, its background, objectives, methodology and a descriptive profile of the sample.

An important distinction dictating the structure of the report is whether the average compliance cost is calculated, one, in relation to SMEs which pay/file the particular tax or cost being analysed; or two, in relation to all SMEs, regardless of whether they pay a particular tax. The first part of the report, chapters 5 – 13, is the former; chapter 14 is the latter in relation to the combined compliance costs for all SMEs.

Chapter 5 reports on the total **hours** spent by SMEs on tax, and it introduces how this time is valued.

Chapters 6 – 10 convert the **hours into dollars**, each chapter dealing with a separate **tax type**. Being tax specific, the base for these chapters is only the SMEs that actually file/pay that tax.

Chapter 11 reports the costs of using **external tax advisors**, in relation to SMEs that use an advisor.

Chapter 12 and 13 report briefly the compliance costs associated with the use of payroll services and with tax audits.

All preceding chapters are leading towards chapter 14 which combines internal and external costs into the **combined costs for all SMEs**. The base for these analyses is all SMEs paying tax, regardless of which tax combinations. So, for example, even if a business does not pay GST, its GST compliance cost is taken as \$0, and the SME is included in the computation of the **all SMEs'** mean GST compliance cost.

Chapter 15 reports the psychological costs of complying.

1. Executive summary

Evaluation purpose

This report records the annual tax compliance costs for New Zealand small and medium size enterprises² (SMEs) in 2009. It follows a similar survey conducted in 2004.

The information objectives of the 2009 survey and evaluation were:

- to measure SME tax compliance costs in 2009
- to measure the change in SME compliance costs since 2004. More specifically:
 - by how much and in what direction do compliance costs change?
 - which elements of compliance costs change?
 - which groups of taxpayers are affected?
 - what impact do the compliance cost changes equate to in the population overall?
 - to what extent can the changes be attributed to specific interventions?
- to evaluate the effectiveness of GST and provisional tax alignment at making tax easier for business.

This report meets the first bullet point above and provides a starting point for considering the others. Subsequent reports will consider the trends and changes in tax compliance costs since the 2004 benchmark survey.

Policy context

Tailoring interventions to make it easier for small and medium businesses to meet their tax obligations and to increase their confidence in the tax administration is an Inland Revenue priority.³ Simplification of tax administration interventions is a key focus of the Department's strategy and the Government has implemented several changes to simplify tax in recent years. The focus of the simplification programme is on reducing the stress, uncertainty and risks that these concerns place on small businesses.

The 2004 survey provided a baseline, before the introduction of several initiatives aimed at making tax easier for SMEs such as GST and provisional tax alignment, subsidised payroll intermediaries and a discount for early payment of provisional tax in the first year of business. Further changes impacting on GST, PAYE and FBT were introduced in 2009, as part of the 2009 Business Tax Measures packages. These included a higher once-a-month filing and payment threshold for PAYE and the introduction of a new threshold of \$10,000: below which all business-related legal expenditure is fully deductible.

Further, KiwiSaver was added to employers' responsibilities in 2007.

² Note the definition for SMEs used in this report may differ from others. Please refer to the glossary at the beginning of this report.

³ Inland Revenue, *Statement of Intent*, 2008-2011, p21

Evaluation methodology

To maximise comparability between the benchmark survey and this one, fundamentally the same methodology was used as in 2004.

The population of interest was, again, New Zealand's SMEs; defined as small and medium businesses (based on number of employees and annual turnover) and sole traders with sufficient income from "self-employment"⁴. A disproportionate stratified random sample, totalling 5,000 SMEs, was drawn reflecting different levels of turnover, employee numbers, tax type.

A mail-out survey of small and medium businesses was conducted in September and October 2009. The overall response rate to the questionnaires was 35%. A total of 1,728 completed questionnaires were used in the analysis linked to key Inland Revenue extracted data. Data were weighted so that the results could be used to generalise to the entire population of interest.

A tax advisor sub-survey was additionally conducted in order to apportion external tax advisor compliance costs to different tax types. The return rate for this sub-survey was 54%.

Tax compliance cost definition

Both mean (trimmed) and median costs are included in the main results, with the following components:

- hours spent internally on each of the main tax types (GST, income tax, PAYE, KiwiSaver⁵ and FBT);
- hours converted into internal compliance costs in dollars;
- external tax advisor costs in dollars; and
- "combined compliance costs" which is the sum of internal compliance costs and external tax advisor costs.

Information is also presented in relation to whom in the business spent the time on tax compliance activities (owner/partner/trustee/director, paid employee, unpaid family or friend) and on the level of stress involved in doing so.

Value of time analysis

The following dollar amounts were used to convert time into compliance costs, based on who in the business completed the tax activity:

- \$61.12 (owners/partners/directors/trustees)
- \$25.39 (paid employees)
- \$33.31 (unpaid friends or relatives).

⁴ Throughout this report the term SMEs is used to denote this population. In some instances the term businesses is used interchangeably.

⁵ For the purposes of this study KiwiSaver is considered to be a tax type.

Key findings

When reporting overall combined compliance costs (reported in detail in Chapter 14), the compliance costs relate to **all** SMEs, unless otherwise stated, whether or not they pay a particular tax. For example, the total GST costs are spread over all businesses, not just those who pay GST. In earlier chapters the base used was those businesses who filed/paid a particular tax type. In some instances these data are also presented in this summary. Where this is the case it is acknowledged in the text.

Overall combined tax compliance costs

- The mean combined (internal + external tax advisor costs) tax compliance cost for all SMEs, regardless of size, is \$5,557 per year. This compares with a median cost, for all SMEs, of \$3,719 per year.
- Generally, mean combined compliance costs increase with size of business, as determined by the number of employees—from \$4,138 for businesses with nil employees to \$9,501 for businesses with six to 19 employees. Note there is a levelling effect with the mean combined compliance cost for businesses with more than 20 employees being \$9,447 (Figure 1.1).
- Mean internal costs are \$3,995 and mean external costs are \$1,639, 71% and 29% of the mean combined cost respectively. The comparative medians are \$2,384 and \$1,098.
- Mean internal costs increase with business size (as determined by number of employees) from \$2,992 for businesses with nil employees through to \$6,646 for those with between six and nineteen employees (“small”). Where businesses have more than 20 employees (“medium”) they decrease slightly to \$6,088. This general pattern holds true for all individual tax types with the exception of income tax which continues to increase for businesses with more than 20 employees.
- Mean external costs increase with business size from \$1,235 for those with nil employees through to \$3,647 for those with more than 20 employees. There is no levelling effect for external costs.
- Compliance costs as a percentage of business turnover reduce markedly from 13% down to 0.3%. (Figure 1.2)

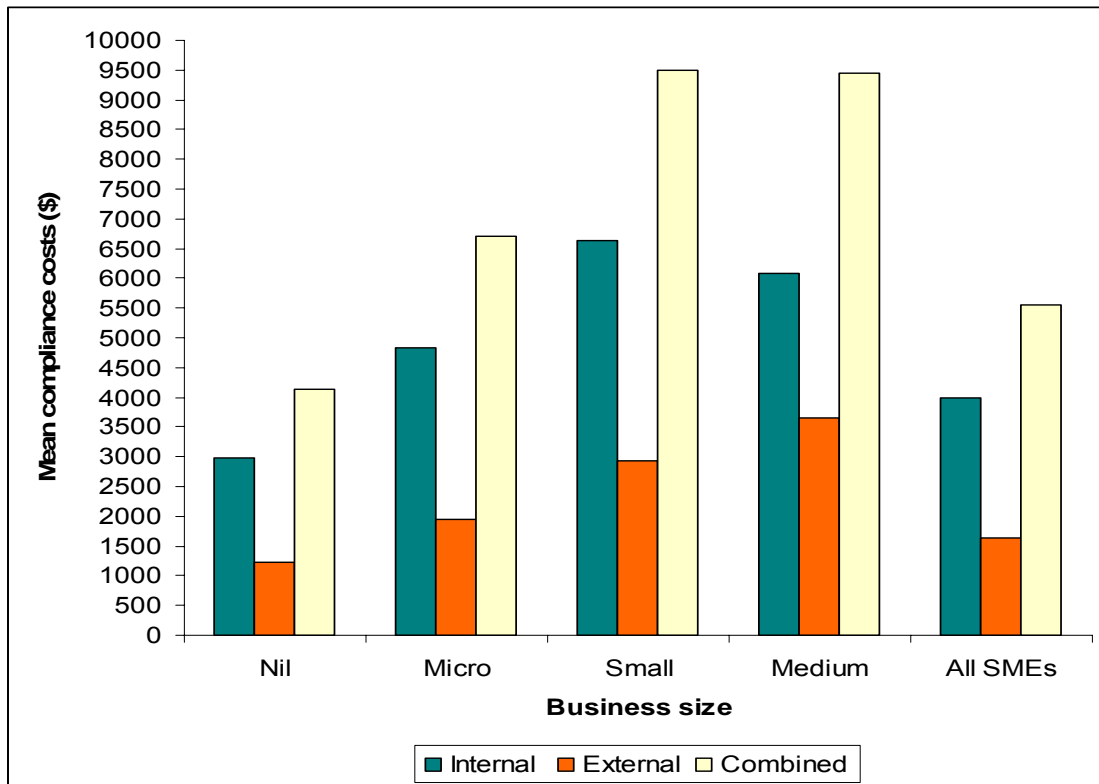


Figure 1.1: Internal and external compliance costs by business size, regardless of tax types filed/paid

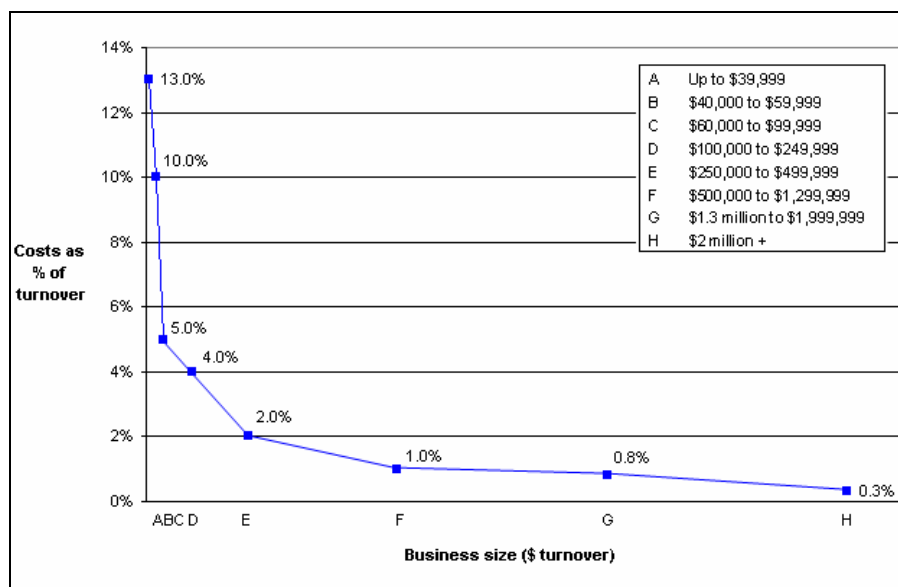


Figure 1.2: Overall compliance costs as a percentage of turnover

Internal compliance costs

Across all SMEs, regardless of size or the type of taxes they pay/file:

- The mean number of internal hours spent on tax compliance is 77.0 hours, which equates to \$3,995 per year. The respective median cost is \$2,384.
- The amount of time spent relates strongly to business size, ranging from 52.1 hours for SMEs with nil employees to 159.8 hours for SMEs with 20 or more employees.

- The overall trend is for an increase in mean (trimmed) annual hours spent as turnover increases. The mean number of hours increases from 50.6 hours for SMEs with a turnover of less than \$40,000 through to 141.4 hours for those with a turnover greater than \$2 million.
- GST requires the greatest time commitment (34.7 hours on average for all SMEs), followed by income tax (21.2 hours), PAYE (11.4 hours), KiwiSaver (3.3 hours) and FBT (1.2 hours).

Personnel spending time on tax activities

These hours are drawn only from those SMEs which file/pay a particular tax type.

- Owners, partners, directors and/or trustees spend on average 55.0 hours a year on tax compliance, paid employees 18.3 hours and unpaid family and friends spend 2.8 hours.
- Larger businesses are more reliant on paid employees—increasing from 22 hours on average per year for SMEs with one to five employees to 179.7 hours for SMEs with 20 or more employees.

External tax advisor costs

- Across all businesses, regardless of size or whether they pay for an external advisor or not, the mean annual cost for external advisors is \$1,639. This compares with a median cost of \$1,098.
- 80% of SMEs pay for external tax services across all tax types.
- Income tax accounts for the largest portion of these external compliance costs (76%). The mean annual cost is \$1,248 for income tax, \$267 for GST, \$45 for PAYE, \$14 for KiwiSaver and \$16 for FBT (all SMEs).
- Amongst those who pay external costs for a particular tax type, the mean annual tax related cost is \$2,184.
- The figures for SMEs which paid external costs for the tax in question are: income tax \$1,736, GST \$716, PAYE \$418, KiwiSaver \$291 and FBT \$220.

Tax specific compliance costs

Figure 1.3 compares the combined compliance costs for each of the tax types by business size. It is indicative only of overall combined compliance costs by business size. This is because it shows the sum of the individual tax types rather than the mean overall cost. These costs are for all SMEs regardless of whether a particular tax type is filed or not. Combined compliance costs are highest for GST and income tax.

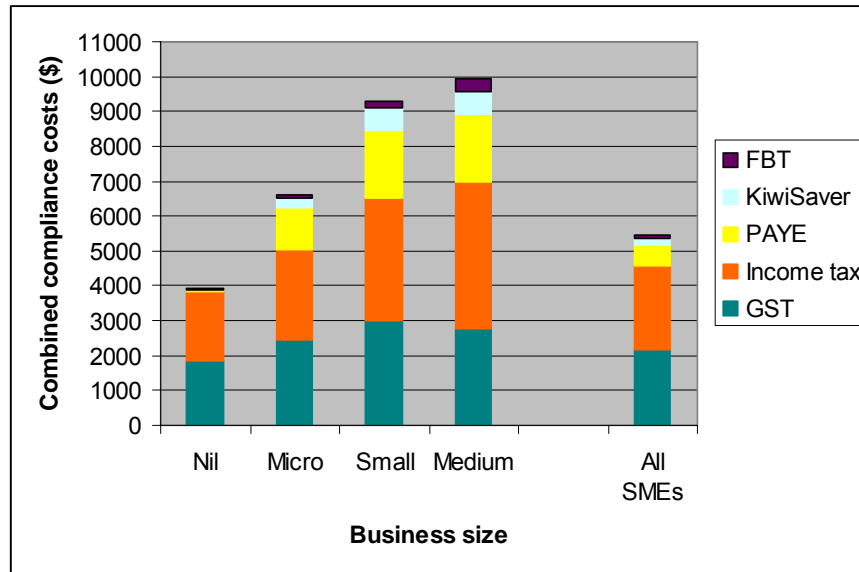


Figure 1.3: Combined mean compliance costs (internal plus external) by size of business for individual tax types

The following sub-sections summarise key findings from the study as they pertain to each individual tax type. Data are provided both across all SMEs regardless of tax type filed and for those SMEs filing a particular tax type only. These findings are described in detail in the relevant chapters of the report (chapters 5 – 14).

Income tax (including provisional tax)

Across all SMEs regardless of whether they pay income tax or not:

- Combined (internal and external) compliance costs are \$2,369.
- \$1,248 (53%) are external tax advisor costs compared with \$1,184 for internal costs.
- 21.2 hours of internal time are spent annually on income tax.
- Compliance costs increase with business size from \$2,000 to \$4,205.

SMEs paying/filing income tax:

- 22.3 hours are spent annually on tax activities, equating to \$1,244 of internal compliance costs.
- 19% of internal time was spent on dealing with tax advisors, nearly twice that spent by GST (10%) and PAYE (8%) filers.
- 81% of time (hours) (89% of the internal cost in dollars) spent by businesses on income tax is undertaken by owners, partners, directors, and/or trustees.
- Only in medium-sized businesses (20 or more employees) do paid employees undertake more of the income tax compliance burden than the owners, partners, directors and/or trustees.
- Those who use external tax advice for income tax spend, on average, \$1,736 for income tax advice.

GST

Across all SME businesses regardless of size and tax types filed:

- Combined compliance costs for GST are \$2,185.

- \$267 (12%) are external tax advisor costs compared with \$1,873 of internal costs.
- 34.7 hours of internal time are spent on GST.
- GST costs generally increase with business size ranging from \$1,859 for businesses with nil employees through to \$3,207 for those with between six and nineteen employees. There is a levelling effect for those with 20+ employees (\$2,753).

SMEs filing GST:

- Businesses which file GST spend, on average, 37.4 hours annually on GST tax activities, equating to \$2,018.
- 54% of this time is spent on the *recording of information*.
- 78% of time, spent by businesses on GST, is undertaken by owners, partners, directors, and/or trustees.
- Time spent on GST does not generally vary by turnover with the exception of those businesses with an annual turnover between \$1.3 million and \$2 million. The mean internal time spent for this group is 60.2 hours. For all other businesses, as determined by turnover, the mean number of internal annual hours is between 30.9 and 44.2 hours.
- Those who use external tax advice for GST spend, on average, \$716 for that advice.

PAYE

For all SMEs regardless of size and tax type filed:

- Combined compliance costs are \$626.
- \$45 (7%) is the mean external tax advisor cost compared with a mean internal cost of \$542.
- The mean internal time spent annually on PAYE is 11.4 hours.
- Costs increase with business size up from \$12 for businesses with nil employees through to \$1,970 for “small” businesses. The cost for “medium” businesses is \$1,951, again demonstrating the levelling effect.

SMEs filing PAYE:

- The mean internal time spent annually is 24 hours across all tax activities, equating to \$1,141.
- 21% of this time is spent *calculating tax, completing and filing returns*. This is a similar proportion to those dealing with all other tax types (income tax, 17%; GST, 20%; KiwiSaver, 20% and FBT (23%).
- Those employing more staff have markedly lower compliance costs per employee than those with fewer employees. The mean compliance cost per employee for businesses employing 20 or more staff is \$44, rising to \$534 for each employee for businesses with fewer than six staff.
- Those who use external tax advice spend, on average, \$418 for advice on PAYE.

KiwiSaver

Across all SMEs regardless of business size and tax type filed/paid:

- Combined compliance costs are \$186.

- \$14 (8%) are mean external tax advisor costs compared with \$157 for mean internal costs.
- An average of 3.3 hours is spent annually on KiwiSaver.

SMEs dealing with KiwiSaver:

- Mean internal time spent on KiwiSaver is 14.5 hours annually, equating to \$660.
- 18% of the time spent relates to *learning about tax laws*. This is more than twice the proportion of time spent by GST (6%), Income tax (8%) and PAYE (8%) filers. This may be related to the relative newness of KiwiSaver.
- 10% of time spent relates to the *dealing with Inland Revenue*, noticeably more than the proportion of time spent by GST (4%), income tax (5%) and FBT (2%) filers.
- As business size increases, paid employees deal with more of the KiwiSaver burden than owner, partners, directors and/or trustees. Paid employees spend 53% of time dealing with KiwiSaver for small businesses (6-19 employees). This increases to 82% for medium businesses (20+ employees). In micro businesses (1 – 5 employees), paid employees spend 20% of the overall time their business spends on KiwiSaver.
- Those who use external tax advice spend, on average, \$291 for advice on KiwiSaver.

FBT

Across all SMEs regardless of business size and tax type paid/filed:

- Overall combined compliance costs are \$65.
- \$16 (25%) are external tax advisor costs, compared with \$43 for mean internal compliance costs.
- Annually, a mean of 1.2 hours is spent on FBT.

SMEs filing FBT:

- On average, 9.1 hours are spent annually on tax activities, equating to \$318.
- Virtually no time spent by businesses on FBT is undertaken by unpaid friends or relatives. In terms of annual value, FBT compliance costs met by unpaid friends or relatives equate to \$1 annually. This is noticeably lower than unpaid friends or relatives costs for any other tax type - GST (\$54), PAYE (\$28), income tax (\$13) and KiwiSaver (\$12).
- Those who use external tax advice spend, on average, \$220 for advice on FBT.

Psychological costs

- 58% of all SMEs find meeting Inland Revenue requirements (ignoring finding the money) less than moderately stressful, 22% find it moderately stressful, and 18% find tax requirements more than moderately stressful.
- Generally, SMEs with more employees report higher stress levels (ignoring finding the money) than businesses without employees in regard to their overall tax requirements.
- 78% of SMEs dealing with KiwiSaver indicated that they find it less than moderately or moderately stressful to do so (including finding the money).

- Overall, FBT was the least stressful tax type (including finding the money) as indicated by those filing or paying each tax type.

Additional information

As well as further detail and combinations of the above variables, information is available in relation to the following:

- How SMEs processes staff wages.
- The type of accounting system used for GST, e.g. paper-based or computerised accounting software.
- Any audit activity over the last 12 months.
- Payment made for any external payroll services.
- Whether SMEs employ staff paying child support in the last 12 months, and how many hours were spent dealing with child support.
- Whether SMEs employ staff repaying student loans in the last 12 months, and how many hours were spent dealing with student loans.
- The number of SMEs within different industry sectors, e.g. agriculture, forestry and fishing (see Appendix F).
- Methods used by SMEs to file and pay GST and PAYE returns, e.g. manual, electronic.
- GST basis, e.g. invoice, or payments.
- GST filing frequency, e.g. monthly, two-monthly or six-monthly.
- Provisional tax option, e.g. safe harbour, estimator.

2. Background and objectives

Background

This report records the annual tax compliance costs for New Zealand small and medium size businesses (SMEs) in 2009. It follows a similar survey conducted in 2004.

In 2004 Inland Revenue measured the tax compliance costs of nearly 2000 SMEs and 275 tax agents. These results provided a baseline before the introduction of several initiatives aimed at making tax easier for small businesses (e.g., GST and provisional tax alignment, subsidised payroll intermediaries, a discount for early payment of provisional tax in the first year of business). Since 2004, there has also been the introduction of KiwiSaver.

Measuring SME tax compliance costs again in 2009, using methods comparable to 2004, enables assessment of trends in compliance costs during the preceding five years, and of the impact of major initiatives on those costs. These will be discussed in subsequent reports.

Policy purposes

A priority for Inland Revenue is to tailor interventions to make it easier for SMEs to meet their tax obligations and to increase their confidence in the tax administration. A key focus of Inland Revenue's strategy is the simplification of tax administration interventions. The Government has implemented several changes to simplify tax in recent years.

Key concerns for SMEs include the costs of compliance and the risks associated with non-compliance. The focus of the simplification programme is on reducing the stress, uncertainty and risks that these concerns place on small businesses.

Evaluations, such as that reported here, are required to assist in monitoring the impact of past and present legislative and administrative initiatives on reducing business tax compliance costs. They are also required to allow for better consideration of the impact of proposed changes on tax compliance costs at each stage of the tax policy development process.

Recently, the Government's 2009 Business Tax Measures package included the following tax simplification changes, many of which would be impacting small businesses by the time of the survey in September 2009:

- the introduction of a new threshold of \$10,000 below which all business-related legal expenditure is fully deductible;
- a higher low-value trading stock threshold;
- an extension of simplified accounting for financial arrangements;
- a higher PAYE (pay as you earn) once-a-month filing and payment threshold;
- a higher threshold under which FBT is not required to be accounted for in respect of minor unclassified benefits provided to employees;

- an extension for FBT annual filing;
- a higher FBT annual filing threshold;
- a reduction in the provisional tax uplift rate;
- a higher provisional tax use of money interest (UOMI) safe harbour threshold;
- a higher GST (goods and services tax) six-monthly return filing threshold;
- a higher GST payments basis threshold; and
- a higher GST registration threshold.

Further, KiwiSaver was added to employers' responsibilities in 2007. Employers are required to enrol new employees, deduct members' contributions through the PAYE system, and pay the employer's contribution. So, the management of KiwiSaver can be seen as a tax compliance activity.

The global recession would also have affected cashflow, size of tax payments, and possibly value placed on time by business owners during the period covered by the survey.

Alignment with other Inland Revenue priorities

Optimising organisational efficiency and reducing compliance costs over time is one of the four strands in Inland Revenue's strategic direction.⁶ As a result, minimising or reducing compliance costs is a feature of most policy and operational design work.

Evaluation objectives

The objective of this study is to provide evidence-based information on the tax compliance costs of small and medium-sized business for the purposes of developing and evaluating tax proposals and changes. The study is intended to provide data for the evaluation of the changes implemented over the previous five years and to respond to policy and administrative proposals as they arise over the following five years (2011 – 2015). As with the 2004 benchmark survey the 2009 survey quantifies compliance costs in hours and dollar terms for small and medium enterprises. The information objectives of the 2009 survey and evaluation are:

- to measure SME tax compliance costs in 2009
- to measure the change in SME compliance costs since 2004, more specifically
 - by how much and in what direction do compliance costs change?
 - which elements of compliance costs change?
 - which groups of taxpayers are affected?
 - what impact do the compliance cost changes equate to in the population overall?
 - to what extent can the changes be attributed to specific interventions?
- to evaluate the effectiveness of GST and provisional tax alignment at making tax easier for business.

⁶ Inland Revenue, *Statement of Intent*, 2008-2011, p19

This report presents the results of the 2009 follow-up survey and provides a snapshot of compliance costs at the time the data were gathered. It meets the first bullet point above and provides a starting point for considering the others. Subsequent reports will consider the trends and changes in tax compliance costs since the 2004 benchmark survey.

Defining compliance costs

The survey data presented in this report contribute to the measurement of core compliance costs as defined below. Both internal time (as annual hours and converted to a dollar cost) and external tax advisor costs (\$ value) are presented. Data on psychological costs have also been collected, and represented in this report, though not converted into dollars. Future work will augment this work with information on cash flow and tax deductibility to complete the picture.

In defining overall compliance costs the same definition as the 2004 benchmarking SME compliance cost project is used:

$$\text{Compliance cost} = (\text{internal time} + \text{external advisor costs}) + \text{psychological costs} \\ - (\text{cash flow benefits} + \text{tax deductibility})$$

Within the above definition the following apply:

- Audit costs, computing and other internal non-labour costs.
- External payroll provider costs are excluded.
- Internal time = imputed costs of time spent by owners, staff, family and friends.
- External advisor costs = direct money outgoings to tax advisors.
- Cash flow benefits = financial benefits arising from the mismatch in timing between when taxes are collected and when they are remitted to the tax authority. Note reducing cash flow management problems is an integral element of some of the initiatives implemented.
- Tax deductibility = for example, costs associated with using a tax advisor.
- Psychological costs = the level of stress associated with tax activities, including finding the money; measures are not converted to dollars.

Note:

- Some of the less frequent compliance costs (audit, for example) that may generate unusually high costs and those where the tax component is not easily isolated have been acknowledged and quantified to varying degrees but not included in the main calculations.
- Calculated compliance costs are based on trimmed means.

3. Methodology

This chapter outlines the methodology used in conducting this follow up survey. To enable meaningful comparison with the 2004 findings, the methodology and design in 2009 was fundamentally the same as 2004. However, modifications have been made to the survey and sampling design as summarised below and discussed further in relevant sections of the report.

Changes made to the tax environment which occurred prior to the 2009 survey were incorporated into the surveys where appropriate. These included:

- the alignment of GST and provisional tax;
- the addition of KiwiSaver⁷; and
- changes to thresholds for PAYE and FBT filing requirements.

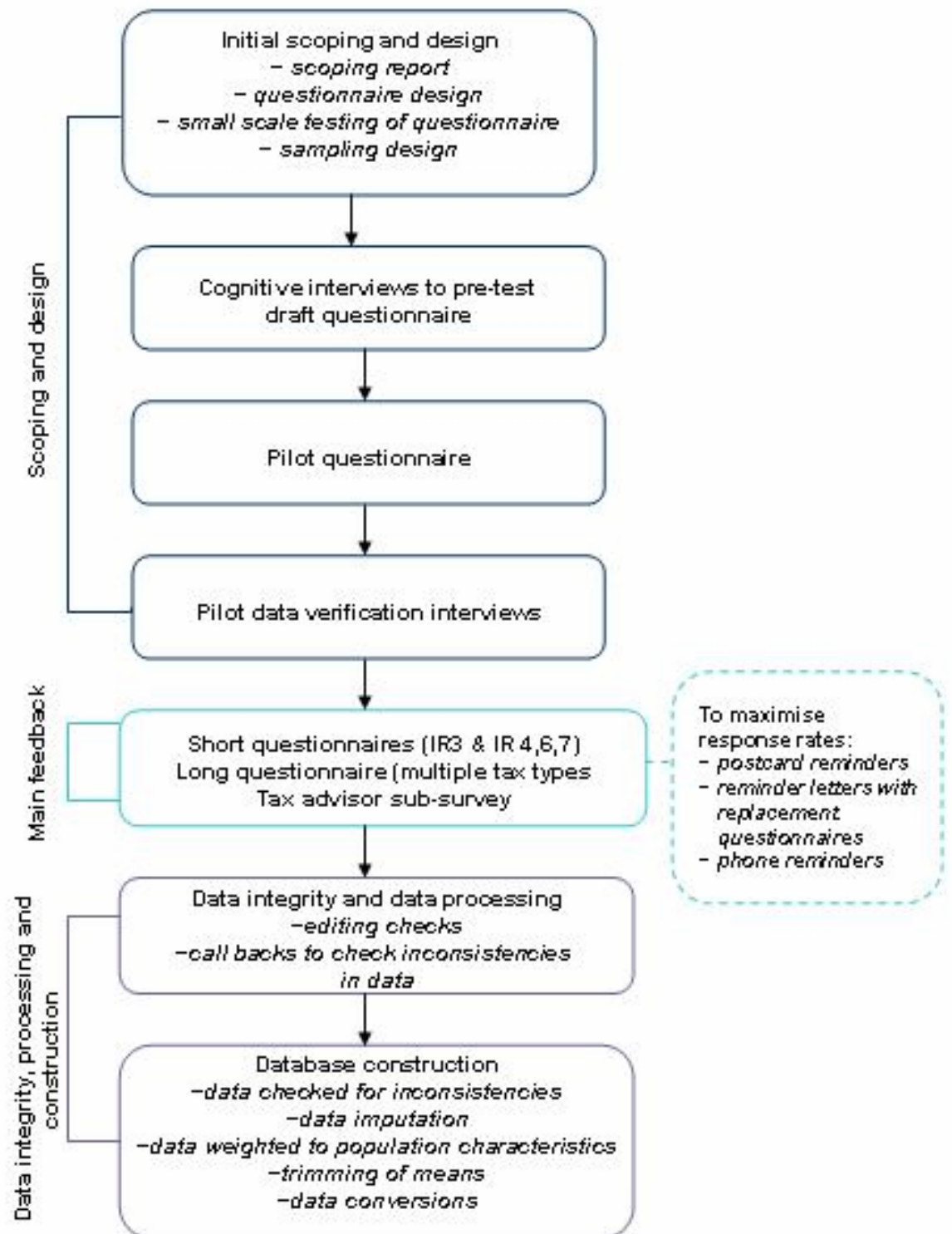
Changes were also made to the definition of individuals in the sample, compared with 2004, which substantially reduced the number included.

Overview

Figure 3.1 summarises the overall approach. Changes to the 2004 methodology were minor and included:

- Creating two short questionnaires (one for IR 3 individuals and one for those participants completing IR 4, IR 5 or IR 6 tax returns) rather than the one short questionnaire used in 2004.
- Incentives were not used in 2009 to maximise response rates although they were in 2004.
- Limited data verification interviews were undertaken for the surveys.

⁷ While KiwiSaver is not a tax it is administrated through the tax administration and its introduction has implications for employer compliance costs and as such it has been included in this study as a tax type.



8.

Figure 3.1: Overview of methodology

Scoping and design

Acknowledgements

Inland Revenue appreciates and acknowledges the feedback and guidance received from the members of this project's steering committee. The members include:

- Steven Bailey and Craig Macalister of the New Zealand Institute of Chartered Accountants
- Jo Doyle and Roger Wigglesworth of the Ministry of Economic Development
- Professor Claire Massey of Massey University, former Director of the New Zealand Centre for SME Research
- Stephen Summers of Business New Zealand
- Claire Vogtherr, businesswoman, former member of the Small Business Advisory Group

We also acknowledge the work of:

- Dr Charles Sullivan, of Capital Research, during the initial scoping and design phase of both the baseline study and this one
- Colmar Brunton which did the 2004 study and on which this follow-up survey and report have been based.

Sample design

The sample design was largely consistent with that undertaken in 2004 allowing for direct comparisons. Modifications were made to reflect the introduction of the ratio option⁸ and KiwiSaver. As in 2004 the population of interest was small and medium businesses in New Zealand, and relevant self-employed individuals. To define this, for the purposes of a quantitative survey, the following dimensions were used in both 2004 and 2009:

- business nature, indicated by legal, or business structure (Inland Revenue's entity type);
- types of tax paid; and
- business size, indicated by number of employees and annual turnover.

In addition, the following dimensions were used in 2009:

- SMEs who had chosen the ratio option; and
- SMEs with a pre-existing employee superannuation scheme.

In 2009 the overall survey population was 444,699 SMEs. This small and medium business population was further defined into three sub-populations⁹ for survey administration purposes.

⁸ Under this option each instalment of provisional tax is based on the earnings shown in the most recent GST return. GST returns must be filed every month or two months and provisional tax is paid six times a year rather than three.

⁹ Note this was a change from 2004 where there were only two sub-populations.

These were:

- multiple tax type businesses, i.e. paying GST and/or employing staff (in addition to being subject to income tax) (n = 416,843);
- sole traders completing IR 3 income tax returns (n=8,567); and
- companies, trusts and partnerships completing IR 4, IR 6 or IR 7 forms (n=19,289)

The 2009 sample of “sole trader” is much narrower than the sample of IR 3 taxpayers with sufficient “business income” used in 2004. In 2009 the “in business” test for a sole trader relied on income from self-employment only as recorded on the IR 3 and did not take account of partnership income or shareholder salaries. A sole trader was sampled as a relevant SME if self-employment income recorded by the individual was more than \$16,095.¹⁰ Foreign trusts were excluded in 2009.

A disproportionate stratified random sample, totalling 5,000 SMEs, was drawn, reflecting different levels of turnover and employee numbers. Data were weighted so that the results could be used to generalise to the entire population of interest (weighting is discussed later in this chapter)¹¹.

In general terms, SMEs were included if they:

- were registered for either GST or PAYE¹² as companies, partnerships, trusts, or individual – self-employed or employing taxpaying entities; or
- earned sufficient “business income” and were “income tax only” (IR 3, IR 4, IR 6 and IR 7 tax return filers).

And excluded if they:

- employed 50+ staff **and** had an annual turnover \$12.5+ million¹³;
- were not active, i.e. not trading; or
- were inactive or very small (annual PAYE deductions < \$4,000¹⁴ and turnover < \$25,000¹⁵ for those with GST or PAYE obligations. For those income only entities, residual income tax < \$2,500¹⁶).

¹⁰ An income of \$16,095 reflects the threshold at which the individual has to pay provisional tax (RIT>\$2,500).

¹¹ The detailed sample design is set out in Appendix A.

¹² In 2004 we used a point in time. This study looked at their GST and PAYE registrations over a 12-month period ending 31/7/09.

¹³ This figure was increased from \$10 million to reflect inflation.

¹⁴ Less than one full-time employee receiving the minimum wage (1 April 09 \$12.50/hr)

¹⁵ Based on ½ the GST registration threshold (pre-1 April 09) \$40,000 plus an inflation adjustment.

¹⁶ The provisional tax liability threshold (based on a residual income tax of less than \$2,500).

Questionnaire development

Initial scoping work and questionnaire development was undertaken by Dr Charles Sullivan. Members of the Inland Revenue Evaluation Services team undertook questionnaire testing during the pilot stage of the study.

Three versions of the main questionnaire were designed: a “long” version, which was relevant to multiple tax type businesses, and two “short” versions, which were relevant to those paying income tax only, dependent on the type of return filed. The questions in the short questionnaires were essentially a subset of the long (main) questionnaire. In addition, a tax advisor questionnaire was also developed.

Changes made to the 2009 questionnaires reflected key changes in the tax environment since 2009 including the introduction of KiwiSaver.

Cognitive interviewing

A total of 21 face-to-face interviews were completed in Auckland and Wellington to qualitatively pre-test the long and the two short versions of the questionnaires. Two face-to-face interviews with tax agents were also conducted to qualitatively pre-test the tax agents’ sub-survey. The interviews were conducted by Evaluation Services and by Dr Charles Sullivan.

Pilot

A pilot survey was carried out for a number of reasons:

- to validate the survey process;
- to test the questions on SMEs; and
- to determine potential response rate differences between sending a letter to respondents a week before the questionnaire, compared with sending the letter together with the questionnaire.

A total of 300 SMEs were contacted by mail for pilot testing.

- Initially, 150 (95 SMEs dealing with multiple tax types, 40 dealing with IR 3 only and 15 for those dealing with IR 4/6/7) of the 300 were sent a letter (on 25 June 2009) asking them to participate in the survey, giving them a chance to opt out before the questionnaire was sent a week later.
- On 29 June 2009, 150 questionnaires (similarly broken down as in the 25 June mailing) were sent with an accompanying cover letter explaining the survey.

The response rates for the two methods were very similar. For the short versions, the combined response rates were 22.5% and 16.67%. For the long version, the response rate was 23.68%.

The pilot survey results showed that the survey questions and processes were working well and that no major changes were required for the main survey.

Main fieldwork

Self-completion questionnaires (the long and short versions) were sent to 5,000 businesses on 15 September 2009. 4,500 long questionnaires and 500 short questionnaires were initially dispatched. In addition, 3,463 replacement questionnaires were dispatched on 19 October 2009.

The following measures were undertaken to maximise the response rate:¹⁷

- postcard reminders;
- reminder letters with replacement questionnaires; and
- telephone reminders.

Unlike the 2004 survey, an initial letter informing potential recipients of the survey was not sent. This was for two reasons. Firstly, as the survey was not being conducted by an external research company, it was not necessary to inform respondents that an external agent would be contacting them on Inland Revenue's behalf. Secondly, as mentioned above, the pilot survey tested using the letter and not using it. The response rate was similar for both methods. It was decided to send the explanatory letter with the questionnaire rather than beforehand.

Respondent samples

Table 3.1 summarises the final sample numbers for each category of interest and compares these with the overall population samples.

Table 3.1: Respondent sample numbers as a proportion of overall population

Survey respondent groups	Sample population (n)	Survey population (N)	Percentage
Sole traders (IR 3) with income tax only	29	8,567	0.3%
Companies, trusts and partnerships (IR 4, IR 6 or IR 7)	88	19,289	0.5%
Income tax only respondents (short questionnaires)	117	27,856	0.4%
SMEs choosing ratio option	216	3,731	5.8%
SMEs with pre-existing superannuation schemes and KiwiSaver	224	1,171	19.13%
All other SMEs paying multiple taxes	1,171	411,941	0.3%
Multiple tax respondents (long questionnaire)	1,611	416,843	0.4%
All SMEs	1,728	444,699	0.4%

Response rate analysis

In total, 5,000 questionnaires were dispatched and 1,728 completed questionnaires returned. Therefore, the response rate based on the number of questionnaires dispatched is 35%.

This response rate was lower than that achieved in 2004. Possible reasons include:

- The timing of the survey in that Statistics New Zealand was also approaching SMEs at that time.

¹⁷ In 2004 incentives were also used to maximise the response rate but these methods were not utilised in 2009.

- The survey was administered directly from Inland Revenue rather than through a research organisation such as Colmar Brunton. This may have led to a perception of a lack of independence.
- A number of surveys had been implemented in recent months related to Inland Revenue initiatives.
- No incentives in 2009.

Table 3.2: Response rate analysis

	Long Questionnaire	Short Questionnaires	Overall
Questionnaires dispatched (not including replacement questionnaires)	4500	500	5000
Completed questionnaires returned	1611	117	1728
Response rate	36%	23%	35%

Tax advisor sub-survey

A tax advisor sub-survey was conducted to gather information in order to apportion external tax advisor compliance costs to different tax types. This information was collected from named tax advisors in respect to specific clients. Questionnaires were sent to the tax advisors of businesses that participated in the business survey (long questionnaire) and who gave consent to their tax advisor being contacted for this purpose. In total, 640 questionnaires were sent to tax advisors.

Response data for the tax advisor sub-survey questionnaire are specified below.

Table 3.3: Response rate analysis – tax advisor sub-survey

Businesses in long questionnaires that use an external tax advisor	
A. Questionnaires dispatched	640
B. Completed questionnaires returned	357
C. Questionnaires returned but unusable	12
D. Number of returned usable questionnaires	345
E. Number of businesses in the long questionnaire which have tax advisors	1308
F. Response rate A (% of tax advisors sent a questionnaire who returned a completed questionnaire) (D/A)	54%
G. Response rate B (% of businesses in long questionnaire who use an external tax advisor and whose tax advisor returned a completed tax advisor) (D/E)	26%

Weighting

The data were weighted so that the survey results could be used to generalise to the entire survey population. Unless otherwise stated, weighted values have been used in all analyses for reporting. The same two stage process for weighting was utilised as in 2004.

First, a pre-weight was applied to correct for sample selection probabilities. The pre-weight was calculated as $(N(i)/n(i))$ where:

- $N(i)$ is the population of stratum i (refer to Appendix A for the strata definitions)
- $n(i)$ is the sample size of stratum i

Second, non-response weighting was applied using propensity score stratification. The probability that a selected SME will respond to the survey was estimated using both survey and administrative data. Within the sampling strata, the response probabilities were used to group respondents and non-respondents into substrata based on their response propensity scores. This process results in substrata that contain “similar” respondent and non-respondent SMEs. Respondents in the same substrata are given the same weight.

The non-response weights, compared to applying only the pre-weights, have increased the mean internal compliance cost by 0.36%, the mean external compliance cost by 0.96% and the mean combined compliance cost by 0.52%.

Data integrity and data processing

A number of steps were undertaken to ensure data integrity, including the following:

- A series of comprehensive editing checks and database checks to test for the internal validity of the data. This included checking for the distinction between missing values and true zeros.
- Telephoning respondents back to clarify/check their answers, when necessary. Telephone calls were made for this purpose to less than 1% of businesses that completed a questionnaire.
- 100% double-entry of data.

We consider the level of internal data validity to be very good. Of particular interest is the high degree of consistency between:

- responses made to Q13a in the long questionnaire (Q6a in the short questionnaire) which relate to time spent on tax activities by tax type; and
- responses to Q13b in the long questionnaire (Q6c in the short questionnaire) which relate to the amount of time spent by types of personnel for each tax type.

Database construction

Data imputation

Total internal time hours

On a SME level, where Q13a total hours were missing we replaced these with the total from Q13b, where they were available, and vice versa.

Business size and sector

Where appropriate, missing values, business size (turnover and number of employees) and sector in the business survey data were imputed using information from Inland Revenue's database.

External tax compliance costs

The calculation of external compliance costs by tax type has been undertaken using both data from the tax advisor sub-survey and the business surveys, as well as data imputation. Relying solely on the tax advisor sub-survey data would have been problematic due to the relatively low response rate of that survey.

To this end, external compliance costs have been calculated by using the following data:

- For respondents to the long business survey for whom we had data from their tax advisors, we used the tax advisor-supplied data (regardless of whether it matched the total \$ amount that the business gave and regardless of whether they use their tax advisor for one or more tax types).
- For respondents to the long business survey for whom we did not have data from their tax advisors, but who ticked only one tax type at Q9b, we used the \$ amount given at Q9a (if they confirmed at Q9a that the amount only included tax-related costs).
- For respondents to the short questionnaire, we used their response to Q3 (if they confirmed at Q3 that the amount only included tax-related costs) as reflective of the amount they paid for external tax services in relation to income tax.

We, therefore, had "missing information" for respondents to the long questionnaire who used external tax advice for multiple tax types, but for whom we did not have data from their tax advisors. Imputed data (utilising results to Q9b as well as industry sector) has been used for these respondents. This is the same process as was validated during the 2004 benchmark survey analysis.

External costs of long questionnaire respondents were considered missing if in Q9a the respondents have not indicated that the amount they paid their tax advisors were exclusively for tax and if at the same time, there is no tax advisor data available for these respondents.

Calculation of means

To ensure comparability with the 2004 data, trimmed means¹⁸ have been used extensively in the analysis and reporting of the amount of time businesses spend on tax compliance and associated tax compliance costs. This involved excluding any values whose log fell outside of the median ($\log_{10}(x)$) + 2.24 MAD($\log_{10}(x)$) where MAD is the median absolute deviation normalized to approximate the standard deviation for normally distributed data. The constant 2.24 was selected so that only the most extreme values would be trimmed. Note that by taking logs, zero values are excluded from the trimming process, but the zeros are re-introduced for the mean and median calculations.

In general, relatively few values were trimmed. For example, with the total internal hours time spent on income tax, GST, and PAYE the proportions trimmed were only 4.6%, 4.4% and 3.2% respectively.

Calculation of medians

Outliers have not been removed in calculating medians. Unlike the mean calculations, inclusion of outliers in the median calculations has very little effect so trimming is unnecessary.

Treatment of missing information

The following data have been excluded from the calculation of mean and median values:

- missing information¹⁹; and
- don't knows.

Where the respondent did not complete Q13a or Q13b and they wrote on the questionnaire that their accountant dealt with the particular tax type, these have been treated as "zero" responses and thus included in the mean and median calculations.

Presentation of results

The survey results are largely presented in tables. The following explanations may assist the reader in interpreting the data:

- The numbers given in the brackets refer to the unweighted sample size.
- All means presented have been trimmed, unless otherwise specified.
- Most percentages do not add to 100%. This is mainly due to more than one response category potentially applying to the respondent and to some rounding.
- The means provided for the all SMEs column has not been calculated as the sum of the means for the individual components within a table.

¹⁸ "Trimmed mean" normally refers to a mean calculated after first removing a fixed percentage of values from the top and bottom of the distribution (eg, a 5% trimmed mean is the average after 5% of the smallest values and 5% of the largest values have been removed). We used a more flexible trimming process in which the percentage of values trimmed varied depending on the extent to which a particular question elicited extreme values (outliers); only such outliers were removed before averaging.

¹⁹ The database contains both cases of "value missing" and "system missing value". The former is what we have labelled as "missing information" in this report. It refers to the situation when a respondent has not provided a response, yet we would have expected them to have given one. Whereas a system missing value refers to the situation when a respondent has not provided a response and we did not require them to provide one (e.g. questions pertaining to GST were not required to be answered by those who did not file/pay GST).

Analyses by industry sector appear in Appendix F. Analysis by business size is presented extensively throughout the body of the report.

Value of time analysis

The task of converting time into a monetary value relies on the robust estimation of the value of time, i.e. the time spent by:

- owners/partners/directors/trustees
- paid employees
- unpaid friends or relatives' time.

A number of options were considered prior to the baseline survey and are discussed in detail in that report. For the purposes of this survey, and to enable comparison, we have used essentially the same methodology as that utilised in 2004. The assumptions made at that time remained valid. These were that:

- there is no difference in time values between respondents of the “short” income tax surveys and those completing the “long” multiple tax survey – that they are “equivalent” small and medium businesses. This assumption enables a focus on differences in business size and the role of the person.
- no real gains can be made by introducing the added complexity of value of time across sector type.
- trimmed means are a more useful measurement to use for respondent data than medians which are lower values. In comparing values, therefore, trimmed means were used.

Owners/partners/directors/trustees

For paid employees, hourly wage rates provide a convenient estimate of opportunity cost. With business owners, partners, directors or trustees, selecting a value to apply is less objective and has more difficulties around valuing time spent on personal tax affairs (because owners may do the tax compliance work in what would otherwise be leisure time).

Table 3.4: Value of time data relating to owners

	Survey Data Mean \$/hr)	NZ Stats (NZIS Jun 09)	Hays Personnel Services: Salary survey 2009				
			Finance Manager	Site Manager (Construction)	Director Marketing	Director Sales	Customer Services Manager
Nil employees	\$ 67.67	-	-	-	-	-	-
Micro	\$ 54.28	-	\$ 52.78	-	-	-	-
Small (6-19)	\$ 47.05	-	\$ 61.11	-	-	-	-
Medium (20+)	\$ 62.79	-	-	-	-	-	-
Total	\$ 61.12	\$ 30.41[^]	-	\$ 52.78	\$ 94.44	\$ 83.33	\$ 44.44

[^]Based on *Main Job Occupations*: (Note: reports only on incomes received from wage and salary jobs.)

- legislators, administrators and managers
- professionals.

Given the variation in reported values across business size is relatively small, one figure has been used to value time for owners, partners, directors and/or trustees. The decision to use respondent data as the best estimate was made as it was close to the mid-point for the range of salaries within the Hays salary survey. This is consistent with the 2004 approach.

The value of time figure used for owners/partners/directors/trustees is \$61.12.

Paid employees

In line with other research, a recommendation was made to value the time of paid employees based on external data. The close alignment between respondent data and Statistics New Zealand data supports this decision (see table below).

Table 3.5: Value of time data relating to paid employees

	Survey data (mean \$/hr)	NZ Stats (QES Sep 09)	NZ Stats (NZIS Jun 09)
Nil employees	\$ 28.21	-	-
Micro (1-5)	\$ 21.06	\$ 21.64	-
Small (6-19)	\$ 24.75	\$ 22.59	-
Medium (20+)	\$ 27.81	\$ 24.46	-
Total	\$ 24.44	\$ 25.39*	\$ 22.98**

*Average total hourly earnings (private sector) from Quarterly Employment Survey Sept 04'

** Average hourly rate from the New Zealand Income Survey June 2004 quarter

Given the small variation across business size, the decision to use one figure for all business size groupings was made.

The value of time figure used for paid employees was \$25.39.

Unpaid friends or relatives

Most difficult to estimate is a value for the time of unpaid friends or relatives. Their actual value, should they be working, is likely to vary greatly and it is not clear whose time they are “replacing”. For these reasons it was decided to use an average of the survey responses across all business sizes²⁰.

Table 3.6: Value of time data relating to unpaid friends or relatives

	Survey data (mean \$/hr)	Hays Personnel Services: Salary Survey 2009		
		Payroll clerk	Teller	General accounts clerk
Nil employees	\$ 42.22	-	-	-
Micro (1-5)	\$ 30.72	-	-	-
Small (6-19)	\$ 18.66	-	-	-
Medium (20+)	\$ 40.00	-	-	-
Total	\$ 33.31	\$ 23.23	\$ 18.89	\$ 21.11

While slightly higher than comparisons to data from the Hays salary survey, Inland Revenue did not want to underestimate compliance costs.

The value of time figure used for unpaid friends or relatives is \$33.31.

Value of time analysis summary

The following dollar amounts were used to convert hours into compliance costs:

- \$ 61.12 (owners/partners/directors/trustees)
- \$ 25.39 (paid employees)
- \$ 33.31 (unpaid friends or relatives).

²⁰ Of the 56 SMEs that responded to this question, about 10% indicated that an average value for this time was \$0. These responses were not included when determining mean values.

4. Sample profile

This chapter provides a profile of the sample. All percentages use weighted data. Similar tables have been constructed using unweighted data and are appended to the report.

Sample profile by business size

Table 4.1: Sample profile by business size (number of employees)

	Business size (number of employees)				All %
	Nil employees %	Micro (1-5) %	Small (6-19) %	Medium (20+) %	
Number of owners working in the business					
0	14	6	9	22	11
1	42	50	27	29	43
2	31	41	51	29	35
3+	2	4	14	20	4
Missing information	12	0	0	0	6
Business size - Number of employees (full-time and part-time combined²¹)					
Nil	100	0	0	0	53
Micro (1-5 employees)	0	100	0	0	31
Small (6-19 employees)	0	0	100	0	8
Medium (20+ employees)	0	0	0	100	2
Missing information	0	0	0	0	6
Business size - turnover					
Nothing	4	1	1	0	2
\$1 – \$19,999	10	1	0	0	6
\$20,000 – \$39,999	18	4	2	3	12
\$40,000 – \$59,999	17	5	1	0	12
\$60,000 - \$99,999	16	12	0	0	14
\$100,000 – \$249,999	23	25	5	3	22
\$250,000 – \$499,999	5	24	10	2	11
\$500,000 – \$1,299,999	4	17	42	17	11
\$1.3 million – \$1,999,999	0	4	12	5	2
\$2 million - \$4,999,999	0	1	17	20	2
\$5 million – \$9,999,999	0	1	4	35	1
\$10 million – \$23,999,999	0	0	2	9	0
\$24 million - \$49,999,999	0	0	0	3	0
\$50 million – \$99,999,999	0	0	0	1	0
\$100 million or more	0	0	0	1	0
Missing information	4	4	3	1	3
Length of time in business					
Less than six months	0	2	1	0	1
Six months to less than 1 year	3	2	2	2	2
1 – 2 years	10	11	8	7	10
3 – 5 years	29	26	18	9	27
6 – 10 years	22	18	22	21	21
> 10 years	35	41	50	59	38
Missing information	2	1	0	1	1

²¹ This refers to the total number of full-time employees plus the total number of part-time employees.

Table 4.1: Sample profile by business size (number of employees) (cont.)

	Business size (number of employees)				All SMEs %
	Nil employees %	Micro (1-5) %	Small (6-19) %	Medium (20+) %	
Use of a tax advisor					
Don't use a tax advisor	22	18	14	14	20
Use a tax advisor	78	82	86	86	80
Missing information	0	0	0	0	0
Main business activity					
Agriculture	22	17	10	6	19
Mining	0	0	0	0	0
Manufacturing	1	5	12	18	4
Electricity, gas, water supply	0	1	0	0	0
Construction, landscape, building repair	10	15	13	17	12
Wholesale trade	3	2	6	5	3
Retail trade	5	11	16	14	7
Accommodation, café, restaurant	2	7	10	8	4
Transport, storage	3	4	2	1	3
Communication services	1	1	1	1	1
Finance, insurance	2	3	0	1	2
Property and business services	14	10	6	4	12
Education	1	2	5	1	2
Health and community services	2	3	4	5	2
Cultural and recreational services	1	1	3	0	1
Personal and other services	2	2	1	1	2
Other	26	15	12	15	22
Missing information	7	3	0	3	5
Industry sector groupings					
Primary produce	23	17	11	9	20
Industrial	14	23	27	37	19
Distribution	11	17	25	22	14
Business and finance	34	22	10	9	28
Service	17	19	27	22	19
Missing information	2	2	0	1	2
Number of sites					
1	96	96	95	86	96
2	4	4	4	11	4
3	0	0	1	2	0
4	0	0	0	1	0
5	0	0	1	0	0
6	0	0	0	0	0
7	0	0	0	0	0
8	0	0	0	0	0
Missing information	0	0	0	0	0
Legal entity					
Company	41	69	85	95	54
Individual	24	15	3	4	20
Partnership	26	12	11	1	19
Trust	9	4	1	1	6
Missing information	0	0	0	0	0

Table 4.1: Sample profile by business size (number of employees) (cont.)

	Business size (number of employees)				All %
	Nil employees %	Micro (1-5) %	Small (6-19) %	Medium (20+) %	
Provisional tax option used					
New business elects to make payment	9	8	12	19	8
Ratio	11	13	9	0	1
Safe harbour	34	45	56	49	44
Estimated	4	6	6	21	5
Unknown – not provisional tax payer	41	28	16	8	42
Missing information	0	0	1	3	0
Number of respondents (unweighted)	529	595	340	213	1728
SME population (calculated using weighted base sizes)	236,288	135,991	36,244	9,466	444,699

Base: All respondents, SMEs with missing business size information are not shown.

Source: Long questionnaire Q3, Q4, Q9a, Q26, Q27, Q28; Short questionnaire Q4, Q11, Q13, Q12; IRD database information used for provisional tax option used.

Table 4.1: Sample profile by business size (number of employees) (cont.)

	Business size (number of employees)				All SMEs %
	Nil employees %	Micro (1-5) %	Small (6-19) %	Medium (20+) %	
Filing method for EMS (IR 348)					
Electronic	0	14	32	59	17
Manual	13	68	46	17	53
Mixed ^	0	5	8	9	5
Missing information	87	13	14	15	25
Payment method for PAYE (IR 345)					
Electronic	0	30	36	39	27
Manual	0	45	33	30	35
Mixed ^	4	11	17	16	11
Missing	96	14	14	15	28
Number of respondents (unweighted)	13	595	340	213	1212
SME Population (calculated using weighted base sizes)	7,340	135,991	36,245	9,466	215,752

Base: All respondents who pay/file PAYE, SMEs with missing business size are not shown.

Source: Long questionnaire Q4; IRD database information used for filing and paying methods for PAYE.

^ Mixed refers to SMEs that utilise more than 1 different filing or payment method during the period Oct08 - Oct09 (more than 10% occurrence of a different method will place them in this mixed category).

Note: Respondents were asked how many employees they had at the end of 'last month'²². Respondents in the "nil employees" category can be regarded as not currently employing staff, but having done so in the last 12 months (as they indicated at Question 1 that they had paid/filed PAYE in the last 12 months).

²² Due to some businesses experiencing marked variability in employee numbers over a year, respondents were asked to estimate the number of employees they had at a particular point in time.

Table 4.1: Sample profile by business size (number of employees) (cont.)

	Business size (number of employees)				All %
	Nil employees %	Micro (1-5) %	Small (6-19) %	Medium (20+) %	
Filing method for GST (IR 101)					
Electronic	20	19	22	16	19
Manual	67	65	67	61	67
Mixed	11	14	10	10	12
Missing information	2	1	1	13	2
GST basis					
Hybrid	1	1	0	0	1
Invoice	16	15	33	71	18
Payment	82	84	66	29	80
Both Invoice and payment	0	0	0	1	0
Missing	1	0	1	0	1
Nature of GST registration					
Forced	0	0	0	0	0
Required	82	91	97	97	87
Voluntary	16	8	2	3	12
Missing	1	0	1	0	1
GST filing frequency					
Monthly	5	4	6	13	5
Two-monthly	60	82	85	87	70
Six-monthly	34	13	8	0	25
Missing	0	0	1	0	0
Payment method for GST (IR 101)					
Electronic	24	30	35	34	27
Manual	52	50	39	26	50
Mixed	12	13	18	20	13
Missing	13	7	8	20	11
Number of respondents (unweighted)	409	589	339	210	1598
SME population (calculated using weighted base sizes)	206,635	134,912	36,046	9,137	413,440

Base: All respondents who pay/file GST, SMEs with missing business size are not shown.

Source: Long questionnaire Q4; Inland Revenue database information used for GST basis, nature of GST registration, GST filing frequency and payment and filing method.

Table 4.2: Sample profile by tax type

	Tax type					All %
	GST %	Income tax %	PAYE %	KiwiSaver %	FBT %	
Number of owners working in the business						
0	12	11	8	8	8	11
1	46	44	46	43	42	43
2	38	36	40	42	43	35
3+	4	4	6	7	7	4
Missing information	0	7	0	0	0	6
Business size - Number of employees (full-time and part-time combined²³)						
Nil	50	53	3	1	26	53
Micro (1-5 employees)	33	31	63	57	41	31
Small (6-19 employees)	9	8	17	28	21	8
Medium (20+ employees)	2	2	4	8	7	2
Missing information	6	6	12	6	6	6
Business size - turnover						
Nothing	2	2	1	1	0	2
\$1 – \$19,999	5	6	2	1	2	6
\$20,000 – \$39,999	11	12	5	3	9	12
\$40,000 – \$59,999	12	13	8	4	4	12
\$60,000 - \$99,999	14	14	11	8	6	14
\$100,000 – \$249,999	23	22	21	18	21	22
\$250,000 – \$499,999	11	11	18	18	11	11
\$500,000 – \$1,299,999	12	12	19	24	20	11
\$1.3 million – \$1,999,999	2	2	4	8	8	2
\$2 million - \$4,999,999	2	2	4	7	8	2
\$5 million – \$9,999,999	2	1	3	5	5	1
\$10 million – \$23,999,999	0	0	1	1	2	0
\$24 million - \$49,999,999	0	0	0	0	0	0
\$50 million – \$99,999,999	0	0	0	0	0	0
\$100 million or more	0	0	0	0	0	0
Missing information	2	3	3	2	1	3
Length of time in business						
Less than six months	1	1	2	1	0	1
Six months to less than 1 year	2	2	1	1	2	2
1 – 2 years	10	10	10	11	5	10
3 – 5 years	27	27	24	25	21	27
6 – 10 years	21	21	20	19	25	21
> 10 years	38	39	42	43	46	38
Missing information	1	1	1	0	0	1

²³ This refers to the total number of full-time employees plus the total number of part-time employees.

Table 4.2: Sample profile by tax type (cont.)

	Tax type					All %
	GST %	Income tax %	PAYE %	KiwiSaver %	FBT %	
Main business activity						
Agriculture	19	19	15	12	8	19
Mining	0	0	0	0	0	0
Manufacturing	4	4	6	9	5	4
Electricity, gas, water supply	0	0	0	0	0	0
Construction, landscape, building repair	13	12	15	12	19	12
Wholesale trade	3	3	2	3	6	3
Retail trade	8	8	10	12	7	7
Accommodation, café, restaurant	4	4	7	7	3	4
Transport, storage	3	3	3	3	4	3
Communication services	1	1	1	1	2	1
Finance, insurance	1	2	2	2	4	2
Property and business services	12	12	10	8	11	12
Education	2	2	2	3	4	2
Health and community services	2	2	3	5	5	2
Cultural and recreational services	1	1	1	1	0	1
Personal and other services	2	2	2	2	0	2
Other	21	22	18	19	18	22
Missing information	5	4	3	2	3	5
Industry sector groupings						
Primary produce	20	20	16	13	10	20
Industrial	19	19	24	23	28	19
Distribution	14	14	17	19	19	14
Business and finance	27	28	21	19	24	28
Service	18	19	22	25	19	19
Missing information	1	1	1	0	1	1
Number of sites						
1	95	96	95	95	95	96
2	4	4	4	5	4	4
3	0	0	1	0	0	0
4	0	0	0	0	0	0
5	0	0	0	0	0	0
6	0	0	0	0	0	0
7	0	0	0	0	0	0
8	0	0	0	0	0	0
Missing information	0	0	0	0	0	0
Legal entity						
Company	57	54	68	77	86	54
Individual	19	20	16	10	7	20
Partnership	18	19	12	9	5	19
Trust	6	6	4	4	2	6
Missing information	0	0	0	0	0	0
Use of a tax advisor						
Don't use a tax advisor	20	19	18	15	13	20
Use a tax advisor	80	81	82	85	87	80
Missing information	0	0	0	0	0	0
Number of respondents (unweighted)	1598	1670	1212	815	431	1728
SME population (calculated using weighted base sizes)	413,440	423,859	215,752	106,153	51,440	444,699

Base: All respondents who pay/file a particular tax type

Source: Long questionnaire Q3, Q4, Q9a, Q26, Q27, Q28; Short questionnaire Q4, Q11, Q13, Q12;

Table 4.3: Tax type by business size

	Business size (number of employees)				All SMEs %
	Nil employees %	Micro (1-5) %	Small (6-19) %	Medium (20+) %	
Tax type					
Income	94	96	97	98	95
GST	87	99	99	97	93
PAYE	3	100	100	100	49
KiwiSaver	0	44	82	93	24
FBT	8	24	44	55	17
Tax type combination (main types)					
Income only	13	0	0	0	7
Income, GST	75	0	0	0	38
Income, GST, PAYE	2	47	14	4	19
Income, GST, PAYE, FBT	0	5	2	1	5
Income, GST, PAYE, KiwiSaver	0	33	52	45	14
Income, GST, PAYE, KiwiSaver, FBT	0	11	28	45	9
Other	9	5	4	5	9
Survey completed					
Multi tax (long)	88	100	100	100	94
Short	12	0	0	0	6
Number of respondents (unweighted)	529	595	340	213	1728
SME population (calculated using weighted base sizes)	236,288	135,991	36,244	9,466	444,699

Base: All respondents. SMEs with missing business information are not shown.

Source: Long questionnaire Q1, Q4; Short questionnaire Q1

Table 4.4 presents the percentage of respondents paying/filing a particular tax who use a tax agent for that tax type.

Table 4.4: Use of a tax agent for a particular tax type

	Tax type				
	GST %	Income tax %	PAYE %	KiwiSaver %	FBT %
Don't use a tax advisor	66	35	90	96	93
Use a tax advisor	34	65	10	4	7

5. Internal time compliance costs: All tax activities

This chapter examines the internal time that businesses spend on tax compliance activities, followed by an analysis of the value of that time and estimates of internal tax compliance costs.

The costs incurred by businesses through the purchase of external tax advice/services are covered in chapter 11.

Both means and medians are reported in this chapter. In some instances these are markedly different reflecting the skewed nature of these data. This is due to the large number of SMEs reporting annual hours at the lower end of the overall distribution. This holds true even though the means have been trimmed.

Internal time spent on specific tax activities

Respondents were asked to estimate the average number of hours per month the business had spent on tax activities during the preceding 12 months. For each tax type, they were asked to record this information by tax activity. Although monthly data were collected, for analysis and reporting purposes, these data have been converted to annual figures.

Tables 5.1 (means) and 5.2 (medians) detail the amount of time (annual hours) spent on specific tax activities for each tax type. It should be noted that the total time spent is likely to be more reliable than the individual breakdowns by activity²⁴.

The mean number of hours respondent businesses reported spending across all tax types annually was 81.1 hours. The highest mean number of annual hours was reported for GST (\bar{x} =39.6 hours). The single most commonly reported activity was *recording information* (\bar{x} =37.7 hours across all tax types), followed by *calculating tax, completing and filing returns and paying tax* (\bar{x} =17.6). This information is represented graphically in Figure 5.1²⁵.

²⁴ During data verification for the baseline survey it was found there was a tendency for some respondents to overstate the amount of time spent recording information because they included subsequent activities in their response. There was also a degree of overlap between some of the activities.

²⁵ **Note:** In this figure *other* is the balance of the total mean annual hours minus those for recording information and calculating tax (the two main activity types).

Table 5.1: Mean (trimmed) annual hours of internal time spent on tax activities by tax type

Activity	GST	Income tax (including provisional tax)	PAYE (including child support, student loans, ACC levy)	KiwiSaver	FBT	All tax types
Recording information	21.2 (1487)	8.1 (1557)	9.8 (1113)	4.4 (776)	2.3 (412)	37.7 (1634)
Calculating tax, completing and filing returns, paying tax	8.1 (1531)	4.0 (1592)	5.2 (989)	3.0 (784)	1.9 (418)	17.6 (1651)
Dealing with IRD	1.7 (1543)	1.1 (1618)	1.6 (1157)	1.5 (796)	0.2 (418)	4.3 (1687)
Tax planning	0.8 (1564)	1.1 (1622)	0.3 (1184)	NA	0.1 (420)	9.4 (1652)
Dealing with tax advisors (including providing information)	4.0 (1550)	4.3 (1604)	2.0 (1172)	1.1 (798)	0.5 (415)	6.4 (1686)
Learning about tax laws (new or existing)	2.4 (1540)	1.8 (1605)	2.0 (1172)	2.7 (788}	1.3 (415)	1.9 (1692)
Other	0.2 (1566)	0.8 (1633)	0.1 (1184)	0.6 (797}	0.0 (421)	0.4 (1691)
All activities	39.6 (1503)	23.2 (1587)	24.6 (1158)	15.0 (770)	8.4 (426)	81.1 (1655)

Base: All respondents who filed/paid the particular tax type (excluding missing information and outliers)

Source: Long questionnaire Q13a; Short questionnaire Q6a

Sample sizes are shown in brackets

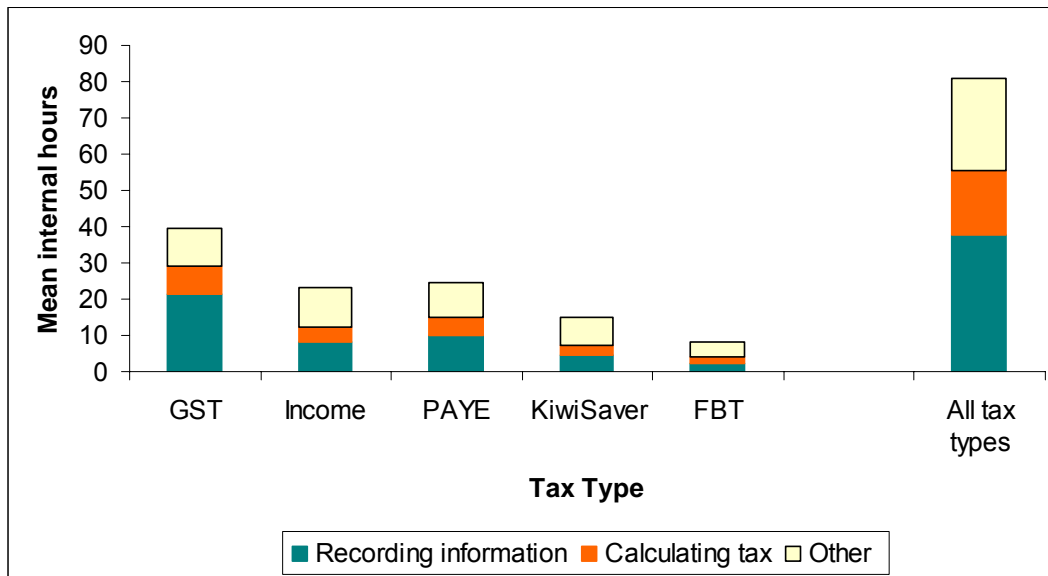


Figure 5.1 : Internal time spent on tax activities (annual hours) by tax type

The median values in Table 5.2 are lower than the means given in Table 5.1. This is due to the large number of responses towards the lower end of time spent. The only activity where the median time reported is consistently above zero for all tax types is *recording information*. *Dealing with IRD*, *tax planning* and *learning about tax laws* all have medians of zero across all tax activities.

The median number of hours respondents reported spending across all tax types annually was 48 hours. The medians show a similar distribution across tax type and across activities as the means do.

Table 5.2: Median annual hours of internal time spent on tax activities by tax type

Activity	GST	Income tax (including provisional tax)	PAYE (including child support, student loans, ACC levy)	KiwiSaver	FBT	All tax types
Recording information	12 (1571)	3 (1634)	6 (1187)	3 (803)	0 (422)	24 (1708)
Calculating tax, completing and filing returns, paying tax	4 (1571)	0 (1634)	3 (1187)	1 (803)	0 (422)	8 (1708)
Dealing with Inland Revenue	0 (1571)	0 (1634)	0 (1187)	0 (803)	0 (422)	0 (1708)
Tax planning	0 (1571)	0 (1634)	0 (1187)	NA	0 (422)	0 (1708)
Dealing with tax advisors (including providing information)	0 (1571)	0 (1634)	0 (1187)	0 (803)	0 (422)	3 (1708)
Learning about tax laws (new or existing)	0 (1571)	0 (1634)	0 (1187)	1 (803)	0 (422)	0 (1708)
Other	0 (1571)	0 (1634)	0 (1187)	0 (803)	0 (422)	0 (1708)
All activities	27 (1598)	12 (1670)	12 (1212)	9 (815)	3 (431)	48 (1728)

Base: All respondents who filed/paid the particular tax type (excluding missing information)

Source: Long questionnaire Q13a; Short questionnaire Q6a

Tables 5.3 (means) and 5.4 (medians) detail the amount of annual internal hours spent on specific tax activities by size of business (defined in terms of number of employees). As Table 5.3 shows the mean number of annual hours spent on all tax activities increases by business size between “nil” and “micro” (increase of 35.4 hours); and “micro” and “small” (increase of 70.2 hours). There is no increase between small and medium, suggesting that beyond a certain number of employees, the amount of time spent on tax compliance levels out. Figure 5.2 displays these data graphically.

This levelling-out effect is not as marked when medians are considered (Table 5.4) because there is an increase in median values between small and medium. However, the increase in median values is only 12 hours compared with 34 hours between nil and micro and 62 hours between micro and small.

Making allowance for the levelling out at the top end of the mean hours there is a strong relationship between business size and the number of hours spent on tax activities per year. The patterns are also evident within each of the tax activities.

Table 5.3: Mean (trimmed) annual hours of internal time spent on tax activities by business size

Tax activity	Business size (number of employees)				All SMEs
	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)	
Recording information	29.2 (509)	41.6 (566)	67.0 (315)	84.6 (194)	37.7 (1584)
Calculating tax, completing and filing returns, paying tax	11.7 (492)	19.4 (577)	32.8 (328)	44.1 (208)	16.9 (1605)
Dealing with Inland Revenue	1.7 (517)	6.0 (581)	11.1 (333)	12.7 (205)	4.2 (1636)
Tax planning	1.4 (516)	2.0 (581)	3.1 (334)	3.7 (210)	1.8 (1641)
Dealing with tax advisors (including providing information)	6.1 (505)	11.5 (570)	18.4 (329)	18.9 (199)	9.2 (1603)
Learning about tax laws (new or existing)	3.9 (515)	8.5 (580)	12.4 (332)	18.0 (210)	6.5 (1637)
Other	0.2 (516)	0.6 (582)	1.4 (331)	1.9 (211)	0.5 (1640)
All activities	58.1 (504)	93.5 (579)	163.7 (327)	162.8 (195)	81.1 (1605)

Base: All respondents (excluding missing information and outliers).

Source: Long questionnaire Q13a, Q4; Short questionnaire Q6a

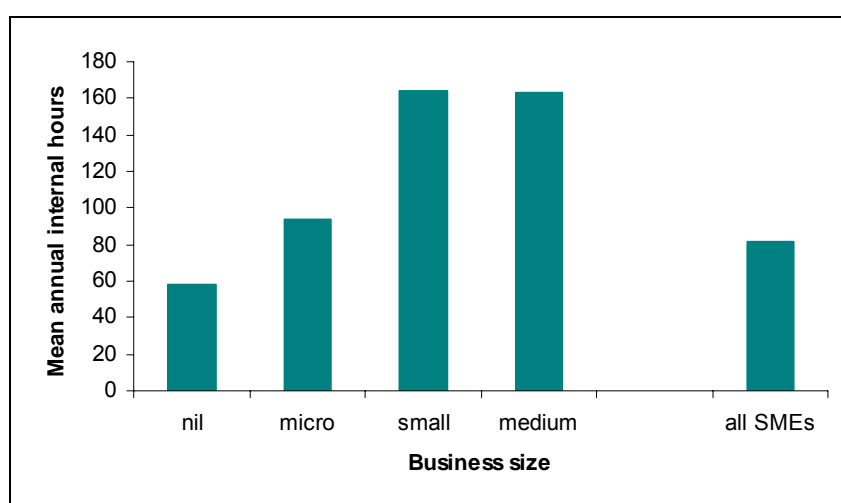


Figure 5.2: Mean (trimmed) annual internal hours spent on all tax activities by business size

Table 5.4: Median annual hours of internal time spent on tax activities by business size for all tax types

Tax activity	Business size (number of employees)				All SMEs
	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)	
Recording information	16 (520)	27 (588)	48 (337)	48 (212)	24 (1657)
Calculating tax, completing and filing returns, paying tax	3 (520)	12 (588)	26 (337)	36 (212)	8 (1657)
Dealing with IRD	0 (520)	0 (588)	5 (337)	6 (212)	0 (1657)
Tax planning	0 (520)	0 (588)	0 (337)	0 (212)	0 (1657)
Dealing with tax advisors (including providing information to them)	1 (520)	5 (588)	12 (337)	12 (212)	3 (1657)
Learning about tax laws (new or existing)	0 (520)	3 (588)	7 (337)	10 (212)	0 (1657)
Other	0 (520)	0 (588)	0 (337)	0 (212)	0 (1657)
All activities	30 (529)	64 (595)	126 (340)	138 (213)	48 (1677)

Base: All respondents (excluding missing information)

Source: Long questionnaire Q13a, Q4; Short questionnaire Q6a

Table 5.5 breaks down information related to business size by tax type rather than tax activity as discussed above. Across all tax types the mean annual hours of internal time increases as business size increases (note there is an exception in that the mean annual hours reported for GST for “medium” businesses is slightly less than that for small).

Table 5.5: Mean (trimmed) annual hours spent on all tax activities for each tax type by business size

Tax Type	Business size (number of employees)			
	Nil	Micro (1-5)	Small (6-19)	Medium (20+)
GST	34.9 (396)	41.2 (567)	54.1 (303)	47.8 (186)
Income tax	20.7 (490)	24.6 (542)	30.4 (313)	33.0 (196)
PAYE	- (13)	21.4 (577)	44.6 (328)	50.0 (202)
KiwiSaver	- (2)	11.8 (292)	16.9 (278)	22.5 (190)
FBT	3.2 (22)	6.5 (120)	11.2 (139)	17.3 (139)

Base: All respondents who filed/paid the particular tax type (excluding missing information and outliers)

Source: Long questionnaire Q1, Q4, Q13a; Short questionnaire Q6

*Respondents were asked how many employees they had at the end of “last month”. so, respondents in the “nil employees” category can be regarded as not currently employing staff, but having done so in the last 12 months (as they indicated at question 1 that they had paid/filed PAYE in the last 12 months).

Internal time spent on tax activities by specific types of personnel

For each tax type, respondents were asked to estimate how many hours per month different personnel groups spent on tax activities during the preceding 12 months for their SME. These data have been converted into annual figures and are detailed in Table 5.6 (means) and Table 5.7 (medians). Figure 5.3 is a graphical representation of the data presented in Table 5.6.

As these data show, owners, partners, directors and/or trustees are the personnel groups which are reported as spending the most internal time on tax activities for all tax types (\bar{x} =55.0 hours across all tax types compared with \bar{x} =77.0 hours for all personnel). The amount of reported annual internal time spent on tax activities by unpaid friends or relatives is negligible (\bar{x} =2.8 hours across all tax types).

The median hours for both paid employees and unpaid friends or relatives is 0 hours for all of the tax types, further emphasizing the extent to which it is owners, partners, directors and/or trustees who undertake the majority of tax activities in the respondent SMEs.

Table 5.6: Mean (trimmed) annual hours of internal time spent by personnel on all tax activities by tax type

Personnel	GST	Income tax	PAYE	KiwiSaver	FBT	All tax types
Owners/partners/directors/trustees	29.1 (1532)	18.0 (1625)	13.4 (1163)	7.5 (796)	4.4 (424)	55.0 (1650)
Paid employees	7.2 (1556)	3.9 (1660)	7.6 (1184)	5.3 (787)	3.6 (422)	18.3 (1702)
Unpaid friends or relatives	1.6 (1592)	0.4 (1663)	0.8 (1211)	0.4 (815)	0.0 (429)	2.8 (1727)
Total	37.4 (1522)	22.3 (1591)	24.1 (1157)	14.5 (770)	9.1 (429)	77.0 (1661)

Base: All respondents who filed/paid the particular tax type (excluding missing information and outliers)

Source: Long questionnaire Q13b; Short questionnaire Q6b, Q6c

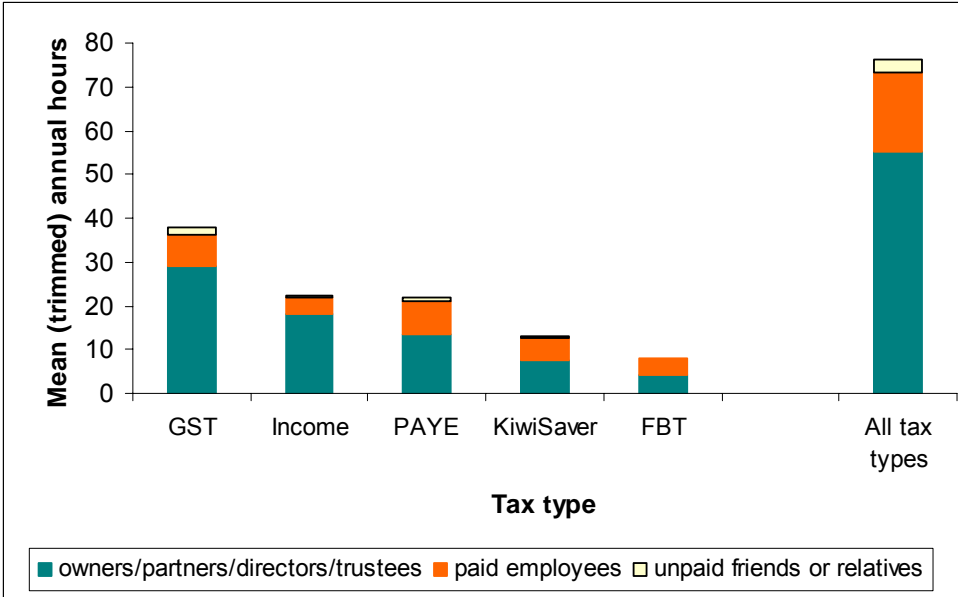


Figure 5.3: Internal time spent on all tax activities (mean annual hours) by personnel type by tax type

Table 5.7: Median annual hours of internal time spent by personnel on all tax activities by tax type

Personnel	GST	Income tax	PAYE	KiwiSaver	FBT	All tax types
Owners/partners/directors/trustees	18 (1598)	9 (1670)	6 (1212)	3 (815)	0 (431)	36 (1728)
Paid employees	0 (1598)	0 (1670)	0 (1212)	0 (815)	0 (431)	0 (1728)
Unpaid friends or relatives	0 (1598)	0 (1670)	0 (1212)	0 (815)	0 (431)	0 (1728)
All personnel	24 (1598)	12 (1670)	12 (1212)	9 (815)	3 (431)	48 (1728)

Base: All respondents who filed/paid the particular tax type (excluding missing information and outliers?)

Source: Long questionnaire Q13b; Short questionnaire Q6b, Q6c

Table 5.8 (means), and Table 5.9 (medians) detail the amount of time that different types of personnel spend on all tax activities by size of business (defined in terms of number of employees). Figure 5.4 graphically compares the mean annual hours reported for each personnel group by business size across all tax activities.

What these data clearly show is that the dominance of owners, partners, directors and/or trustees is due, primarily, to those businesses with nil employees and to a lesser extent the “micro” businesses (1 – 5 employees). For businesses with more than six employees it is paid employees who are the group most likely to complete tax activities. For “medium” businesses this is particularly marked, with paid employees reportedly spending 179.7 mean annual hours of internal time on tax activities, compared with the 38.8 hours reported for owners, partners, directors and/or trustees.

Table 5.8: Mean (trimmed) annual hours of internal time spent on all tax activities by business size and personnel group

Personnel	Business size (number of employees)			
	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)
Owners/partners/directors/trustees	44.8 (514)	66.9 (568)	70.7 (319)	38.8 (199)
Paid employees	2.8 (526)	21.7 (586)	77.6 (330)	179.7 (209)
Unpaid friends or relatives	2.2 (529)	4.0 (595)	3.8 (339)	0 (213)
All personnel	52.1 (502)	94.0 (584)	155.7 (329)	159.8 (195)

Base: All respondents who filed/paid the particular tax type (excluding missing information)

Source: Long questionnaire Q4, Q13b; Short questionnaire Q6b, Q6c

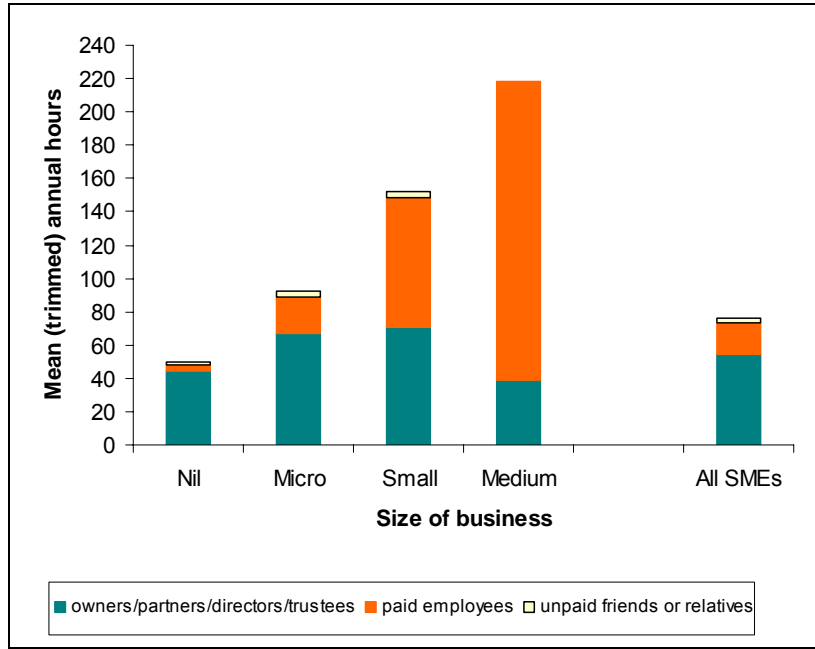


Figure 5.4: Mean (trimmed) annual hours of internal time spent by all personnel on all tax activities by business size

The median values, as represented in Table 5.9, further emphasise the change in personnel spending time on tax activities as the business size increases. For a “medium” business the median annual hours is 94 for paid employees compared with 0 for both “nil” and “micro” businesses and 18 hours for “small” businesses.

Table 5.9: Median annual hours of internal time spent by all personnel on all tax activities by business size

Personnel	Business size (number of employees)			
	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)
Owners/partners/directors/trustees	24 (529)	48 (595)	48 (340)	3 (213)
Paid employees	0 (529)	0 (595)	18 (340)	94 (213)
Unpaid friends or relatives	0 (529)	0 (595)	0 (340)	0 (213)
All personnel	29 (529)	60 (595)	115 (340)	128 (213)

Base: All respondents (excluding missing information)

Source: Long questionnaire Q4, Q13b; Short questionnaire Q6b, Q6c

One of the main results of this section is that the number of hours spent on tax increases as business size increases. This increase is more marked up to “small” businesses with a levelling effect between small and medium businesses. For owners, partners, directors and/or trustees (the main contributors to hours spent), the hours decrease for the medium-sized businesses.

6. Internal compliance costs: Income tax

This chapter reports on the internal tax compliance costs associated with income tax. Table 6.1 provides a summary of the internal compliance costs for income tax. The first column summarises the internal time spent by various categories of personnel, the second the estimated compliance costs (time multiplied by dollar value for that time) and the last column the percentage of overall compliance costs associated with the particular category of personnel.

On average businesses report spending 22.3 hours on tax activities associated with income tax. This equates to \$1,244 as a compliance cost. The vast majority of this cost is spent by owners, partners, directors and/or trustees (\$1,102, 89%) who spend an average of 18 hours annually on income tax compliance. This is compared to paid employees who spend 3.9 hours (\$100, 8%).

Table 6.1: Summary of internal income tax compliance costs

Personnel	Mean (trimmed) hours	Compliance cost (\$)	% of overall compliance cost
Owners/partners/directors/trustees	18.0 (1625)	\$1102 (1625)	89%
Paid employees	3.9 (1660)	\$100 (1660)	8%
Unpaid friends or relatives	0.4 (1663)	\$13 (1663)	1%
All personnel	22.3 (1591)	\$1244 (1616)	

Base: All respondents who file/pay income tax and all respondents of short questionnaire (excluding missing information and outliers)

Source: Long questionnaire Q13b, and Q13c; Short questionnaire Q6a, Q6b, Q6c, Q7

Note: percentages may not add to 100% due to rounding.

Table 6.2 shows the internal time (mean trimmed annual hours) spent on income tax analysed by business size (number of employees) and by the different categories of personnel. The annual number of hours spent by owners, partners, directors and/or trustees is very similar for “micro” (19.0 hours) and “small” (18.0 hours) SMEs. However, the amount of time spent by this group decreases for “medium” SMEs (11.4 hours).

The average time spent by paid employees increases significantly as the SME size grows. “Micro” SMEs reported an average of 5.1 annual hours while “medium” SMEs reported 31.8 hours. This is an increase of 26.7 hours or 524%. The largest increase is between “small” (11.9 hours) and “medium” (31.8 hours) SMEs.

Table 6.2: Mean (trimmed) annual hours of internal time spent by personnel groups on income tax by business size

Personnel	Business size (number of employees)			
	Nil employees*	Micro (1-5)	Small (6-19)	Medium (20+)
Owners/partners/directors/trustees	17.2 (497)	19.0 (557)	18.0 (318)	11.4 (204)
Paid employees	1.3 (506)	5.1 (573)	11.9 (325)	31.8 (206)
Unpaid friends or relatives	0.4 (504)	0.4 (573)	0.2 (326)	0.0 (210)
All personnel	19.9 (490)	23.3 (546)	29.5 (313)	30.2 (195)

Base: All respondents who file/pay income tax and all respondents of short questionnaire (excluding missing information and outliers)

Source: Long questionnaire Q4 and Q13b; Short questionnaire Q6a, Q6b, and Q6c

* The number of employees relates to a fixed point in time (the last month) while the hours spent relate to the past 12 months. It is possible that an SME categorised as nil employees may have employed someone in the past to complete income tax related activities.

As Table 6.3 shows, when converted to dollars, the mean annual internal compliance costs for income tax increase as business size increases although the increments between business groups are relatively small. The largest single increase is between “nil” (\$1,140) and “micro” (\$1,309) SMEs. This is an increase of \$169 a year compared with an increase of \$74 between “small” (\$1,445) and “medium” (\$1,519) SMEs in terms of mean compliance costs across all personnel.

Figure 6.1 clearly demonstrates the different pattern of costs for “medium” SMEs compared to the other categories of business size. As this figure shows their compliance costs are similar for the owners, partners, directors and/or trustees (\$694) and the paid employees (\$807). For all other business sizes the compliance costs for owners, partners, directors and/or trustees are the majority of overall costs.

Table 6.3: Mean (trimmed) annual internal compliance costs (\$) of income tax by business size

Personnel	Business size (number of employees)			
	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)
Owners/partners/directors/trustees	\$1052 (497)	\$1161 (557)	\$1100 (318)	\$694 (204)
Paid employees	\$32 (506)	\$129 (573)	\$302 (325)	\$807 (206)
Unpaid friends or relatives	\$14 (504)	\$12 (573)	\$5 (326)	\$0 (210)
All personnel	\$1140 (496)	\$1309 (558)	\$1445 (315)	\$1519 (198)

Base: All respondents who file/pay income tax and all respondents of short questionnaire (excluding missing information and outliers)

Source: Long questionnaire Q4, Q13b and Q13c; Short questionnaire Q6a, Q6b, Q6c and Q7

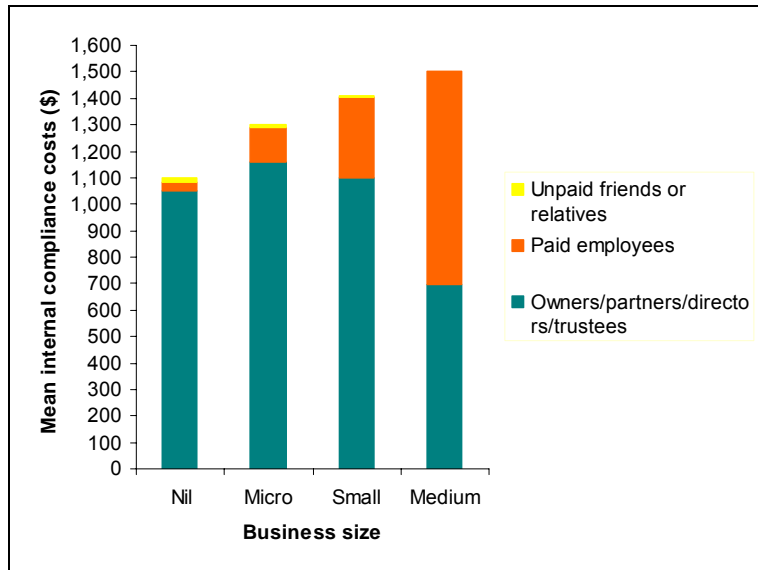


Figure 6.1: Annual internal compliance costs (\$) for income tax by business size and personnel group

Table 6.4 shows the internal compliance costs of income tax analysed by whether or not a business uses a tax advisor for income tax purposes by personnel group. While difficult to ascribe causality, as there may be other underlying factors at least partially responsible for the differences shown, mean internal compliance costs do decrease for SMEs who report using a tax advisor.

Table 6.4: Mean (trimmed) annual internal compliance costs (\$) of income tax by use of a tax advisor for income tax

Personnel	Whether business uses a tax advisor for income tax	
	Use tax advisor	Do not use tax advisor
Owners/partners/directors/trustees	\$1078 (1118)	\$1154 (507)
Paid employees	\$91 (1145)	\$119 (515)
Unpaid friends or relatives	\$12 (1146)	\$14 (517)
All personnel	\$1195 (1112)	\$1344 (504)

Base: All respondents who file/pay income tax and all respondents of short questionnaire (excluding missing information and outliers)

Source: Long questionnaire Q9a, 9b (income tax), Q13b and Q13c; Short questionnaire Q4, Q6a, Q6b, Q6c and Q7

Table 6.5 provides a breakdown by business size of compliance costs for SMEs which do and do not use a tax advisor. Figure 6.2 presents this comparison graphically. For SMEs with six or more employees (“small” and “medium”) internal compliance costs are greater when they use a tax advisor than when they do not. The situation is reversed for SMEs with five or less employees (“nil” and “micro”) where their internal tax compliance costs are greater when they do not use a tax advisor.

Table 6.5: Mean (trimmed) annual internal compliance costs (\$) of income tax by business size and whether business uses tax advisor for income tax

Business size (number of employees)	Whether business uses a tax advisor for income tax	
	Use tax advisor	Do not use tax advisor
Nil employees	\$1036 (324)	\$1335 (172)
Micro (1-5)	\$1243 (399)	\$1471 (159)
Small (6-19)	\$1561 (210)	\$1177 (105)
Medium (20+)	\$1641 (146)	\$1087 (52)
All SMEs	\$1170 (1079)	\$1358 (488)

Base: All respondents who file/pay income tax and all respondents of short questionnaire (excluding missing information and outliers)

Source: Long questionnaire Q4, Q13b and Q13c; Short questionnaire Q6a, Q6b, Q6c and Q7

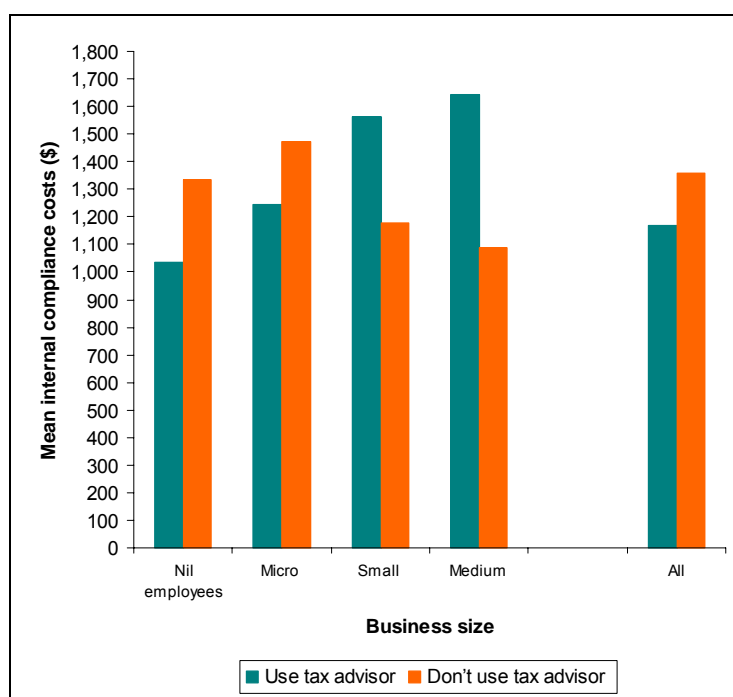


Figure 6.2: Mean (trimmed) internal compliance costs (\$) dependent on whether a tax advisor is used or not

Table 6.6 summarises mean (trimmed) internal compliance costs of income tax by business size as determined by turnover. Actual costs range from \$1,058 (turnover of between \$60,000 and \$99,999) to \$1,417 (turnover of between \$250,000 and \$499,999). This is a relatively small range given the range of turnover considered (less than \$40,000 through to more than \$2,000,000). Mean costs for the lowest turnover groups may not be comparable to the others. It is likely that in the lowest turnover group,

where GST registration is optional, some time taken over financial records is attributed by them to income tax where similar GST-registered SMEs attribute it to GST.²⁶

Mean compliance costs of income tax as a percentage of turnover decrease markedly as turnover increases. For businesses with a turnover of less than \$40,000 income tax compliance costs are 4% of their turnover. This is compared to businesses with turnovers greater than \$100,000 where the percentage of turnover is consistently less than 1%. For businesses whose turnover exceeds \$1.3 million compliance costs equate to less than 0.1% of turnover.

Table 6.6: Mean (trimmed) internal compliance costs of income tax as a percent of turnover

Turnover	Mean (trimmed) compliance costs	Mean compliance costs as a percent of turnover*
Less than \$40,000 (mean in range = \$30,506)	\$1106 (195)	4%
\$40,000 - \$59,999 (mean in range = \$49,452)	\$1347 (124)	3%
\$60,000 – \$99,999 (mean in range = \$77,875)	\$1058 (147)	1%
\$100,000 – \$249,999 (mean range = \$158,838)	\$1320 (276)	0.8%
\$250,000 – \$499,999 (mean in range = \$352,874)	\$1417 (189)	0.4%
\$500,000 - \$1,299,999 (mean in range = \$696,134)	\$1234 (262)	0.2%
\$1.3 million – less than \$2 million (mean in range = \$1,137, 424)	\$1202 (94)	0.1%
\$2 million and over (mean in range - \$4,447,261)	\$1355 (319)	0%

Base: All respondents who file/pay income tax and all respondents of short questionnaire (excluding missing information and outliers).

*The mean turnover values used to calculate these figures were from Inland Revenue administrative data

Source: Long questionnaire Q13b, Q13c and Q26; Short questionnaire Q6a, Q6b, Q6c, Q7 and Q11.

Stress associated with provisional tax compliance

Respondents were asked to indicate how stressful they found meeting requirements for provisional tax, including finding the money. A seven-point scale was used. Table 6.7 details both the percentage of respondents reporting each level of stress and the mean reported levels by business size and overall.

Overall, 16% of respondent SMEs report that there is no stress related with provisional tax compliance, while only 6% report that this compliance is extremely stressful. Half the respondents (50%) report that provisional tax compliance is less than moderately stressful (rating of 1, 2, or 3) with a further 21% reporting it as moderately stressful.

²⁶ Case studies with New Zealand SMEs completed for Inland Revenue suggest that the time taken to collect data relevant to both income tax and GST is typically attributed to GST (Ritchie, K. 2002. *New Zealand small business tax compliance costs – Some empirical evidence*. Wellington: Inland Revenue, pp24 – 25)

Table 6.7: Percentage of respondents reporting levels of stress associated with provisional tax compliance by business size

Level of reported stress	Business size (number of employees)				All (n=1339)
	Nil employees (n=411)	Micro (1-5) (n=466)	Small (6-19) (n=279)	Medium (20+) (n=183)	
1 (not all stressful)	18%	15%	10%	13%	16%
2	17%	17%	14%	23%	17%
3	18%	17%	14%	13%	17%
4 (moderately stressful)	22%	18%	26%	17%	21%
5	9%	15%	17%	19%	12%
6	10%	9%	11%	7%	10%
7 (extremely stressful)	4%	8%	6%	7%	6%

Base: All respondents who file/pay income tax and all respondents of short questionnaire; excludes those who indicated Q31 was not applicable.

Source: Long questionnaire Q4 and Q31; Short questionnaire Q15

Figure 6.3 displays combined percentages across three bands: *less than moderately stressful* (ratings of 1, 2 or 3); *moderately stressful* (rating = 4) and *more than moderately stressful* (ratings of 5, 6 or 7).

The combined percentage reporting *more than moderately stressful* is lowest for those SMEs with no employees (23%) while it is relatively consistent for all others (32%, 34%, 33% respectively). The combined percentage of respondents reporting that compliance is *less than moderately stressful* decreases as the business size increases up to 19 employees (range of 53% down to 38%).

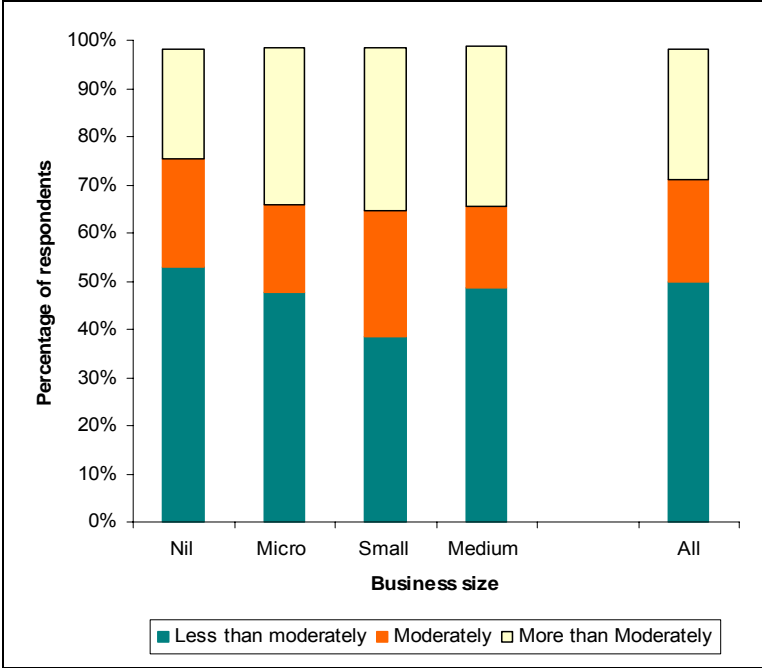


Figure 6.3: Percentage of respondents reporting banded levels of stress related to provisional tax by business size

Mean stress scores were further analysed by business size and the age of the business (Table 6.8). This allowed consideration of whether stress was greater when businesses were comparatively younger. In total, only 22 respondents who paid income tax were businesses that were less than one year old while a further 69 were between one and two years old. Most businesses were more than 10 years old (n=733).

The mean stress scores by age of business range from 3.0 for businesses that are less than six months old to 3.8 for businesses that are between one and two years old (Table 6.8). There is no consistent trend to suggest a relationship between age of business and stress related to complying with provisional tax. There is an even smaller range when stress is compared by business size (3.3 to 3.8). The implication is that neither business size nor age is a reliable indicator of stress associated with provisional tax compliance.

Table 6.8: Mean stress score associated with provisional tax compliance by business size and age of business²⁷

Age of business	Business size (number of employees)				All
	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)	
Less than 1 year	- (5)	- (10)	- (4)	- (3)	3.0 (22)
1-2 years	3.5 (31)	4.4 (28)	- (8)	- (2)	3.8 (69)
3-5 years	3.3 (112)	3.6 (97)	4.0 (36)	- (12)	3.4 (257)
6-10 years	3.4 (92)	3.7 (96)	3.7 (47)	- (19)	3.6 (254)
10 years +	3.3 (168)	3.5 (235)	3.8 (183)	3.2 (147)	3.4 (733)
All	3.3 (408)	3.6 (466)	3.8 (278)	3.6 (183)	3.5 (1335)

Base: All respondents who file/pay income tax and all respondents of short questionnaire; excludes those who indicated Q31 was not applicable.

Source: Long questionnaire Q4, Q28 and Q31; Short questionnaire Q13 and Q15

²⁷ Note: The wide variation in cell sizes should be considered when interpreting these results.

7. Internal compliance costs: GST

This section reports on the internal tax compliance costs associated with GST. Table 7.1 summarises the mean (trimmed) annual hours spent on GST by personnel groups and the compliance costs (annual \$ spent). The final column is the % of total compliance costs of all personnel for each personnel group.

On average, businesses report spending 37.4 hours on activities related to GST. The average compliance cost is \$2,018. As with income tax a large proportion (88%) of the compliance costs for GST are for the owners, partners, directors and/or trustees group (29.1 hours, \$1,778). This compares with \$182 for paid employees and \$54 for unpaid friends or relatives.

Table 7.1: Summary of internal GST compliance costs

Personnel	Mean (trimmed) hours	Compliance cost (\$)	% of overall compliance cost*
Owners/ partners/directors/trustees	29.1 (1532)	\$1778 (1532)	88%
Paid employees	7.2 (1556)	\$182 (1556)	9%
Unpaid friends or relatives	1.6 (1592)	\$54 (1592)	3%
All personnel	37.4 (1522)	\$2018 (1541)	

Base: All respondents who file/pay GST (excluding missing information and outliers).

Source: Long questionnaire Q13b and Q13c

*The percentages in this column may not add to 100% because the mean compliance costs each have slightly different bases due to the process of trimming outliers.

Table 7.2 displays the mean (trimmed) annual hours and compliance costs of GST associated with different categories of personnel and business size groupings. The mean (trimmed) annual hours for owners, partners, directors and/or trustees remain relatively consistent for “nil”, “micro” and “small” SMEs (28.8, 29.8, 26.4 hours respectively). However, the mean annual number of hours for this group in “medium” SMEs is 12.3 hours; less than half that for the other business size groups.

For paid employees the mean annual hours reported increases sharply from 1.8 hours for those with nil employees²⁸ through to 49.1 hours for those with 20 or more.

²⁸ Again because this response covers costs over a 12-month period it is possible that businesses currently have no employees but did previously.

Table 7.2: Mean (trimmed) annual hours of internal time spent by personnel on GST analysed by business size

Personnel	Business size (number of employees)			
	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)
Owners/partners/directors/trustees	28.8 (401)	29.8 (565)	26.4 (315)	12.3 (200)
Paid employees	1.8 (407)	8.9 (581)	26.7 (324)	49.1 (193)
Unpaid friends or relatives	1.9 (406)	1.5 (587)	0.9 (338)	0.0 (210)
All personnel	32.6 (399)	40.5 (574)	50.4 (309)	49.0 (189)

Base: All respondents who file /pay GST (excluding missing information and outliers).

Source: Long questionnaire Q4 and Q13b

Table 7.3 and Figure 7.1 display the trends associated with compliance costs in dollar terms, by business size, for each personnel group. For all businesses up to 19 employees the majority of cost is incurred for owners, partners, directors and/or trustees. However, where an SME has 20 or more employees the majority of the compliance cost is for paid employees. When comparing these figures with income tax it is interesting to note the relatively larger costs incurred for unpaid friends and relatives.

Table 7.3: Mean (trimmed) internal compliance costs (\$) of GST by business size for different personnel groups

Personnel	Business size (number of employees)			
	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)
Owners/partners/directors/trustees	\$1762 (401)	\$1821 (565)	\$1615 (315)	\$749 (200)
Paid employees	\$47 (407)	\$225 (581)	\$677 (324)	\$1247 (193)
Unpaid friends or relatives	\$64 (406)	\$50 (587)	\$30 (338)	\$0 (210)
All personnel	\$1825 (401)	\$2082 (569)	\$2560 (320)	\$2507 (200)

Base: All respondents who file/pay GST (excluding missing information and outliers).

Source: Long questionnaire Q4, Q13b and Q13c

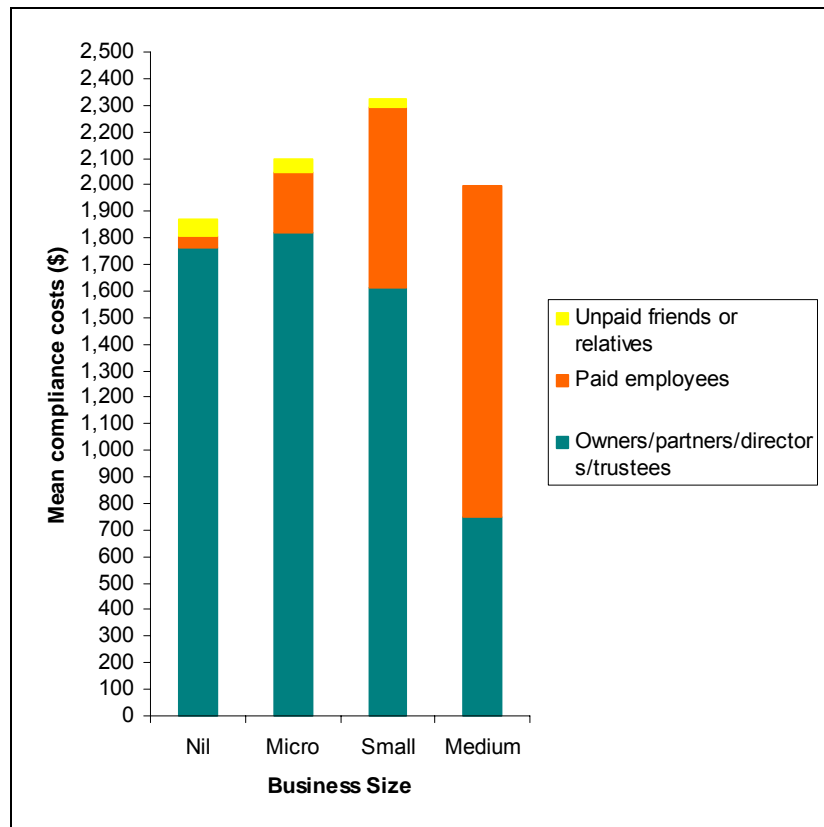


Figure 7.1: Annual internal compliance costs (\$) for GST by business size and personnel group

Mean (trimmed) internal compliance costs for GST were also analysed by business turnover. These data are presented in Table 7.4. The range in mean compliance costs is from \$1,626 (less than \$40,000 turnover) through to \$2,372 (\$40,000 to \$59,999).

There is no apparent trend in the reported mean (trimmed) compliance costs by turnover. However, when these costs are considered as a percentage of turnover, there is a direct relationship between turnover and compliance costs. Mean compliance costs as a percentage of turnover decreases as turnover increases. The range is from 5% for businesses with turnovers less than \$40,000 through to 0.1% for businesses with turnovers of \$2 million or more. Compliance costs drop below 1% for businesses with turnovers of more than \$250,000.

Table 7.4: Mean (trimmed) internal compliance costs of GST (\$) as a proportion of turnover

Turnover	Mean (trimmed) compliance costs	Mean compliance costs as a percent of turnover*
Less than \$40,000 (mean in range = \$30,506)	\$1626 (140)	5%
\$40,000 - \$59,999 (mean in range = \$49,452)	\$2372 (105)	5%
\$60,000 – \$99,999 (mean in range = \$77,875)	\$1764 (142)	2%
\$100,000 – \$249,999 (mean range = \$158,838)	\$2131 (274)	1%
\$250,000 – \$499,999 (mean in range = \$352,874)	\$1940 (199)	0.5%
\$500,000 - \$1,299,999 (mean in range = \$696,134)	\$2257 (265)	0.3%
\$1.3 million – less than \$2 million (mean in range = \$1,137, 424)	\$2328 (97)	0.2%
\$2 million and over (mean in range - \$4,447,261)	\$2253 (318)	0.1%

Base: All respondents who file/pay GST (excluding missing information and outliers).

*The mean turnover values used to calculate these figures were based on population characteristics.

Source: Long questionnaire Q13b, Q13c and Q27

Stress associated with GST compliance

Respondents were asked to indicate how stressful they found meeting requirements for GST, including finding the money (a seven-point scale was used). Table 7.5 summarises the responses to this question providing both percentages of respondents reporting each level of stress by business size (number of employees) and mean scores for reported stress.

Over half (54%) of all respondents reported that complying with GST was less than moderately stressful (ratings of 1, 2, or 3). A further 20% reported that it was moderately stressful (rating =4) with only 5% stating that it was extremely stressful (rating = 7).

Those businesses with no employees were more likely than any others to report that GST compliance was not at all stressful (18%). Similar percentages were reported across the other three business categories (12%, 10% and 11% respectively). Of the “nil” SMEs (no employees) 2% reported that GST compliance was extremely stressful compared with 7% for “micro” and “medium” SMEs and 11% for “small” SMEs.

Table 7.5: Stress associated with GST compliance

Level of reported stress	Business size (number of employees)				All (n=1517)
	Nil employees (n=393)	Micro (1-5) (n=581)	Small (6-19) (n=337)	Medium (20+) (n=206)	
1 (not all stressful)	18%	12%	10%	11%	15%
2	21%	15%	21%	22%	19%
3	21%	21%	15%	15%	20%
4 (moderately stressful)	19%	21%	22%	17%	20%
5	11%	13%	10%	8%	11%
6	7%	11%	9%	18%	9%
7 (extremely stressful)	2%	7%	11%	7%	5%

Base: All respondents who file/pay GST ; excludes those who indicated Q30 was not applicable.

Source: Long questionnaire Q4 and Q30

In Figure 7.2, the data reported in Table 7.5 have been banded into three levels: *less than moderately stressful* (ratings 1, 2 or 3), *moderately stressful* (rating 4) and *more than moderately stressful* (rating 5, 6 or 7). As this figure shows, the combined percentages across all three levels are very similar for all businesses with at least one employee. The percentage reporting *less than moderate stress* is greater for those businesses with no employees than any other. Similarly, this group (no employees) has a much lower percentage represented in those reporting that the stress related to GST compliance is *more than moderate*.

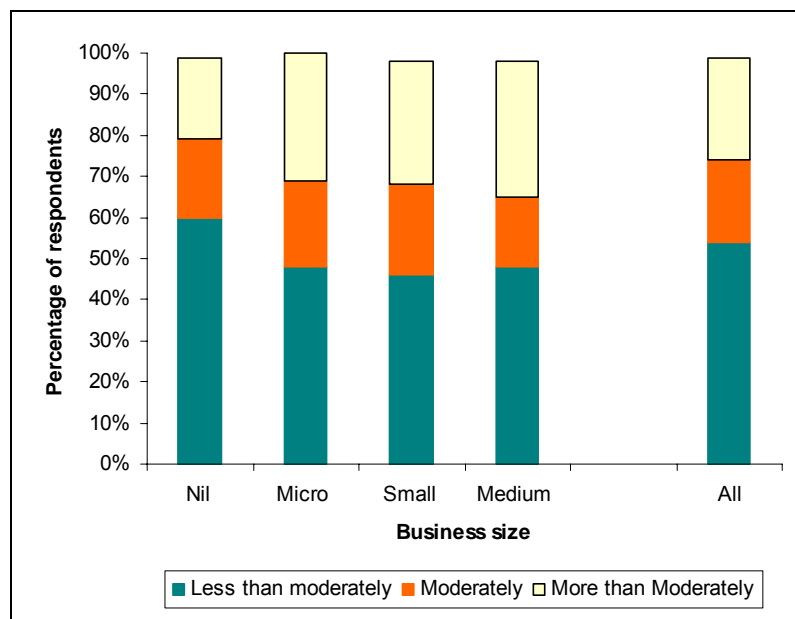


Figure 7.2: Percentage of respondents reporting banded levels of stress related to GST compliance

Table 7.6 summarises the mean stress scores reported by respondent SMEs by business size and age. There is little difference in mean reported stress scores across all businesses either by age (range = 3.2 to 3.6 or size (range = 3.1 to 3.8). The small cell sizes in many instances mean that these data need to be considered with caution.

Table 7.6: Mean stress score associated with GST compliance – by business size by age of business

Age of business	Business size (number of employees)				All
	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)	
Less than 1 year	- (10)	- (13)	- (5)	- (3)	3.2 (31)
1-2 years	3.0 (33)	4.1 (46)	- (15)	- (5)	3.6 (99)
3-5 years	3.2 (119)	3.9 (123)	3.8 (45)	- (15)	3.5 (302)
6-10 years	3.2 (88)	3.7 (116)	3.6 (58)	4.0 (23)	3.4 (285)
10 years +	3.1 (141)	3.5 (283)	3.6 (213)	3.5 (159)	3.3 (796)
All	3.1 (391)	3.7 (581)	3.8 (336)	3.7 (205)	3.4 (1513)

Base: All respondents who file/pay GST; excludes those who indicated Q30 was not applicable.

Source: Long questionnaire Q4, Q26 and Q30

8. Internal compliance costs: PAYE

This section reports on the internal tax compliance costs associated with PAYE. In this section, a number of the tables present an analysis by business size (defined in terms of the number of employees). There is a category for those with “nil employees”. Respondents were asked how many employees they had at the end of “last month”²⁹. Respondents in the nil employees category can be regarded as not currently employing staff, but having done so in the last 12 months (as they indicated at Question 1 that they had paid/filed PAYE in the last 12 months).

Table 8.1 summarises the PAYE compliance costs for all businesses, regardless of size. As with the other tax types it displays the mean (trimmed) annual hours, the mean (trimmed) compliance costs (\$) and the percentage of overall compliance costs attributed to each personnel group. On average, SMEs report spending 24.1 hours annually on meeting PAYE requirements. This equates to a mean internal compliance cost of \$1,141. Again, the majority of compliance costs (\$819, 72%) are attributed to owners, partners, directors and/or trustees. Paid employees costs equate to 7.6 hours or \$194.

Table 8.1: Summary of internal PAYE compliance costs

Personnel	Mean (trimmed) hours	Compliance cost (\$)	% of overall compliance cost*
Owners/ partners /directors /trustees	13.4 (1163)	\$819 (1163)	72%
Paid employees	7.6 (1184)	\$194 (1184)	17%
Unpaid friends or relatives	0.8 (1211)	\$28 (1211)	2%
All personnel	24.1 (1175)	\$1141 (1172)	

Base: All respondents who file/pay PAYE (excluding missing information and outliers).

Source: Long questionnaire Q13b and Q13c

*The percentages in this column may not add to 100% because the mean compliance costs each have slightly different bases due to the process of trimming outliers.

Table 8.2 details the mean (trimmed) annual hours spent on PAYE activities for each category of business size by personnel group. For PAYE, the number of hours spent by owners, partners, directors and/or trustees increases with business size up to 19 employees. For SMEs with twenty or more employees (“medium”), the amount of time this personnel group spends is 7.8 hours compared with 18.7 hours for “small” businesses.

The mean (trimmed) annual hours reported for paid employees increases markedly as business size increases. There is a similar increase in hours between “micro” and “small” SMEs (15.8 hours) and between “small” and “medium” SMEs (17.9 hours).

²⁹ Due to some businesses experiencing variability in employee numbers over a year, respondents were asked to estimate the number of employees they had at a particular point in time.

Table 8.2: Mean (trimmed) annual house of internal time spent by personnel on PAYE by business size

Personnel	Business size (number of employees)			
	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)
Owners/partners/directors/trustees	2.1 (13)	14.4 (578)	18.7 (325)	7.8 (205)
Paid employees	0.0 (13)	4.2 (588)	20.0 (332)	37.9 (201)
Unpaid friends or relatives	0.0 (13)	1.0 (594)	1.2 (340)	0.0 (213)
All personnel	2.1 (13)	21.6 (576)	43.2 (328)	48.7 (202)

Base: All respondents who file/pay PAYE (excluding missing information and outliers).

Source: Long questionnaire Q4 and Q13b

Table 8.3 and Figure 8.1 summarise the mean (trimmed) internal compliance costs of PAYE by business size for each of the personnel groups. For all businesses with less than 20 employees the compliance costs are greatest for the owners, partners, directors and trustees. However, when a business has more than 20 employees the greater costs are attributed to paid employees (\$962 compared with \$474).

Table 8.3: Mean (trimmed) internal compliance costs of PAYE by business size and personnel groups.

Personnel	Business size (number of employees)			
	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)
Owners/partners/directors/trustees	\$130 (13)	\$883 (578)	\$1143 (325)	\$474 (205)
Paid employees	\$0 (13)	\$106 (588)	\$508 (332)	\$962 (201)
Unpaid friends or relatives	\$0 (13)	\$33 (594)	\$42 (340)	\$0 (213)
All personnel	\$130 (13)	\$1101 (582)	\$1855 (328)	\$1818 (208)

Base: All respondents who file/pay PAYE (excluding missing information and outliers).

Source: Long questionnaire Q4, Q13b and Q13c

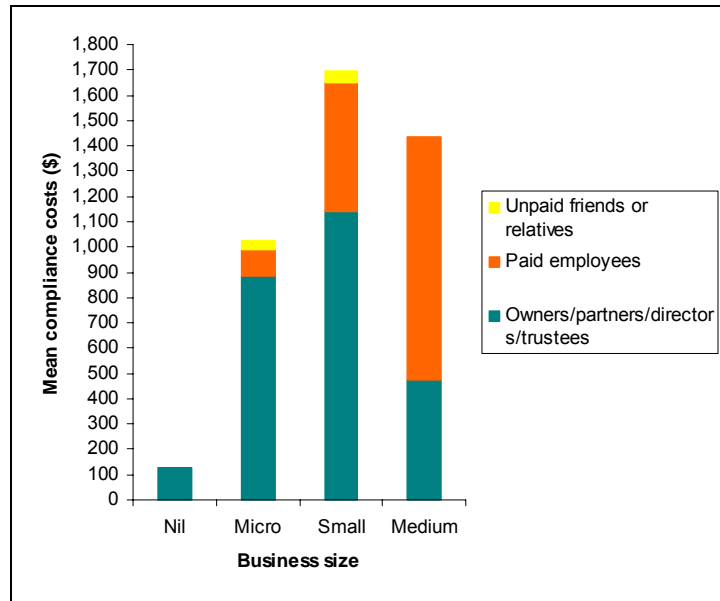


Figure 8. 1: Annual internal compliance costs (\$) for PAYE by business size and personnel group

Table 8.4 shows the mean (trimmed) compliance costs for PAYE per employee. It clearly demonstrates a marked decrease in costs per employee as the number of employees increases. This ranges from \$534 per employee for businesses with between 1 and 5 employees to \$44 where the SME employs more than 20 people.

Table 8.4: Mean (trimmed) internal compliance costs of PAYE per employee

Business size (number of employees)	Overall mean (trimmed) compliance cost	Mean compliance cost per employee*
Nil employees^	\$130 (13)	-
Micro (1-5)	\$1101 (595)	\$534
Small (6-19)	\$1855 (340)	\$192
Medium (20+)	\$1818 (213)	\$44

Base: All respondents who file/pay PAYE (excluding missing information and outliers).

Source: Long questionnaire Q4, Q13b and Q13c

*These calculations have been conducted at an individual level, ie, by using the respondent's answer at Q4.

^While some respondents provided internal compliance costs for PAYE they also indicated no employees.

In Table 8.5 the mean (trimmed) internal compliance costs for PAYE are broken down by business turnover. They are also presented as a percentage of turnover within each range. Compliance costs as a percentage of turnover decrease as turnover increases. When SME turnover exceeds \$500,000 compliance costs dropped to 0.2% or less of turnover.

Table 8.5: Mean (trimmed) internal compliance costs of PAYE as a percent of turnover

Turnover	Mean (trimmed) compliance costs	Mean compliance costs as a percent of turnover*
Less than \$40,000 (mean in range = \$30,506)	\$750 (43)	3%
\$40,000 - \$59,999 (mean in range = \$49,452)	\$625 (37)	1%
\$60,000 – \$99,999 (mean in range = \$77,875)	\$774 (68)	1%
\$100,000 – \$249,999 (mean range = \$158,838)	\$1056 (169)	0.7%
\$250,000 – \$499,999 (mean in range = \$352,874)	\$1361 (177)	0.4%
\$500,000 - \$1,299,999 (mean in range = \$696,134)	\$1377 (246)	0.2%
\$1.3 million – less than \$2million (mean in range = \$1,137, 424)	\$1476 (100)	0.1%
\$2 million and over (mean in range - \$4,447,261)	\$1507 (330)	0.0%

Base: All respondents who file/pay PAYE (excluding missing information and outliers).

*The mean turnover values used to calculate these figures were provided by Inland Revenue and based on population characteristics.

Source: Long questionnaire Q13b, Q13c and Q26

Stress associated with PAYE compliance

Respondents were asked to indicate how stressful they found meeting requirements for PAYE, including finding the money. The results are presented in Table 8.6. The percentage of respondents reporting that compliance with PAYE is not at all stressful (19%, 17% and 18% respectively) and those reporting that it is extremely stressful (5%, 6% and 5% respectively) are consistent across business size. Across all business size categories reporting stress associated with PAYE (those businesses with no employees would not be involved in PAYE)³⁰ more than 70% of respondents report that dealing with PAYE compliance is either moderately stressful or less than moderately stressful.

³⁰ A very small group of “nil” businesses did report stress levels in terms of dealing with PAYE. Given the small numbers and the rarity with which they complete PAYE they have been removed from all tables in this section.

Table 8.6: Stress associated with PAYE compliance

Level of reported stress	Business size (number of employees)				All (n=1102) %
	Nil employees (n=2) %	Micro (1-5) (n=556) %	Small (6-19) (n=337) %	Medium (20+) (n=207) %	
1 (not all stressful)	-	19%	17%	18%	18%
2	-	26%	22%	26%	26%
3	-	17%	17%	11%	16%
4 (moderately stressful)	-	15%	20%	20%	17%
5	-	10%	14%	7%	11%
6	-	6%	4%	12%	6%
7 (extremely stressful)	-	5%	6%	5%	5%

Base: All respondents who file/pay PAYE; excludes those who indicated Q32 was not applicable.

Source: Long questionnaire Q4 and Q32

Figure 8.2 displays the percentages of respondents reporting different levels of stress in three bands: *less than moderately stressful*, *moderately stressful* and *more than moderately stressful*. This figure further highlights the relative consistency of reported stress across the three business size categories. The most noticeable difference is that a greater percentage of those in “micro” businesses report that compliance with PAYE is *less than moderately stressful*.

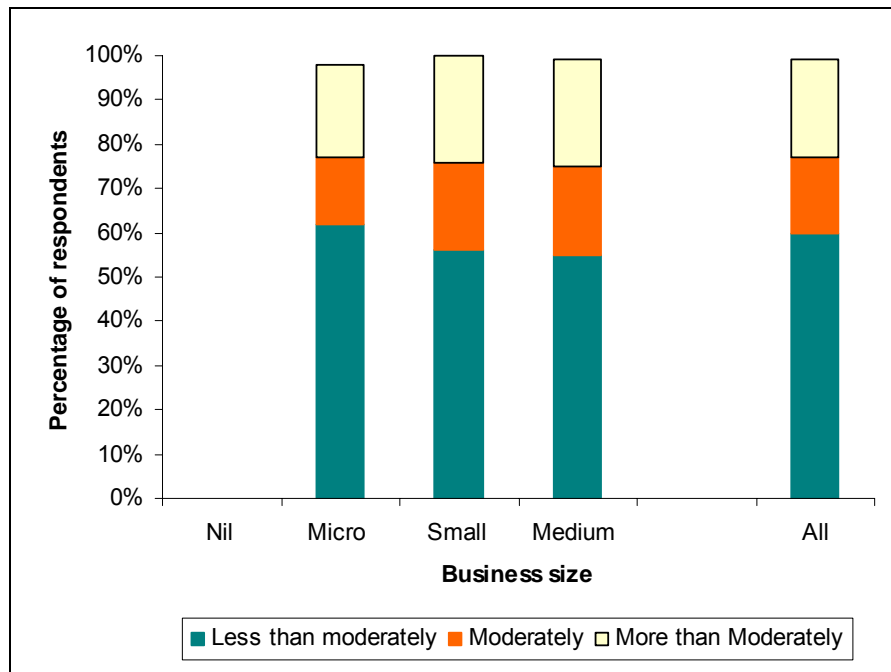


Figure 8.2: Percentage of respondents reporting banded levels of stress related to PAYE by business size

Mean reported levels of stress for PAYE compliance were also analysed by the age of the business and business size as shown in Table 8.7. Neither the age of a business nor its size as determined by the number of employees appear to be predictors of the levels of stress experienced. For both factors the range of mean responses is small (size = 3.1 to 3.3 and age = 3.1 to 3.6). As with all other similar tables caution should be taken in interpreting these findings due to the small cell sizes.

Table 8.7: Mean stress score associated with PAYE compliance – by business size and age of business

Age of business	Business size (number of employees)				All
	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)	
Less than 1 year	- (0)	- (11)	- (5)	- (3)	- (19)
1-2 years	- (0)	3.5 (44)	- (15)	- (5)	3.6 (64)
3-5 years	- (1)	3.1 (118)	3.0 (45)	- (16)	3.1 (180)
6-10 years	- (0)	3.2 (108)	3.2 (59)	3.6 (24)	3.2 (191)
10 years +	- (1)	3.0 (275)	3.3 (212)	3.2 (158)	3.1 (646)
All	- (2)	3.1 (556)	3.3 (336)	3.3 (206)	3.1 (1100)

Base: All respondents who file/pay PAYE; excludes those who indicated Q32 was not applicable.

Source: Long questionnaire Q4, Q28 and Q32

9. Internal compliance costs: KiwiSaver

This chapter reports on the internal tax compliance costs associated with KiwiSaver. KiwiSaver, a work-based savings for retirement scheme, was introduced in 2007. As discussed previously, although KiwiSaver is not a tax it is administered through PAYE. All employers, unless given an exemption, must comply with the administration of KiwiSaver. As such the costs to businesses associated with KiwiSaver can be viewed as part of their overall tax compliance costs.

Table 9.1 summarises the internal KiwiSaver compliance costs by personnel group across all businesses. On average, SMEs report spending 14.5 hours on KiwiSaver activities for a mean compliance cost of \$660. Owners, partners, directors and/or trustees account for just over two-thirds of all compliance costs reported for KiwiSaver (\$456, 69%). This equates to 7.5 hours compared with 5.3 hours for paid employees.

Table 9.1: Summary of internal KiwiSaver compliance costs

Personnel	Mean (trimmed) hours	Compliance cost (\$)	% of overall compliance cost*
Owners/partners/directors/trustees	7.5 (796)	\$456 (796)	69%
Paid employees	5.3 (787)	\$133 (787)	20%
Unpaid friends or relatives	0.4 (815)	\$12 (815)	2%
All personnel	14.5 (770)	\$660 (791)	

Base: All respondents who reported hours spent on KiwiSaver activities in Q13a

Source: Long questionnaire Q13b and Q13c

*The percentages in this column may not add to 100% because the mean compliance costs each have slightly different bases due to the process of trimming outliers.

Table 9.2 details the mean (trimmed) annual hours reported as being spent on KiwiSaver for each category of business size by personnel group. While “micro” businesses with between one and five employees report that the most time is spent by owners, partners, directors and/or trustees (8.4 hours) those SMEs with six or more employees report the most time being spent by paid employees. “Medium” businesses (20 or more employees) report that their owners, partners, directors and/or trustees spend 3.9 hours on average compared with a mean of 18.2 hours for paid employees.

Table 9.2: Mean (trimmed) annual hours of internal time spent by personnel group on KiwiSaver by business size

Personnel	Business size (number of employees)			
	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)
Owners/partners/directors/trustees	-	8.4 (304)	6.5 (283)	3.9 (198)
Paid employees	-	2.3 (302)	8.8 (279)	18.2 (193)
Unpaid friends or relatives	-	0.5 (309)	0.4 (291)	0.0 (202)
All personnel	-	11.3 (291)	16.6 (278)	22.3 (190)

Base: All respondents who reported KiwiSaver hours in Q13a excluding trimmed outliers

Source: Long questionnaire Q4 and Q13b

Note that because KiwiSaver is a work-based scheme for employees those SMEs with no employees will not have reported time spent on KiwiSaver.

Table 9.3 and Figure 9.1 summarise the mean (trimmed) internal compliance costs of KiwiSaver by business size for each of the personnel groups. The compliance costs for owners, partners, directors and/or trustees decrease as business size increases. For “micro” SMEs the compliance cost for this personnel group is \$513 compared with \$236 for “medium” SMEs. The reverse is true for paid employees with compliance costs for this group ranging from \$57 for “micro” SMEs through to \$461 for “medium”.

Table 9.3: Mean (trimmed) internal compliance costs (\$) of KiwiSaver by business size and personnel groups.

Personnel	Business size (number of employees)			
	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)
Owners/partners/directors/trustees	-	\$513 (304)	\$396 (283)	\$236 (198)
Paid employees	-	\$57 (302)	\$224 (279)	\$461 (193)
Unpaid friends or relatives	-	\$15 (309)	\$13 (291)	\$0 (202)
All personnel	-	\$579 (303)	\$695 (281)	\$666 (194)

Base: All respondents reported spending time on KiwiSaver in Q13 excluding missing information and outliers.

Source: Long questionnaire Q4, Q13b and Q13c

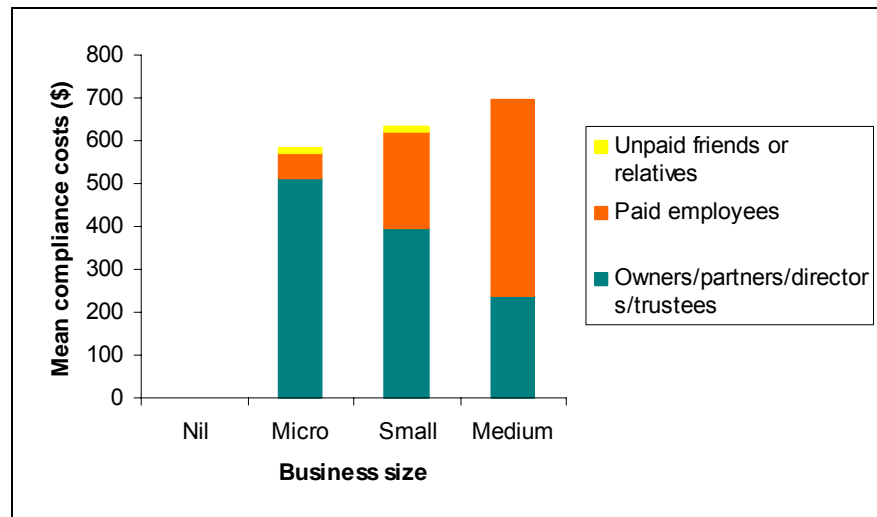


Figure 9.1: Annual internal compliance costs (\$) for KiwiSaver by business size and personnel group

For those SMEs with turnovers greater than \$60,000 internal compliance costs for KiwiSaver are less than 1% of turnover. This proportion drops to 0.1%, or less, for those with turnover greater than \$500,000 (Table 9.4). Small sample sizes meant it was not possible to accurately report mean compliance costs for SMEs with turnovers less than \$60,000.

Table 9.4: Mean (trimmed) internal compliance costs of KiwiSaver as a percent of turnover

Turnover	Mean (trimmed) compliance costs	Mean compliance costs as a percent of turnover*
Less than \$40,000 (mean in range = \$30,506)	- (17)	-
\$40,000 - \$59,999 (mean in range = \$49,452)	- (11)	-
\$60,000 – \$99,999 (mean in range = \$77,875)	\$705 (22)	0.9%
\$100,000 – \$249,999 (mean range = \$158,838)	\$644 (72)	0.4%
\$250,000 – \$499,999 (mean in range = \$352,874)	\$736 (107)	0.2%
\$500,000 - \$1,299,999 (mean in range = \$696,134)	\$591 (177)	0.1%
\$1.3 million – less than \$2 million (mean in range = \$1,137, 424)	\$518 (87)	0.1%
\$2 million and over (mean in range - \$4,447,261)	\$597 (298)	0.0%

Base: All respondents who recorded spending time on KiwiSaver (excluding missing information and outliers).

*The mean turnover values used to calculate these figures were based on population characteristics.

Source: Long questionnaire Q13b, Q13c and Q26

Stress associated with KiwiSaver compliance

Respondents were asked to indicate how stressful they found meeting requirements for KiwiSaver. The results are presented in Table 9.5. Few respondents (5% overall) found KiwiSaver compliance extremely

stressful. By comparison, 77% of all respondents reported that KiwiSaver compliance was moderately or less than moderately stressful.

Table 9.5: Stress associated with KiwiSaver compliance

Level of reported stress	Business size (number of employees)				All (n=770) %
	Nil employees (n=1) %	Micro (1-5) (n=289) %	Small (6-19) (n=286) %	Medium (20+) (n=194) %	
1 (not all stressful)	-	24%	23%	14%	23%
2	-	21%	24%	23%	22%
3	-	17%	14%	13%	16%
4 (moderately stressful)	-	17%	15%	12%	16%
5	-	7%	13%	17%	10%
6	-	8%	6%	13%	8%
7 (extremely stressful)	-	5%	5%	7%	5%

Base: All respondents who reported spending time on KiwiSaver. Excluded those who indicated Q33 was not applicable.
 Source: Long questionnaire Q4 and Q33

Figure 9.2 displays the percentages of respondents reporting different levels of stress in three bands. For both “micro” and “small” SMEs the majority of respondents report that KiwiSaver compliance is less than moderately stressful (62% and 61% respectively). The comparative figure for “medium” businesses is 50%. Those businesses with more than 20 employees (“medium” SMEs) are more likely to report that compliance with KiwiSaver is more than moderately stressful with 37% of all respondents, in this category, reporting a stress level of 5, 6 or 7 compared to only 20% and 24% for the other two categories.

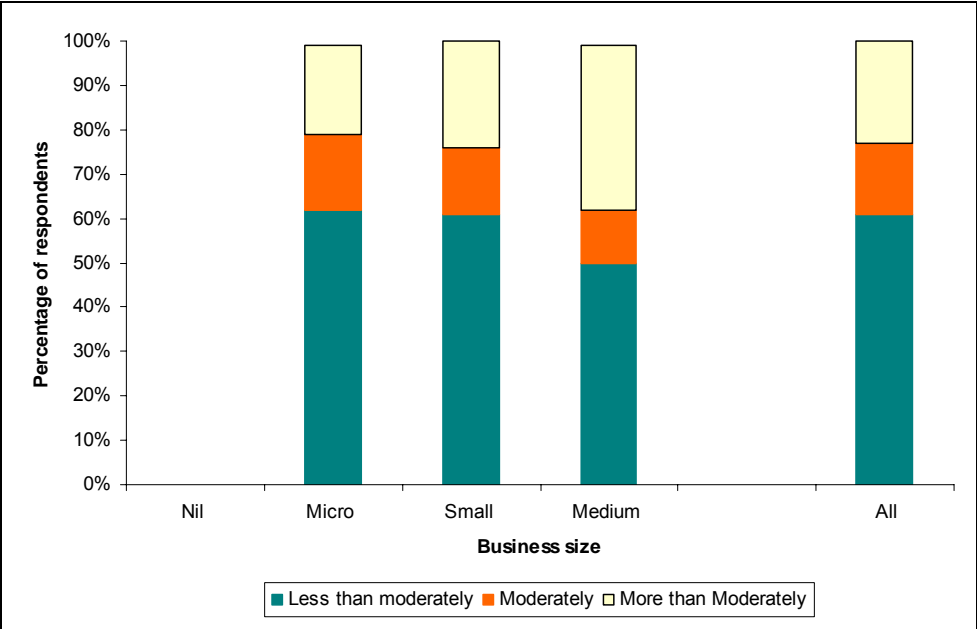


Figure 9.2: Percentage of respondents reporting banded levels of stress related to KiwiSaver by business size

Analyses of mean stress scores by age of business as well as business size are presented in Table 9.6. As with similar sections for other tax types, it is important to note the sample sizes that these data are drawn from, both in terms of the small numbers in some groups and the overall variation in group sizes.

The range of means for business size is very small with “medium” businesses reporting stress levels of 3.6. on a scale of one to seven and the other two categories of size (“micro” and “small”) reporting 3.1. The range is similarly small for age of business (2.9 to 3.6).

Table 9.6: Mean stress score associated with KiwiSaver compliance – by business size and age of business

Age of business	Business size (number of employees)				All
	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)	
Less than 1 year	-	- (4)	- (5)	- (3)	- (12)
1-2 years	-	3.4 (21)	- (15)	- (5)	3.6 (41)
3-5 years	- (1)	3.5 (59)	2.4 (36)	- (14)	3.2 (110)
6-10 years	-	2.8 (55)	2.6 (44)	4.6 (22)	2.9 (121)
10 years +	-	2.8 (150)	3.4 (185)	3.3 (150)	3.1 (485)
All	- (1)	3.1 (289)	3.1 (285)	3.6 (194)	3.1 (769)

Base: All respondents who file PAYE; excludes those who indicated Q33 was not applicable.

Source: Long questionnaire Q4, Q28 and Q33

10. Internal compliance costs: FBT

This chapter reports on the internal tax compliance costs associated with FBT. The respondents, who are the subject of the analyses in this section, indicated that they had filed at least one FBT return within the last 12 months. Respondents who indicated they were registered for FBT but had filed “nil returns” were excluded.

Table 10.1 summarises the internal FBT compliance costs by personnel group across all businesses. SMEs report an average of 9.1 hours annually at a mean cost of \$318 related to meeting the requirements for FBT compliance. As with all previous tax types, the majority of the compliance costs (\$267, 84%) are attributed to owners, partners, directors and/or trustees. There is negligible cost for unpaid friends or relatives.

Table 10.1: Summary of internal FBT compliance costs

Personnel	Mean (trimmed) hours	Compliance cost (\$)	% of overall compliance cost*
Owners/partners/directors/trustees	4.4 (424)	\$267 (424)	84%
Paid employees	3.6 (422)	\$91 (422)	29%
Unpaid friends or relatives	0.0 (429)	\$1 (429)	0%
All personnel	9.1 (429)	\$318 (423)	

Base: All respondents file/pay FBT in last 12 months (excluding FBT nil returns, missing information and outliers).

Source: Long questionnaire Q13b and Q13c

*The percentages in this column may not add to 100% because the mean compliance costs each have slightly different bases due to the process of trimming outliers.

Tables 10.2 details the mean (trimmed) annual hours for each category of business size by personnel group. While the number of hours reported are much lower than for other tax types, the same general trend can be seen with the input of paid employees substantially increasing for businesses with more than 20 employees.

Table 10.2: Mean (trimmed) annual hours of internal time spent by personnel group on FBT by business size

Personnel	Business size (number of employees)			
	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)
Owners/partners/directors/trustees	3.2 (22)	3.7 (119)	3.5 (138)	2.9 (139)
Paid employees	0.0 (22)	2.5 (119)	7.1 (139)	12.9 (136)
Unpaid friends or relatives	0.0 (22)	0.1 (120)	0.1 (140)	0.0 (141)
All personnel	3.2 (22)	6.5 (120)	13.4 (140)	20.1 (141)

Base: All respondents file/pay FBT in last 12 months (excluding FBT nil returns, missing information and outliers).

Source: Long questionnaire Q4 and Q13b

Table 10.3 and Figure 10.1 summarise the mean (trimmed) internal compliance costs of FBT by business size for each of the personnel groups. For all businesses with fewer than 20 employees, the compliance costs are greatest for the owners, partners, directors and trustees. When a business has more than 20 employees, the greater costs are attributed to paid employees (\$326 compared with \$178).

Table 10.3: Mean (trimmed) internal compliance costs (\$) of FBT by business size and personnel groups

Personnel	Business size (number of employees)			
	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)
Owners/partners/directors/trustees	\$197 (22)	\$229 (119)	\$216 (138)	\$178 (139)
Paid employees	\$0 (22)	\$63 (119)	\$179 (139)	\$326 (136)
Unpaid friends or relatives	\$0 (22)	\$3 (120)	\$2 (140)	\$0 (141)
All personnel	\$197 (22)	\$303 (120)	\$401 (138)	\$535 (138)

Base: All respondents file/pay FBT in last 12 months (excluding FBT nil returns, missing information and outliers).

Source: Long questionnaire Q4, Q13b and Q13c

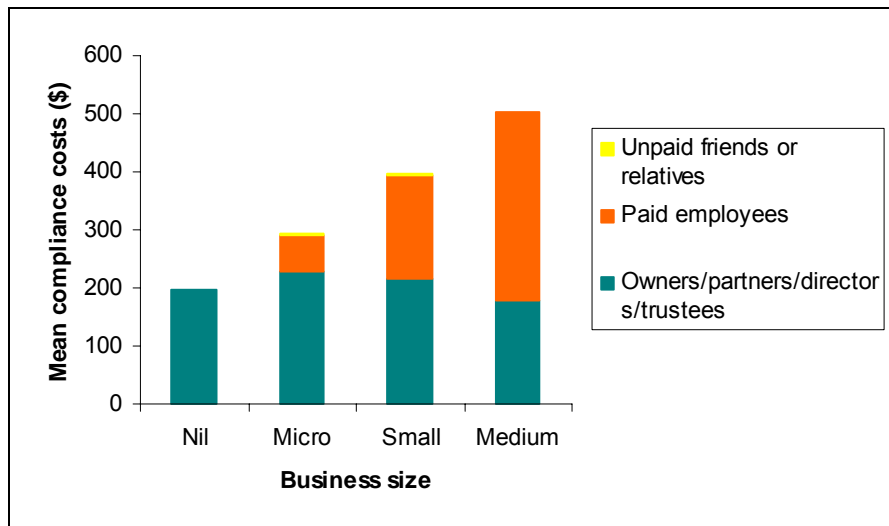


Figure 10.1: Annual internal compliance costs (\$) for FBT by business size and personnel group

When mean (trimmed) internal compliance costs for FBT are considered as a percentage of overall turnover for a business they are shown to be negligible.

Table 10.4: Mean (trimmed) internal compliance costs of FBT as a percent of turnover

Turnover	Mean (trimmed) compliance costs	Mean compliance costs as a percent of turnover*
Less than \$40,000 (mean in range = \$30,506)	- (14)	-
\$40,000 - \$59,999 (mean in range = \$49,452)	- (4)	-
\$60,000 – \$99,999 (mean in range = \$77,875)	- (7)	-
\$100,000 – \$249,999 (mean range = \$158,838)	\$152 (35)	0.1%
\$250,000 – \$499,999 (mean in range = \$352,874)	\$566 (34)	0.2%
\$500,000 - \$1,299,999 (mean in range = \$696,134)	\$335 (74)	0.1%
\$1.3 million – less than \$2million (mean in range = \$1,137, 424)	\$147 (42)	0.0%
\$2 million and over (mean in range - \$4,447,261)	\$460 (213)	0.0%

Base: All respondents file/pay FBT in last 12 months (excluding FBT nil returns, missing information and outliers).

*The mean turnover values used to calculate these figures were provided by Inland Revenue and based on population characteristics.

Source: Long questionnaire Q13b, Q13c and Q26

Stress associated with FBT compliance

Respondents were asked to indicate how stressful they found meeting requirements for FBT, including finding the money. Overall, only 1% of respondents reported that this was extremely stressful while 22% reported that it was not at all stressful (Table 10.5).

Table 10.5: Stress associated with FBT compliance

Level of reported stress	Business size (number of employees)				All (n=373) %
	Nil employees (n=16)* %	Micro (1-5) (n=95) %	Small (6-19) (n=128) %	Medium (20+) (n=134) %	
1 (not all stressful)	15%	25%	27%	15%	22%
2	34%	19%	37%	19%	27%
3	21%	22%	13%	22%	19%
4 (moderately stressful)	23%	19%	13%	15%	18%
5	0%	8%	5%	6%	5%
6	7%	4%	5%	23%	7%
7 (extremely stressful)	0%	2%	0%	0%	1%

Base: All respondents file/pay FBT in last 12 months excludes those who answered “not applicable” at Q34 and nil FBT returns

Source: Q4 and Q34

* The survey asked whether respondents had filed an FBT return in the past twelve months, while the number of employees is related to the month immediately preceding survey completion. It is possible that these 19 businesses had employed staff at some stage in the previous 12 months but no longer did.

Figure 10.2 displays the percentage of respondents within each business size group reporting various banded levels of stress. There is no clear trend by business size in this figure. More respondents from “small” businesses (77%) report *less than moderate* stress levels than any other category. They are also the group least likely to report *moderate stress* (13%). As already alluded to, those in “medium” businesses are more likely to report *more than moderate* stress levels (28%) than any other category of SME.

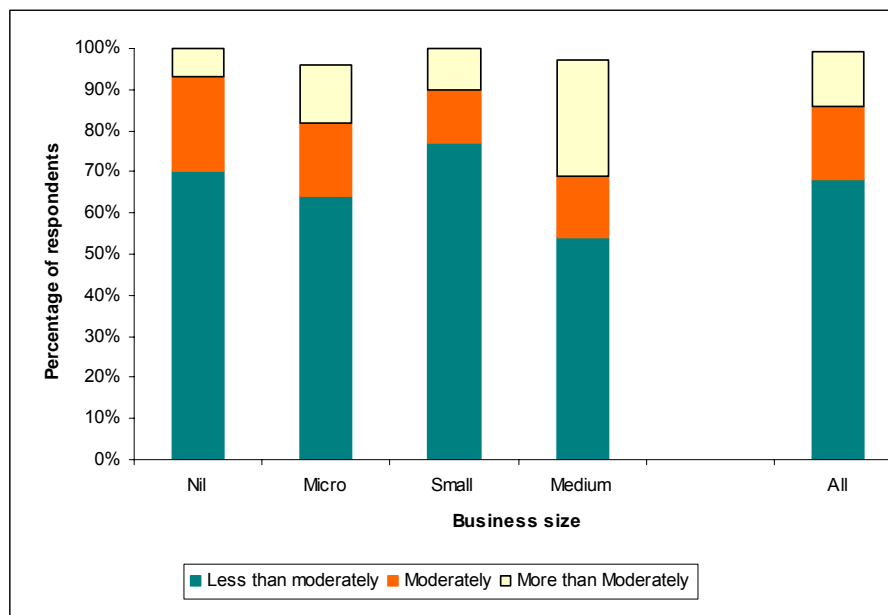


Figure 10.2: Percentage of respondents reporting banded levels of stress related to FBT by business size

Table 10.6 presents mean stress levels for FBT compliance by both age of business and business size (as indicated by number of employees). As with the other individual tax types, there is very little difference in stress levels by either factor. For age of business the range is from 2.5 to 3.0. For business size it is slightly larger at 2.5 to 3.5.

Table 10.6: Mean stress score associated with FBT compliance – by business size and age of business

Age of business	Business size (number of employees)				All
	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)	
Less than 1 year	- (0)	- (1)	- (1)	- (1)	- (3)
1-2 years	- (1)	- (4)	- (3)	- (2)	- (10)
3-5 years	- (3)	- (14)	- (12)	- (7)	2.5 (36)
6-10 years	- (5)	- (17)	- (18)	- (8)	3.0 (48)
10 years +	- (7)	2.9 (59)	2.8 (93)	3.7 (116)	2.9 (275)
All	- (16)	2.9 (95)	2.5 (127)	3.5 (134)	2.8 (372)

Base: All respondents who pay FBT; excludes those who indicated Q34 was not applicable and nil FBT returns

Source: Long questionnaire Q4, Q28 and Q34

11. External tax advisor costs

This chapter reports on external tax compliance costs, i.e. payments made for tax services from advisors such as external tax accountants, tax advisors or lawyers.

Use of, and payment for, external tax advisor services – business survey data³¹

Table 11.1 presents the proportion of businesses that paid for any tax advice in the last 12 months from an advisor, outside the business, with a breakdown of tax types to which the payments relate³². The percentages are calculated using a base of SMEs that filed the particular tax type in question as indicated in brackets.

Overall 80% of SMEs pay for external tax advice. This is reasonably consistent across business size, but it does differ by type of tax. External advice is used mostly for income tax (66% of SMEs paying income tax) and least for PAYE (21% of SMEs paying PAYE) and KiwiSaver (15% of relevant SMEs).

Table 11.1: Use of external tax advisor services

Tax type	Business size (number of employees)				All %
	Nil employees %	Micro (1-5) %	Small (6-19) %	Medium (20+) %	
GST	31 (410)	41 (589)	43 (339)	32 (210)	36 (1548)
Income tax	64 (508)	70 (576)	67 (330)	73 (210)	66 (1624)
PAYE	- (16)	20 (595)	15 (340)	16 (213)	21 (1164)
KiwiSaver	- (2)	18 (309)	10 (291)	12 (202)	15 (804)
FBT	74 (26)	42 (132)	50 (149)	42 (144)	52 (451)
All tax related services	78 (529)	82 (595)	86 (340)	86 (213)	80 (1677)

Bases: Respondents who make an external payment in regard to that tax type among businesses that file that particular tax type (excluding missing information and outliers).

Source: Long questionnaire Q10a and 10b; Short questionnaire Q4.

Tax advisor sub-survey

A tax advisor sub-survey was conducted to gather information to apportion external tax advisor compliance costs to different tax types. This survey provided a breakdown of external compliance costs for those SMEs who used tax advisors and were unable to provide the necessary detail directly. In the subsequent sections of this chapter, data from the tax advisory sub-survey has been combined with that from the business survey to give an overall view of external compliance costs.

³¹ The information in this section is provided by SME respondents.

³² The percentages in Table 11.1 are calculated using a base of SMEs that file the particular tax type in question.

A profile of the tax advisor sub-sample survey is given below (Table 11.2) with a comparison from the business survey. The business survey data is only based on businesses that use external tax services. Both samples are very similar in terms of entity type, taxes paid and business size.

Table 11.2: Profile of tax advisor sub-survey sample

	Advisor sample*		Business sample (long questionnaire)**	
	n	%	n	%
Entity type				
Company	238	69	939	67
Individual	56	16	208	15
Partnership	39	11	163	12
Trust	12	3	83	6
Tax type				
GST	343	99	1298	93
Income tax	341	99	1361	98
PAYE	261	76	999	72
KiwiSaver	180	52	682	49
FBT	94	27	431	31
Business size (number of employees)				
Nil employees	86	25	406	29
Micro (1-5)	134	39	487	35
Small (6-19)	73	21	283	20
Medium (20+)	44	13	178	13
Missing	8	2	39	3
All	345	100	1,393	100

Base: *All in tax advisor sub-survey; **All SMEs in long questionnaire that pay for external tax services.

Source: Long questionnaire Q1, Q4, IRD database information on entity type, + Advisor sub-survey Q4

Note: Values for both n and % are unweighted

External compliance costs by tax type

Imputed data have been used for the data presented in Tables 11.3 and 11.4³³. The amounts under each tax type, in the tables, relate to the average payment made for external advice in regard to that tax type among businesses that file that tax type. The final column is based on all businesses and gives the average payment made for tax services relating to any tax type according to business size.

Table 11.3 presents external compliance costs by tax type and business size as determined by the number of employees. On average, SMEs pay \$2,184 annually to external tax-advisors. Overall for SMEs, regardless of size, income tax accounts for a substantially large proportion of their external compliance costs. The average annual cost for income tax, for all SMEs, is \$1,736 compared with \$716 for GST and \$418 for PAYE. KiwiSaver at \$291 and FBT at \$220 account for relatively small proportions of the overall external compliance costs.

As business size increases so do external compliance costs overall. They range from \$1,669 for businesses with no employees through to \$4,302 for those with 20 or more employees. This trend is true for all individual tax types with one exception. Costs for GST level out for businesses with 20 or more employees.

³³ See relevant section in chapter 3 for details of the data imputation process.

Table 11.3: Annual external mean (trimmed) compliance costs by tax type and business size

Business size (number of employees)	Tax type*					All tax types
	GST	Income tax	PAYE	KiwiSaver	FBT	
Nil employees	\$576 (131)	\$1,428 (322)	- (11)	- (1)	\$128 (20)	\$1,669 (339)
Micro (1-5)	\$758 (232)	\$1,871 (406)	\$410 (122)	\$218 (59)	\$231 (56)	\$2,478 (430)
Small (6-19)	\$1,094 (109)	\$2,689 (203)	\$534 (47)	\$518 (30)	\$307 (51)	\$3,471 (233)
Medium (20+)	\$1,030 (49)	\$3,088 (134)	\$717 (27)	- (18)	\$372 (39)	\$4,302 (145)
All SMEs	\$716 (521)	\$1,736 (1065)	\$418 (207)	\$291 (115)	\$220 (166)	\$2,184 (1147)

Base: *Utilises imputed data, business survey data and tax advisor data. Base is all businesses who pay external costs for that tax type (excluding missing information and outliers).

Source: Long questionnaire Q4, Q10a, Q10b, Q10d; short questionnaire Q4; Advisor sub-survey Q5.

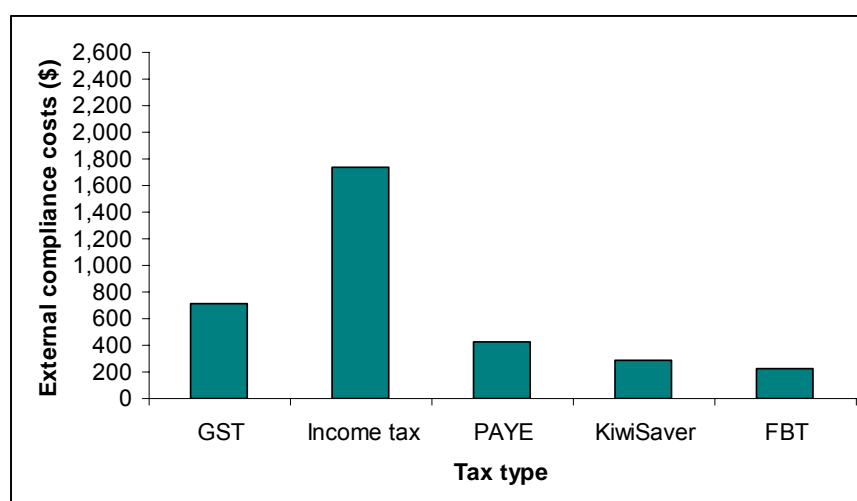


Figure 11.1: External compliance costs by tax type

Table 11.4 and Figure 11.2 break down external compliance costs by business size as determined by turnover. The general trend is for external compliance costs to increase as turnover increases. The exception to this trend is for businesses with a turnover of between \$40,000 and \$59,999. Their average external compliance costs are greater than for businesses with a turnover of between \$60,000 and \$99,999. This anomaly was also true for internal compliance costs.

Four distinct groups can be determined as compliance costs increase (Figure 11.2). These are SMEs with turnovers which are:

- below \$99,999 (noting the higher levels of costs for those between \$40,000 and \$59,999 in this group);
- between \$100,000 and \$499,999;
- more than \$500,000 but less than \$2 million; and
- more than \$2 million.

Table 11.4: Annual external mean (trimmed) compliance costs by tax type and business size (turnover)

Business size (turnover)	Tax type*					All
	GST	Income tax	PAYE	KiwiSaver	FBT	
Less than \$40,000 (mean in range = \$30,506)	\$424 (45)	\$1121 (115)	- (11)	- (3)	- (7)	\$1307 (124)
\$40,000 - \$59,999 (mean in range = \$49,452)	\$588 (37)	\$1419 (87)	- (8)	- (0)	- (4)	\$1670 (89)
\$60,000 – \$99,999 (mean in range = \$77,875)	\$560 (48)	\$1103 (99)	- (15)	- (4)	- (8)	\$1387 (106)
\$100,000 – \$249,999 (mean range = \$158,838)	\$706 (120)	\$1785 (196)	\$339 (39)	- (16)	\$176 (20)	\$2262 (212)
\$250,000 – \$499,999 (mean in range = \$352,874)	\$831 (60)	\$1842 (132)	\$475 (36)	- (15)	\$165 (11)	\$2340 (140)
\$500,000 - \$1,299,999 (mean in range = \$696,134)	\$940 (106)	\$2450 (174)	\$499 (47)	\$369 (29)	\$309 (37)	\$3270 (194)
\$1.3 million–less than \$2 million (mean in range = \$1,137, 424)	\$1066 (39)	\$2774 (68)	- (15)	- (13)	\$288 (22)	\$3701 (73)
\$2 million and over (mean in range - \$4,447,261)	\$1186 (85)	\$3551 (217)	\$924 (43)	\$723 (29)	\$319 (60)	\$4546 (233)

Base: *Utilises imputed data, business survey data and tax advisor data. Base is all businesses who pay external costs for that tax type (excluding missing information and outliers).

Source: Long questionnaire Q10a, Q10b, Q10d, Q20; Short questionnaire Q4; Advisor sub-survey Q5.

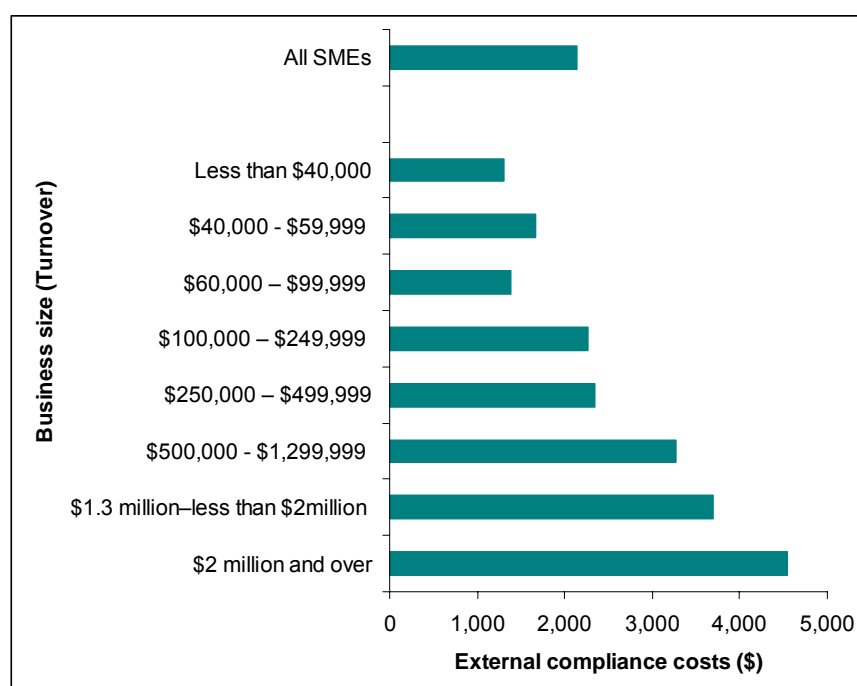


Figure 11.2: Mean (trimmed) external compliance costs by business size (turnover)

Table 11.5 presents these mean compliance costs as a percentage of turnover. External compliance costs decrease markedly as turnover increases. For businesses with a turnover of less than \$40,000 their external compliance costs are 4% of their turnover. At the other end of the scale, external compliance costs are 0.1% of the total turnover of businesses with a turnover of \$2 million and over. The percentage of overall turnover drops to less than 1% when business turnover reaches \$250,000.

Table 11.5: Mean (trimmed) external compliance costs as a percent of turnover

Turnover	Mean (trimmed) external compliance costs	Mean external compliance costs as a percent of turnover*
Less than \$40,000 (mean in range = \$30,506)	\$1,307 (124)	4%
\$40,000 - \$59,999 (mean in range = \$49,452)	\$1,670 (89)	3%
\$60,000 – \$99,999 (mean in range = \$77,875)	\$1,387 (106)	2%
\$100,000 – \$249,999 (mean range = \$158,838)	\$2,262 (212)	1%
\$250,000 – \$499,999 (mean in range = \$352,874)	\$2,340 (140)	0.7%
\$500,000 - \$1,299,999 (mean in range = \$696,134)	\$3,270 (194)	0.5%
\$1.3 million–less than \$2 million (mean in range = \$1,137, 424)	\$3,701 (73)	0.3%
\$2 million and over (mean in range - \$4,447,261)	\$4,546 (233)	0.1%

Base: All respondents who pay a tax agent (excluding missing information and outliers).

*The mean turnover values used to calculate these figures are based on Inland Revenue population data.

12. Payroll services

This chapter examines payroll services.

Table 12.1 shows the proportion of businesses that use external payroll services and the mean payment made for these services. The mean costs (\$) presented are unweighted data (ie, the actual costs of respondents) due to the small numbers of SMEs utilising payroll services.

Nine percent of SMEs utilise external payroll services. Not surprisingly, mean costs for external payroll services increase as business size increases. The mean amount paid for external payroll services ranges from \$615 for “micro” SMEs through to \$3,108 for “medium” SMEs.

Table 12.1: Use of, and payment for, external payroll services

	Business size (number of employees)			
	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)
Mean (trimmed) amount paid for external payroll services	-	\$615 (32)	\$1610 (53)	\$3108 (40)

Base: All SMEs that file/pay PAYE (excluding missing information and outliers).

Source: Long questionnaire Q10a

Note: There are 21 SMEs who indicated that they use external payroll services but did not provide a dollar value.

13. Audit

This chapter examines SMEs' experience of tax audits carried out by Inland Revenue in the last 12 months. Costs associated with being audited are not included in the combined compliance cost calculation. It is not possible to split audit compliance costs across tax types.

Inland Revenue administers a risk-based audit programme. The audit programme is comprised of different types of audit, ranging from single revenue to multi-revenue audits; from checks to in-depth investigations. The type of audit, plus such factors as the circumstances of the business being audited, determines the time and cost involved in being audited.

Because of the small numbers involved, the mean costs (\$) and mean number of hours presented in Table 13.1 are unweighted data. They are estimates of the time and external costs involved in their audits, as reported by the few audited businesses in the survey.

A total of 37 SMEs reported being audited by Inland Revenue within the last twelve months. The mean number of hours associated with the audit processes differs by business size, ranging from 18.9 hours to 116.7 hours. The mean \$ costs range from \$2,666 to \$12,803.

Table 13.1: Incidence of Inland Revenue audit and related time and cost incurred by the business

	Business size (number of employees)			
	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)
Mean (trimmed) number of hours within business	18.9 (5)	29.9 (10)	116.7 (6)	45.6 (10)
External costs associated with audit (excluding any change in tax liability or penalties)	\$2666 (5)	\$3645 (6)	\$12803 (6)	\$11262 (10)

Base: All SMEs

Source: Long questionnaire Q8; Short questionnaire Q2

Note: There are 8 SMEs who indicated that they had an Inland Revenue audit but did not provide a dollar value in Q7

Note: There are 6 SMEs who indicated they had an Inland Revenue audit but did not provide any hours in Q7

14. Combined compliance costs across all SMEs

This section is the culmination of the preceding analyses. It presents the overall compliance costs for all SMEs, ie, both internal and external costs combined. The average combined tax compliance costs for all SMEs are \$5,557 per year, made up of \$3,995 internal time and \$1,639 external costs (Table 14.4).

It is important to appreciate that the approach in this chapter is different to that taken in earlier chapters. Where an SME does not file a particular tax type it has been given a value of zero, denoting no costs related to that tax type. Likewise, the external compliance cost figures are based on all SMEs rather than just those who pay for external services. This is done to get an “all SMEs” compliance cost picture that is not limited to only those that deal with a particular tax type. In earlier chapters, compliance costs were calculated using a base of businesses that pay/file a particular tax type.

Before combining internal and external dollars, as a matter of record, the next section records the mean hours spent internally using the overall SME base. The hours are then converted into dollars in the following section “Overall combined compliance costs”.

Internal time

Tables 14.1 and 14.2 summarise the internal time spent on tax activities on an annual basis using mean (trimmed) values. For all tax types, the mean number of annual hours of internal time increases as business size increases ranging from 52.1 hours for businesses with no employees through to 159.8 hours for those with more than 20 employees. There is a levelling effect beyond 6 employees where the increase between size categories is not as great.

Table 14.1: Summary of mean (trimmed) annual hours of internal time spent on all tax activities by tax type and business size (number of employees)

Business size (number of employees)	Tax Types					All tax types
	GST	Income tax	PAYE	KiwiSaver	FBT	
Nil employees	28.4 (519)	18.7 (513)	0.1 (529)	0.3 (528)	0.2 (528)	52.1 (502)
Micro (1-5)	40.1 (580)	22.2 (566)	21.6 (576)	4.9 (577)	1.1 (594)	94.0 (584)
Small (6-19)	50.1 (310)	28.6 (324)	43.2 (328)	13.6 (327)	4.5 (338)	155.7 (329)
Medium (20+)	47.2 (192)	29.7 (198)	48.7 (202)	20.6 (201)	10.1 (213)	159.8 (195)
All SMEs	34.7 (1652)	21.2 (1649)	11.4 (1673)	3.3 (1682)	1.2 (1724)	77.0 (1661)

Base: All respondents (excluding missing values and outliers) regardless of whether they pay/file a particular tax type

Source: Long questionnaire Q1, Q4, Q13b; Short questionnaire Q6a, Q6b, Q6c

With the exception of GST, the mean annual hours increase with business size for all tax types. For GST the time spent for businesses with 20 or more employees is slightly less than that for those with 6 – 19 employees. Figure 14.1 graphically compares data for the three main tax types (in terms of hours spent)

and across all tax types combined clearly showing the trend by business size (as measured by number of employees).

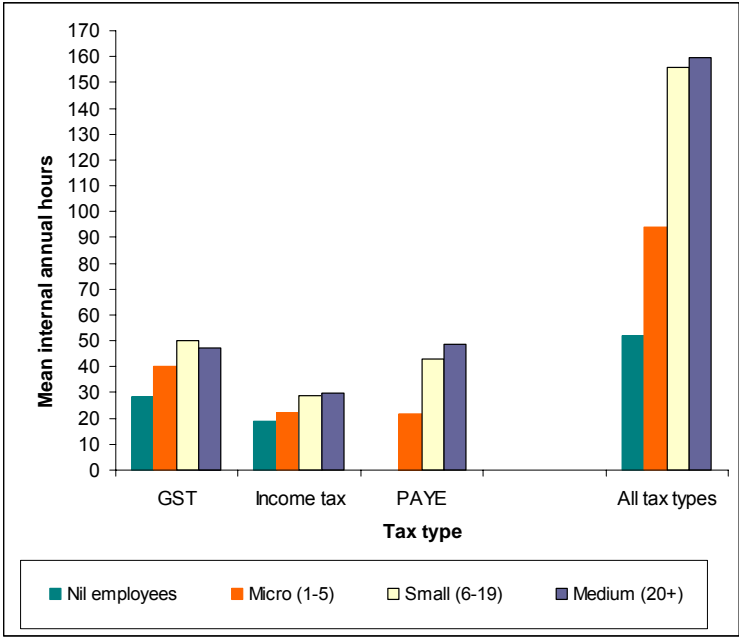


Figure 14.1: Mean (trimmed) annual hours of internal time for main tax types by business size (employees)

Table 14.2 summarises the annual mean (trimmed) internal hours by tax type and business size as determined by turnover. While there are two exceptions, the overall trend is for an increase in the average annual hours as turnover increases (Figure 14.2). These exceptions are:

- SMEs with a turnover of between \$40,000 and \$59,999 which, on average, spend more time on tax compliance than those with a turnover of between \$60,000 and \$99,999.
- SMEs with a turnover of between \$1.3 million and less than \$2 million which spend slightly less time on tax compliance, on average, than those with turnovers greater than \$2 million.

Overall, the total mean number of annual hours increases from 50.6 hours for those SMEs with a turnover of less than \$40,000 through to 141.4 hours for those with a turnover of more than \$2 million.

Table 14.2: Summary of internal time spent on all tax activities by tax type and business size (turnover)

Business size (turnover)	Tax types					All tax types
	GST	Income tax	PAYE	KiwiSaver	FBT	
Less than \$40,000 (mean in range = \$30,506)	25.6 (206)	17.9 (203)	2.2 (209)	1.0 (212)	0.4 (212)	50.6 (198)
\$40,000 - \$59,999 (mean in range = \$49,452)	37.5 (125)	22.9 (125)	3.1 (124)	1.0 (127)	0.0 (127)	68.6 (123)
\$60,000 – \$99,999 (mean in range = \$77,875)	29.7 (156)	19.3 (148)	5.5 (150)	1.5 (154)	1.1 (157)	57.9 (153)
\$100,000 – \$249,999 (mean range = \$158,838)	37.0 (285)	21.8 (284)	8.6 (284)	2.3 (283)	0.4 (293)	75.1 (286)
\$250,000 – \$499,999 (mean in range = \$352,874)	36.6 (201)	22.6 (193)	23.8 (201)	5.8 (204)	1.6 (206)	92.1 (201)
\$500,000 - \$1,299,999 (mean in range = \$696,134)	44.5 (258)	22.3 (267)	26.0 (265)	6.7 (263)	2.4 (271)	113.9 (266)
\$1.3 million – less than \$2 million (mean in range = \$1,137, 424)	45.3 (98)	23.6 (99)	30.0 (102)	9.5 (97)	1.4 (103)	110.9 (100)
\$2 million and over (mean in range - \$4,447,261)	43.5 (310)	26.9 (319)	34.6 (325)	15.0 (329)	8.2 (342)	141.4 (322)

Base: All respondents regardless of whether they pay/file a particular tax type

Source: Long questionnaire Q1, Q13b, Q26; Short questionnaire Q6b, Q11

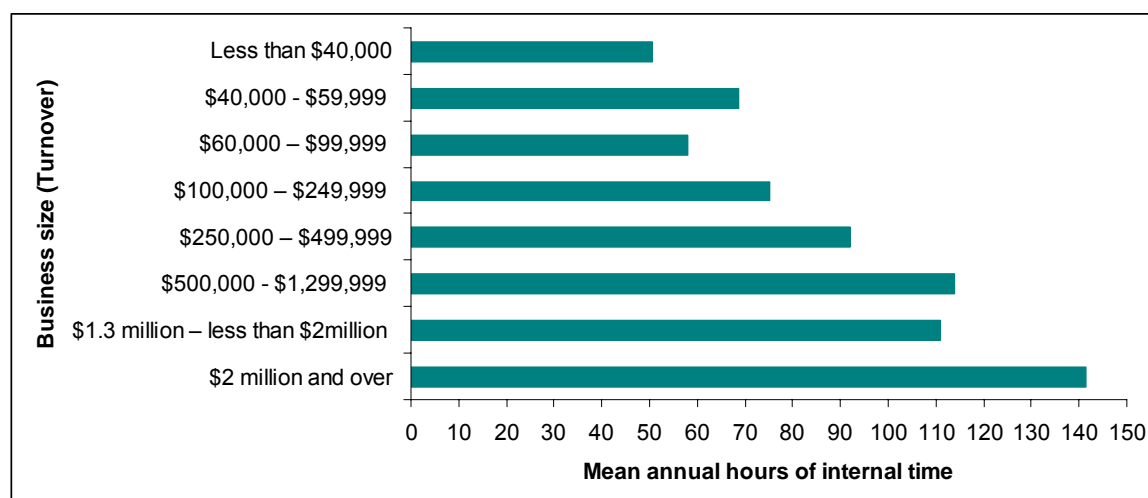


Figure 14.2: Mean annual hours of internal time across all tax types by turnover

Figure 14.3 depicts the internal time spent on the three main tax types by turnover. PAYE data show a consistent trend of increasing hours for increasing turnover. Also noticeable for this tax type is the sharp increase in the mean (trimmed) annual number of hours between those SMEs with a turnover of \$100,000 to \$249,999 and those with a turnover of \$250,000 to \$499,999.

For income tax the mean (trimmed) annual hours of internal time is remarkably consistent across all turnover categories. The range of means for this tax type is 9 hours (17.9 hours through to 26.9 hours). For PAYE the range is much greater (32.4 hours).

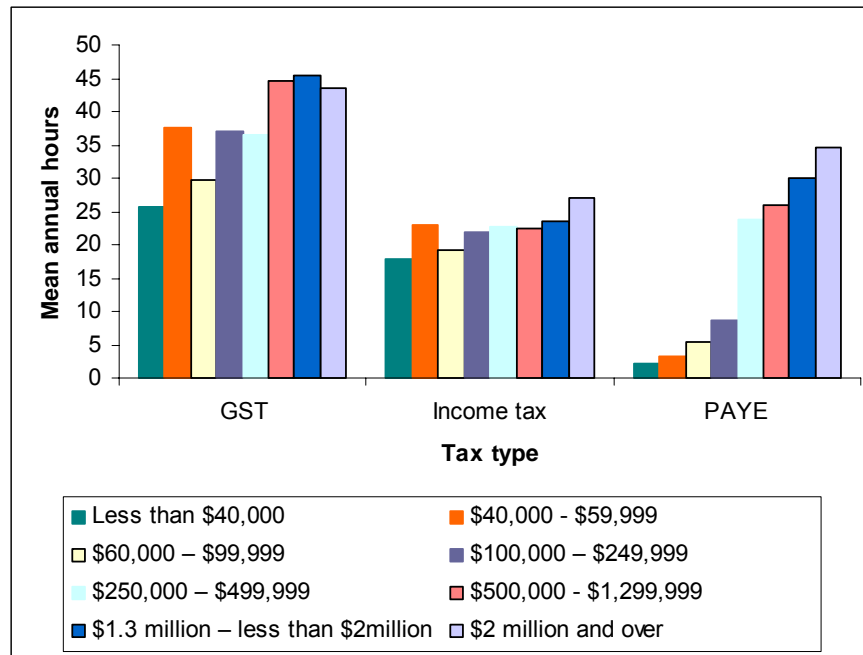


Figure 14.3: Mean annual hours of internal time for main tax types by business size (turnover)

Table 14.3 presents the mean number of hours spent on tax activities analysed by business size and age of business across all tax types. There is no clear trend in overall hours spent on tax compliance by age of business. However, there are two broad age groupings with those SMEs that are less than six years old having lower overall means than those that are greater than six years old (Figure 14.4).

Table 14.3: Internal time spent (mean annual hours) on all tax types by age of business and business size (number of employees)

Age of business	Business size (number of employees)				All SMEs
	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)	
Less than 1 year	- (11)	- (13)	- (5)	- (3)	68.2 (32)
1-2 years	47.4 (41)	94.4 (47)	- (15)	- (4)	72.6 (111)
3-5 years	48.6 (138)	83.3 (122)	187.7 (43)	- (15)	70.4 (332)
6-10 years	53.8 (110)	111.0 (115)	161.0 (57)	211.5 (24)	82.1 (317)
10 years +	56.2 (190)	95.9 (283)	141.2 (208)	150.2 (147)	81.7 (849)
All SMEs	52.2 (490)	94.7 (580)	155.7 (328)	159.5 (193)	77.0 (1661)

Base: All respondents regardless of whether they pay/file a particular tax type

Source: Long questionnaire Q4, Q13b, Q13c and Q28; Short questionnaire Q6b, Q6c and Q13

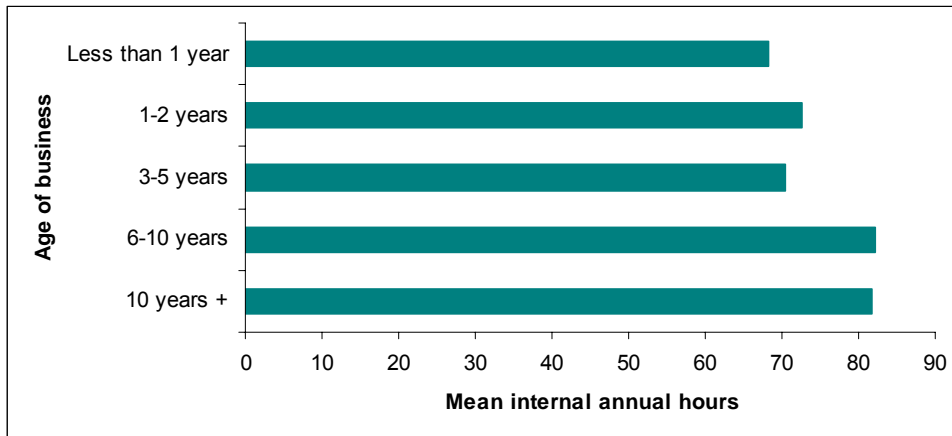


Figure 14 4: Mean annual internal hours across all tax types by age of business

Overall combined compliance costs

The following graphs and tables summarise both mean and median compliance costs. As with the previous tables in this report the base size is shown in the brackets in the tables. Where means are reported, estimated sampling errors are shown below the base sizes. Estimation of mean standard errors was done by Taylor series linearisation and took account of the weighting and sample design.

As shown in Table 14.4 the mean combined compliance cost across all tax types and for all SMEs is \$5,557. This compares with a median cost of \$3,719 (Table 14.5).

Overall, mean combined compliance costs increase as business size increases ranging from \$4,138 for those SMEs with no employees through to \$9,447 for those with more than 20 employees. This is usually true for individual tax types as well as for the combination of tax types.

Figure 14.5 directly compares the main compliance costs for each tax type by business size. GST and income tax costs are the greatest contributors to the overall mean compliance costs followed by PAYE.

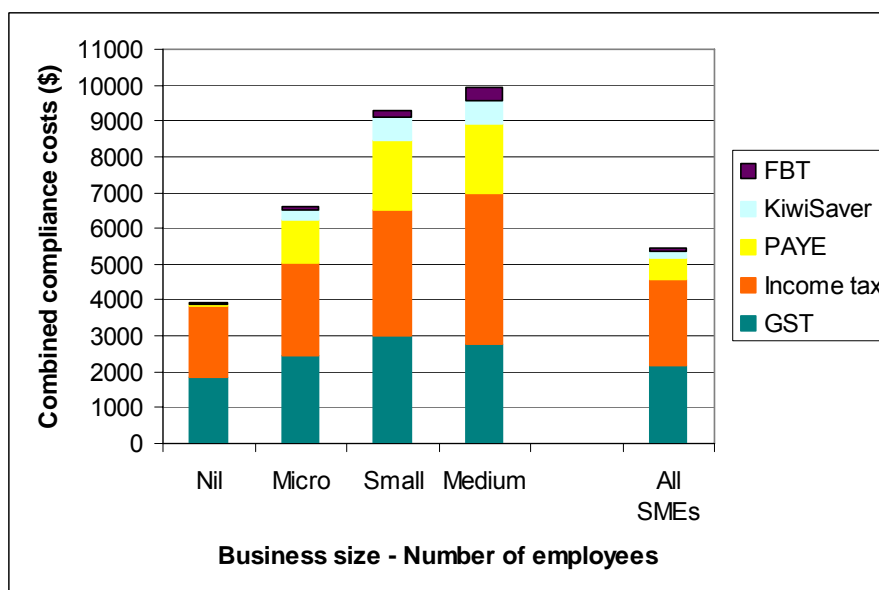


Figure 14.5: Combined mean compliance costs (internal plus external) by size of business

For all tax types, with the exception of income tax, mean internal costs are higher than mean external costs. This is true across all SMEs regardless of business size³⁴. The difference between internal and external costs is particularly marked for GST where average internal costs are \$1,873 across all SMEs compared with \$267 for external costs (Figure 14.6). Compliance costs for income tax across all SMEs are almost evenly split between internal (\$1,184, 49%) and external costs (\$1,248, 51%).

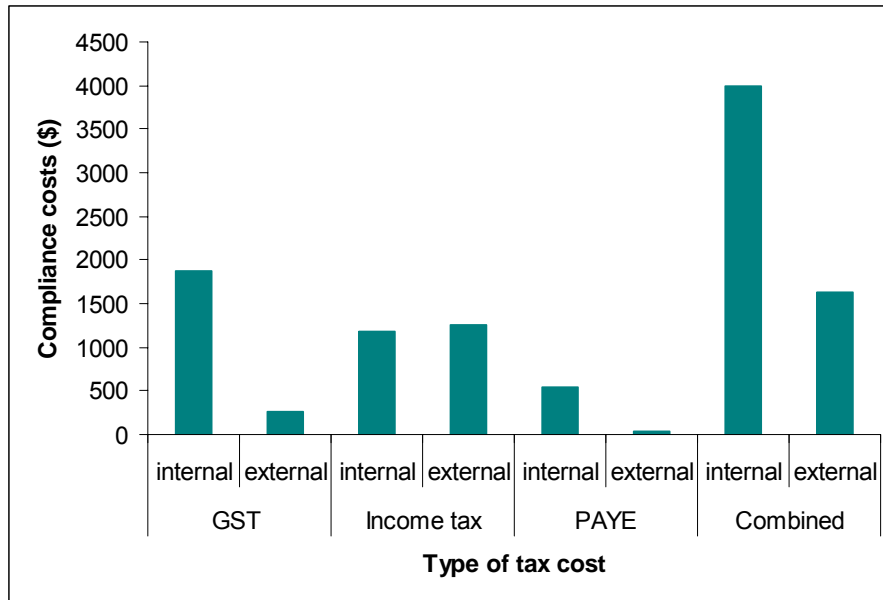


Figure 14.6: Comparison of overall internal and external compliance costs for the three main tax types

³⁴ In the case of PAYE for nil employees, external costs are greater than internal. However, given the size of the error and the fact that businesses with nil employees are not likely to be involved in PAYE, these results have not been considered here.

Table 14.4: Summary of mean (trimmed?) annual compliance costs by business size (number of employees)

		Business size (number of employees)				All SMEs
		Nil	Micro (1-5)	Small (6-19)	Medium (20+)	
GST	Internal	\$1591 (521) +/- \$98	\$2065 (575) +/- \$114	\$2545 (321) +/- \$205	\$2419 (203) +/- \$409	\$1873 (1671) +/- \$70
	External	\$181 (468) +/- \$23	\$351 (527) +/- \$30	\$557 (280) +/- \$95	\$343 (189) +/- \$47	\$267 (1510) +/- \$18
	Overall	\$1859 (512) +/- \$115	\$2428 (577) +/- \$121	\$3027 (322) +/- \$217	\$2753 (205) +/- \$410	\$2185 (1667) +/- \$78
Income tax	Internal	\$1076 (519) +/- \$81	\$1250 (578) +/- \$95	\$1401 (326) +/- \$120	\$1494 (201) +/- \$286	\$1184 (1674) +/- \$55
	External	\$1012 (458) +/- \$64	\$1419 (530) +/- \$72	\$2138 (270) +/- \$226	\$2547 (172) +/- \$235	\$1248 (1475) +/- \$46
	Overall	\$2000 (505) +/- \$104	\$2630 (570) +/- \$124	\$3469 (311) +/- \$283	\$4205 (191) +/- \$433	\$2369 (1627) +/- \$74
PAYE	Internal	\$4 (529) +/- \$4	\$1101 (582) +/- \$70	\$1855 (328) +/- \$150	\$1818 (208) +/- \$190	\$542 (1688) +/- \$28
	External	\$8 (471) +/- \$3	\$94 (531) +/- \$13	\$97 (280) +/- \$19	\$124 (190) +/- \$30	\$45 (1519) +/- \$5
	Overall	\$12 (468) +/- \$6	\$1168 (581) +/- \$70	\$1970 (329) +/- \$154	\$1951 (208) +/- \$186	\$626 (1627) +/- \$30
KiwiSaver	Internal	\$17 (529) +/- \$12	\$255 (589) +/- \$26	\$570 (330) +/- \$51	\$613 (205) +/- \$54	\$157 (1704) +/- \$13
	External	\$5 (472) +/- \$3	\$19 (536) +/- \$4	\$49 (285) +/- \$16	\$56 (192) +/- \$22	\$14 (1532) +/- \$2
	Overall	\$24 (473) +/- \$14	\$291 (553) +/- \$28	\$622 (327) +/- \$54	\$671 (202) +/- \$51	\$186 (1603) +/- \$15
FBT	Internal	\$14 (528) +/- \$5	\$54 (593) +/- \$12	\$143 (334) +/- \$25	\$268 (210) +/- \$37	\$43 (1715) +/- \$5
	External	\$6 (472) +/- \$2	\$19 (534) +/- \$3	\$65 (284) +/- \$32	\$83 (192) +/- \$24	\$16 (1529) +/- \$3
	Overall	\$22 (473) +/- \$6	\$84 (540) +/- \$15	\$229 (295) +/- \$45	\$339 (201) +/- \$45	\$65 (1554) +/- \$7
All tax types	Internal	\$2992 (511) +/- \$189	\$4824 (583) +/- \$256	\$6646 (326) +/- \$426	\$6088 (200) +/- \$814	\$3995 (1671) +/- \$141
	External	\$1235 (466) +/- \$74	\$1955 (542) +/- \$95	\$2933 (291) +/- \$309	\$3647 (180) +/- \$338	\$1639 (1524) +/- \$58
	Overall	\$4138 (498) +/- \$210	\$6698 (574) +/- \$285	\$9501 (322) +/- \$546	\$9447 (195) +/- \$822	\$5557 (1639) +/- \$159

Base: All respondents regardless of whether they pay/file a particular tax type (excluding outliers)

Source: Long questionnaire Q4, Q9a, Q13b and Q13c; short questionnaire Q4, Q6b, Q6c and Q7

As presented in Table 14.5, the overall median compliance cost is \$3,719 with median values ranging from \$2,850 for those SMEs with no employees to \$7,476 for “small” businesses (6 – 19 employees). Generally, the median combined compliance cost increases with business size. The exception is “medium” businesses where a drop in median compliance costs is observed for the three main tax types (GST, PAYE and income tax) and overall.

Income tax is the only tax type where the median value for external costs is always greater than zero and where external costs are greater than internal. For all other tax types, with the exception of small businesses costs for GST, external median costs across all business sizes are zero.

Table 14.5: Summary of median annual compliance costs by business size (number of employees)

		Business size (number of employees)				All SMEs
		Nil	Micro (1-5)	Small (6-19)	Medium (20+)	
GST	Internal	\$1039 (529)	\$1433 (595)	\$1577 (340)	\$838 (213)	\$1222 (1728)
	External	\$0 (472)	\$0 (537)	\$100 (285)	\$0 (193)	\$0 (1534)
	Overall	\$1100 (529)	\$1642 (595)	\$2200 (340)	\$1158 (213)	\$1467 (1728)
Income tax	Internal	\$550 (529)	\$611 (595)	\$886 (340)	\$733 (213)	\$611 (1728)
	External	\$717 (472)	\$1000 (537)	\$1500 (285)	\$1570 (193)	\$828 (1534)
	Overall	\$1465 (529)	\$1926 (595)	\$2446 (340)	\$2184 (213)	\$1589 (1728)
PAYE	Internal	\$0 (529)	\$722 (595)	\$1219 (340)	\$1066 (213)	\$0 (1728)
	External	\$0 (472)	\$0 (537)	\$0 (285)	\$0 (193)	\$0 (1534)
	Overall	\$0 (529)	\$733 (595)	\$1298 (340)	\$1219 (213)	\$0 (1728)
KiwiSaver	Internal	\$0 (529)	\$0 (595)	\$344 (340)	\$432 (213)	\$0 (1728)
	External	\$0 (472)	\$0 (537)	\$0 (285)	\$0 (193)	\$0 (1534)
	Overall	\$0 (529)	\$0 (595)	\$367 (340)	\$432 (213)	\$0 (1728)
FBT	Internal	\$0 (529)	\$0 (595)	\$0 (340)	\$0 (213)	\$0 (1728)
	External	\$0 (472)	\$0 (537)	\$0 (285)	\$0 (193)	\$0 (1534)
	Overall	\$0 (529)	\$0 (595)	\$0 (340)	\$0 (213)	\$0 (1728)
All tax types	Internal	\$1711 (529)	\$3300 (595)	\$4878 (340)	\$3859 (213)	\$2384 (1728)
	External	\$900 (483)	\$1500 (550)	\$2700 (300)	\$2438 (199)	\$1098 (1580)
	Overall	\$2850 (529)	\$5017 (595)	\$7476 (340)	\$6855 (213)	\$3719 (1728)

Base: All respondents regardless of whether they pay/file a particular tax type

Source: Long questionnaire Q4, Q9a, Q13b and Q13c; short questionnaire Q4, Q6b, Q6c and Q7

As Figure 14.7 indicates, combined mean compliance costs as a percentage of turnover decreases as turnover increases. While compliance costs account for 13% of turnover for businesses with a turnover of less than \$40,000, they are 0.3 % of turnover for businesses with a turnover of more than \$2 million.

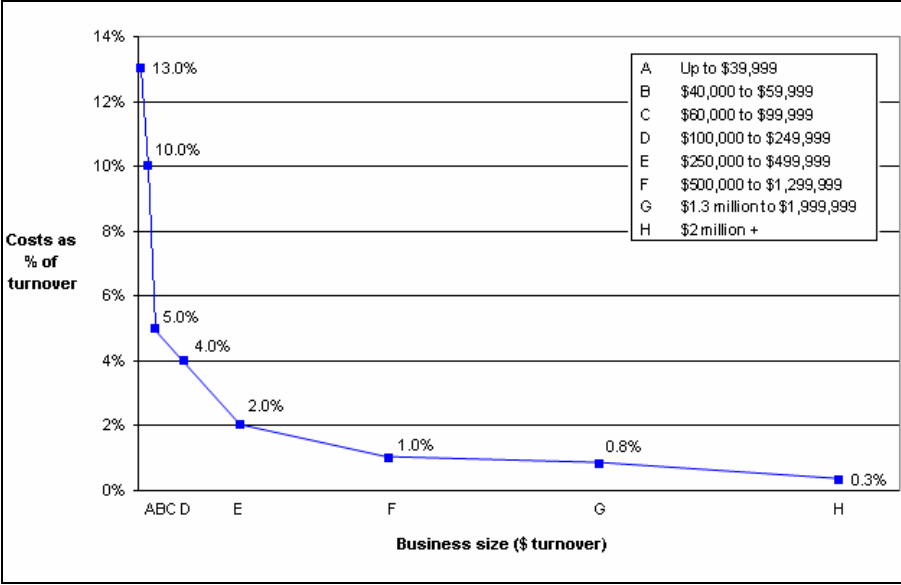


Figure 14. 7: Overall compliance costs as a percentage of turnover

Table 14.6 summarises mean internal, external and combined costs for each tax type by business size as determined by turnover. There is a clear relationship between business turnover and combined compliance costs for PAYE and KiwiSaver (i.e. costs increase with turnover). However, this trend is not so clear for income tax, GST and FBT.

Table 14.7 indicates median compliance costs by turnover as opposed to the mean costs in Table 14.6. Overall, for businesses with a turnover of less than \$250,000, the PAYE median compliance costs are zero. KiwiSaver compliance costs are zero for business with turnovers of less than \$1.3 million. For all businesses, regardless of turnover, the median compliance costs for FBT are zero.

Table 14.6: Summary of mean annual compliance costs by business size (turnover)

		Less than \$40,000 (mean in range = \$30,506)	\$40,000 - \$59,999 (mean in range = \$49,452)	\$60,000 – \$99,999 (mean in range = \$77,875)	\$100,000 – \$249,999 (mean range = \$158,838)	\$250,000 – \$499,999 (mean in range = \$352,874)	\$500,000 - \$1,299,999 (mean in range = \$696,134)	\$1.3 million – \$1,999,999 (mean in range = \$1,137, 424)	\$2 million and over (mean in range - \$4,447,261)	ALL SMEs
GST	Internal	\$1333 (206) +/- \$135	\$2147 (125) +/- \$270	\$1657 (156) +/- \$168	\$2066 (286) +/- \$165	\$1929 (201) +/- \$156	\$2257 (265) +/- \$190	\$2328 (97) +/- \$309	\$2190 (322) +/- \$248	\$1873 (1671) +/- \$70
	External	\$125 (187) +/- \$22	\$185 (112) +/- \$40	\$193 (141) +/- \$47	\$353 (259) +/- \$44	\$278 (178) +/- \$48	\$453 (225) +/- \$82	\$546 (90) +/- \$98	\$398 (305) +/- \$77	\$267 (1510) +/- \$18
	Overall	\$1583 (201) +/- \$175	\$2313 (125) +/- \$273	\$1864 (153) +/- \$173	\$2418 (287) +/- \$172	\$2181 (200) +/- \$165	\$2881 (265) +/- \$264	\$2903 (97) +/- \$352	\$2539 (326) +/- \$253	\$2185 (1667) +/- \$78
Income tax	Internal	\$1018 (208) +/- \$117	\$1324 (126) +/- \$170	\$986 (155) +/- \$110	\$1271 (284) +/- \$144	\$1338 (199) +/- \$168	\$1212 (268) +/- \$144	\$1159 (97) +/- \$197	\$1322 (326) +/- \$183	\$1184 (1674) +/- \$55
	External	\$724 (180) +/- \$75	\$1124 (110) +/- \$119	\$803 (139) +/- \$66	\$1355 (259) +/- \$109	\$1334 (178) +/- \$134	\$1930 (225) +/- \$190	\$2264 (89) +/- \$278	\$2391 (283) +/- \$208	\$1248 (1475) +/- \$46
	Overall	\$1785 (195) +/- \$146	\$2297 (126) +/- \$204	\$1783 (152) +/- \$125	\$2468 (286) +/- \$183	\$2510 (196) +/- \$193	\$2996 (262) +/- \$263	\$3673 (94) +/- \$353	\$3933 (306) +/- \$328	\$2369 (1627) +/- \$74
PAYE	Internal	\$122 (209) +/- \$41	\$176 (124) +/- \$38	\$313 (154) +/- \$47	\$478 (287) +/- \$61	\$1080 (202) +/- \$118	\$1120 (265) +/- \$96	\$1435 (101) +/- \$209	\$1419 (333) +/- \$138	\$542 (1688) +/- \$28
	External	\$13 (188) +/- \$5	\$11 (112) +/- \$5	\$24 (143) +/- \$8	\$43 (259) +/- \$10	\$93 (180) +/- \$27	\$94 (226) +/- \$21	\$117 (90) +/- \$44	\$118 (308) +/- \$23	\$45 (1519) +/- \$5
	Overall	\$148 (191) +/- \$46	\$208 (113) +/- \$42	\$357 (145) +/- \$50	\$535 (268) +/- \$63	\$1208 (199) +/- \$132	\$1267 (263) +/- \$101	\$1585 (101) +/- \$209	\$1564 (334) +/- \$143	\$626 (1627) +/- \$30

		Less than \$40,000 (mean in range = \$30,506)	\$40,000 - \$59,999 (mean in range = \$49,452)	\$60,000 – \$99,999 (mean in range = \$77,875)	\$100,000 – \$249,999 (mean range = \$158,838)	\$250,000 – \$499,999 (mean in range = \$352,874)	\$500,000 - \$1,299,999 (mean in range = \$696,134)	\$1.3 million – \$1,999,999 (mean in range = \$1,137, 424)	\$2 million and over (mean in range - \$4,447,261)	All SMEs
KiwiSaver	Internal	\$61 (213) +/- \$33	\$57 (127) +/- \$24	\$89 (156) +/- \$44	\$126 (287) +/- \$23	\$298 (205) +/- \$46	\$297 (269) +/- \$33	\$421 (100) +/- \$65	\$470 (334) +/- \$37	\$157 (1704) +/- \$13
	External	\$5 (188) +/- \$3	\$12 (113) +/- \$12	\$4 (143) +/- \$2	\$8 (262) +/- \$3	\$9 (180) +/- \$3	\$31 (231) +/- \$9	\$62 (91) +/- \$23	\$60 (311) +/- \$22	\$14 (1532) +/- \$2
	Overall	\$74 (193) +/- \$37	\$76 (115) +/- \$29	\$101 (143) +/- \$48	\$149 (260) +/- \$27	\$326 (196) +/- \$49	\$356 (252) +/- \$37	\$486 (99) +/- \$68	\$532 (332) +/- \$43	\$186 (1603) +/- \$15
FBT	Internal	\$25 (212) +/- \$12	\$1 (127) +/- \$1	\$18 (155) +/- \$10	\$23 (293) +/- \$7	\$80 (206) +/- \$30	\$79 (269) +/- \$16	\$67 (103) +/- \$26	\$234 (337) +/- \$32	\$43 (1715) +/- \$5
	External	\$5 (188) +/- \$3	\$3 (113) +/- \$2	\$7 (143) +/- \$3	\$13 (262) +/- \$4	\$7 (178) +/- \$3	\$54 (231) +/- \$23	\$69 (91) +/- \$23	\$56 (310) +/- \$12	\$16 (1529) +/- \$3
	Overall	\$33 (189) +/- \$13	\$4 (112) +/- \$2	\$27 (140) +/- \$13	\$39 (264) +/- \$9	\$113 (186) +/- \$38	\$146 (232) +/- \$32	\$142 (93) +/- \$37	\$284 (325) +/- \$36	\$65 (1554) +/- \$7
All tax types	Internal	\$2822 (200) +/- \$275	\$3756 (123) +/- \$409	\$3149 (155) +/- \$307	\$4274 (288) +/- \$369	\$4740 (201) +/- \$386	\$5223 (267) +/- \$390	\$5139 (99) +/- \$641	\$5578 (326) +/- \$465	\$3995 (1671) +/- \$141
	External	\$897 (183) +/- \$86	\$1354 (110) +/- \$138	\$1060 (143) +/- \$89	\$1803 (268) +/- \$132	\$1751 (182) +/- \$175	\$2638 (241) +/- \$263	\$3109 (91) +/- \$327	\$3294 (294) +/- \$270	\$1639 (1524) +/- \$58
	Overall	\$3713 (192) +/- \$291	\$4887 (123) +/- \$437	\$4313 (150) +/- \$327	\$5843 (283) +/- \$405	\$6423 (201) +/- \$450	\$7698 (265) +/- \$496	\$8240 (97) +/- \$765	\$8816 (319) +/- \$546	\$5557 (1639) +/- \$159
Combined mean compliance costs as % of turnover		13%	10%	5%	4%	2%	1%	0.8%	0.3%	

Base: All respondents regardless of whether they pay/file a particular tax type (excluding outliers).

Source: Long questionnaire Q9a, Q13b, Q13c and Q26; short questionnaire Q4, Q6b, Q6c, Q7 and Q11

*The mean turnover values used to calculate these figures were provided by Inland Revenue and based on population characteristics

Table 14.7: Median compliance costs by business size (turnover)

		Less than \$40,000 (\$)	\$40,000 - \$59,999 (\$)	\$60,000 – \$99,999 (\$)	\$100,000 – \$249,999 (\$)	\$250,000 – \$499,999 (\$)	\$500,000 - \$1,299,999 (\$)	\$1.3 million – \$1,999,999 (\$)	\$2 million and over (\$)	All SMEs (\$)
GST	Internal	\$733 (213)	\$1222 (127)	\$1100 (157)	\$1467 (293)	\$1467 (206)	\$1467 (274)	\$1344 (103)	\$1250 (342)	\$1222 (1728)
	External	\$0 (188)	\$0 (113)	\$0 (143)	\$90 (262)	\$0 (180)	\$0 (232)	\$167 (91)	\$0 (312)	\$0 (1534)
	Overall	\$733 (213)	\$1467 (127)	\$1222 (157)	\$1693 (293)	\$1523 (206)	\$1917 (274)	\$1772 (103)	\$1585 (342)	\$1467 (1728)
Income tax	Internal	\$533 (213)	\$733 (127)	\$550 (157)	\$550 (293)	\$733 (206)	\$733 (274)	\$489 (103)	\$686 (342)	\$611 (1728)
	External	\$450 (188)	\$800 (113)	\$705 (143)	\$1061 (262)	\$1061 (180)	\$1388 (232)	\$1746 (91)	\$1500 (312)	\$828 (1534)
	Overall	\$1149 (213)	\$1705 (127)	\$1564 (157)	\$1735 (293)	\$1892 (206)	\$1928 (274)	\$2745 (103)	\$1896 (342)	\$1589 (1728)
PAYE	Internal	\$0 (213)	\$0 (127)	\$0 (157)	\$0 (293)	\$666 (206)	\$733 (274)	\$917 (103)	\$890 (342)	\$0 (1728)
	External	\$0 (188)	\$0 (113)	\$0 (143)	\$0 (262)	\$0 (180)	\$0 (232)	\$0 (91)	\$0 (312)	\$0 (1534)
	Overall	\$0 (213)	\$0 (127)	\$0 (157)	\$0 (293)	\$733 (206)	\$733 (274)	\$1087 (103)	\$890 (342)	\$0 (1728)
KiwiSaver	Internal	\$0 (213)	\$0 (127)	\$0 (157)	\$0 (293)	\$0 (206)	\$0 (274)	\$183 (103)	\$253 (342)	\$0 (1728)
	External	\$0 (188)	\$0 (113)	\$0 (143)	\$0 (262)	\$0 (180)	\$0 (232)	\$0 (91)	\$0 (312)	\$0 (1534)
	Overall	\$0 (213)	\$0 (127)	\$0 (157)	\$0 (293)	\$0 (206)	\$5 (274)	\$279 (103)	\$260 (342)	\$0 (1728)
FBT	Internal	\$0 (213)	\$0 (127)	\$0 (157)	\$0 (293)	\$0 (206)	\$0 (274)	\$0 (103)	\$0 (342)	\$0 (1728)
	External	\$0 (188)	\$0 (113)	\$0 (143)	\$0 (262)	\$0 (180)	\$0 (232)	\$0 (91)	\$0 (312)	\$0 (1534)
	Overall	\$0 (213)	\$0 (127)	\$0 (157)	\$0 (293)	\$0 (206)	\$0 (274)	\$0 (103)	\$0 (342)	\$0 (1728)
All tax types	Internal	\$1467 (213)	\$2384 (127)	\$2139 (157)	\$2505 (293)	\$3423 (206)	\$3789 (274)	\$4124 (103)	\$3667 (342)	\$2384 (1728)
	External	\$600 (194)	\$900 (116)	\$1000 (146)	\$1500 (271)	\$1500 (185)	\$2000 (244)	\$2800 (93)	\$1890 (318)	\$1098 (1580)
	Overall	\$2200 (213)	\$3667 (127)	\$2994 (157)	\$4225 (293)	\$4790 (206)	\$5567 (274)	\$7291 (103)	\$6149 (342)	\$3719 (1728)

Base: All respondents regardless of whether they pay/file a particular tax type

Source: Long questionnaire Q9a, Q13b, Q13c and Q26; short questionnaire Q4, Q6b, Q6c, Q7 and Q11

Table 14.8 details mean tax compliance costs by entity type while Figure 14.8 compares the internal and external costs for each entity type across the three main tax types.

Mean combined compliance costs range from \$4,126 for an individual to \$6,309 for a company. Across all entity types external GST costs are noticeably less than their internal costs. The same pattern is obvious for mean PAYE, KiwiSaver and FBT compliance costs. The reverse is true for income tax with the exception of individuals. They are the only entity for whom internal income tax costs are greater than external. For trusts, mean external costs related to income tax are twice the related internal costs

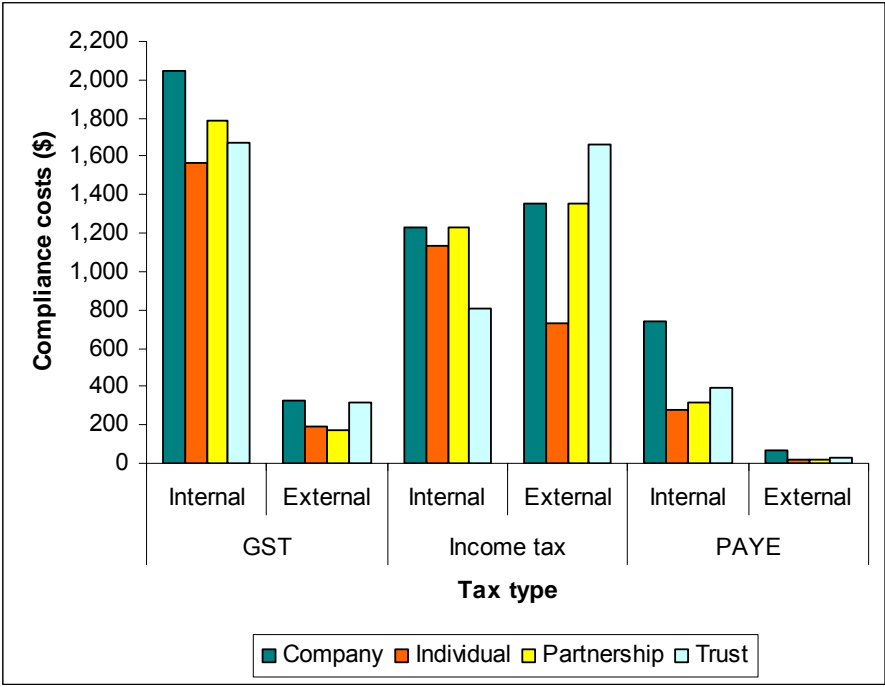


Figure 14. 8: Comparison of overall internal and external costs for the three main tax types by entity type

Table 14.9 compares internal and external median costs by entity type. For medians, the pattern of mean internal compliance costs being less for PAYE, KiwiSaver and FBT is not as apparent given that most businesses have a median cost of zero for these tax types. Median external income tax compliance cost for trusts is four times greater than the median internal cost.

Table 14.8: Summary of mean annual compliance costs by entity type

		Company	Individual	Partnership	Trust
GST	Internal	\$2045 (1098) +/- \$98	\$1563 (281) +/- \$154	\$1785 (197) +/- \$155	\$1669 (95) +/- \$252
	External	\$324 (991) +/- \$27	\$193 (260) +/- \$30	\$170 (177) +/- \$30	\$315 (82) +/- \$95
	Overall	\$2349 (1100) +/- \$102	\$1898 (278) +/- \$189	\$1996 (196) +/- \$161	\$2265 (93) +/- \$403
Income tax	Internal	\$1228 (1102) +/- \$77	\$1135 (280) +/- \$110	\$1233 (200) +/- \$141	\$809 (92) +/- \$159
	External	\$1359 (965) +/- \$61	\$730 (255) +/- \$69	\$1352 (176) +/- \$116	\$1659 (79) +/- \$255
	Overall	\$2563 (1070) +/- \$103	\$1833 (273) +/- \$135	\$2437 (193) +/- \$185	\$2218 (91) +/- \$275
PAYE	Internal	\$741 (1112) +/- \$42	\$277 (279) +/- \$37	\$313 (202) +/- \$54	\$390 (95) +/- \$144
	External	\$67 (996) +/- \$8	\$21 (263) +/- \$5	\$16 (178) +/- \$4	\$32 (82) +/- \$24
	Overall	\$832 (1096) +/- \$43	\$323 (262) +/- \$42	\$367 (186) +/- \$60	\$512 (83) +/- \$194
KiwiSaver	Internal	\$230 (1122) +/- \$22	\$62 (285) +/- \$16	\$58 (203) +/- \$17	\$146 (94) +/- \$59
	External	\$18 (1007) +/- \$3	\$5 (264) +/- \$2	\$12 (179) +/- \$8	\$9 (82) +/- \$6
	Overall	\$266 (1071) +/- \$24	\$72 (266) +/- \$18	\$77 (184) +/- \$20	\$185 (82) +/- \$72
FBT	Internal	\$64 (1128) +/- \$7	\$24 (286) +/- \$12	\$15 (205) +/- \$11	\$4 (96) +/- \$2
	External	\$29 (1004) +/- \$5	\$1 (264) +/- \$0	\$2 (179) +/- \$1	\$2 (82) +/- \$2
	Overall	\$102 (1029) +/- \$11	\$27 (263) +/- \$13	\$19 (181) +/- \$13	\$7 (82) +/- \$3
All Tax Types	Internal	\$4,475 (1101) +/- \$199	\$3,251 (279) +/- \$263	\$3,596 (198) +/- \$350	\$3,528 (93) +/- \$524
	External	\$1,861 (1001) +/- \$82	\$980 (262) +/- \$86	\$1,594 (178) +/- \$126	\$1,966 (83) +/- \$317
	Overall	\$6,309 (1079) +/- \$226	\$4,126 (276) +/- \$277	\$5,089 (195) +/- \$393	\$5,215 (89) +/- \$629

Base: All respondents regardless of whether they pay/file a particular tax type (excluding outliers)

Source: Long questionnaire Q9a, Q13b, and Q13c; short questionnaire Q4, Q6b, Q6c, Q7 and entity type from Inland Revenue database information

Table 14. 9: Summary of median annual compliance costs by entity type

		Company	Individual	Partnership	Trust
GST	Internal	\$1343 (1141)	\$912 (286)	\$1100 (205)	\$1284 (96)
	External	\$0 (1009)	\$0 (264)	\$0 (179)	\$0 (82)
	Overall	\$1589 (1141)	\$1200 (286)	\$1467 (205)	\$1383 (96)
Income tax	Internal	\$550 (1141)	\$733 (286)	\$733 (205)	\$367 (96)
	External	\$1000 (1009)	\$473 (264)	\$928 (179)	\$1273 (82)
	Overall	\$1655 (1141)	\$1167 (286)	\$1800 (205)	\$1943 (96)
PAYE	Internal	\$127 (1141)	\$0 (286)	\$0 (205)	\$0 (96)
	External	\$0 (1009)	\$0 (264)	\$0 (179)	\$0 (82)
	Overall	\$244 (1141)	\$0 (286)	\$0 (205)	\$0 (96)
KiwiSaver	Internal	\$0 (1141)	\$0 (286)	\$0 (205)	\$0 (96)
	External	\$0 (1009)	\$0 (264)	\$0 (179)	\$0 (82)
	Overall	\$0 (1141)	\$0 (286)	\$0 (205)	\$0 (96)
FBT	Internal	\$0 (1141)	\$0 (286)	\$0 (205)	0 (96)
	External	\$0 (1009)	\$0 (264)	\$0 (179)	0 (82)
	Overall	\$0 (1141)	\$0 (286)	\$0 (205)	0 (96)

Base: All respondents regardless of whether they pay/file a particular tax type

Source: Long questionnaire Q9a, Q13b, and Q13c; short questionnaire Q4, Q6b, Q6c, Q7 and entity type from Inland Revenue database information

15. Psychological compliance costs

This chapter examines the psychological compliance costs that businesses experience in meeting tax requirements overall. Specifically, they were asked to rate how stressful they found meeting Inland Revenue requirements overall during the last 12 months (ignoring finding the money).

This chapter also draws together the reported stress levels associated with meeting requirements for each of the individual tax types (as reported in separate sections earlier in this report). Note, however, that the questions relating to individual tax types asked respondents to include any stress involved in finding the money because this was directly relevant to some of the changes in tax administration made in recent years. Therefore, the data pertaining to individual tax types are not purely psychological compliance costs as they are usually defined.

Table 15.1 summarises the percentage of respondents filing a particular tax type reporting each level of stress (from 1 = not at all stressful through to 7 = extremely stressful). Data presented include the psychological stress associated with overall tax requirements (ignoring finding the money).

Figure 15.1 presents the same data grouped into three bands: *less than moderately stressful*, *moderately stressful* and *more than moderately stressful*. The majority of respondents (58%) report that meeting overall tax requirements (ignoring finding the money) is *less than moderately stressful*. Only 3% of respondents report that doing is so extremely stressful.

Within each tax type, at least half of the respondents reported that meeting tax requirements for that particular tax type was *less than moderately stressful*. Responses ranged from 50% for income tax through to 67% for FBT.

Table 15.1: Overall psychological compliance costs and reported stress levels by tax type

Level of reported stress	Overall tax requirements (ignoring finding the money) (1664) %	GST (1564) %	Income tax (1384) %	PAYE (1115) %	KiwiSaver (777) %	FBT (375) %
1 (not all stressful)	16	14	16	18	23	23
2	22	19	17	25	23	26
3	20	20	17	16	16	18
4 (moderately stressful)	22	20	21	17	16	19
5	10	12	13	11	9	5
6	5	9	9	6	8	7
7 (extremely stressful)	3	5	6	5	5	1
Mean score	3.2	3.4	3.5	3.1	3.1	2.8

Base: All who pay/file the particular tax type; excludes those who indicated Q29 was not applicable

Source: Long questionnaire Q29-Q34; short questionnaire Q14 and Q15

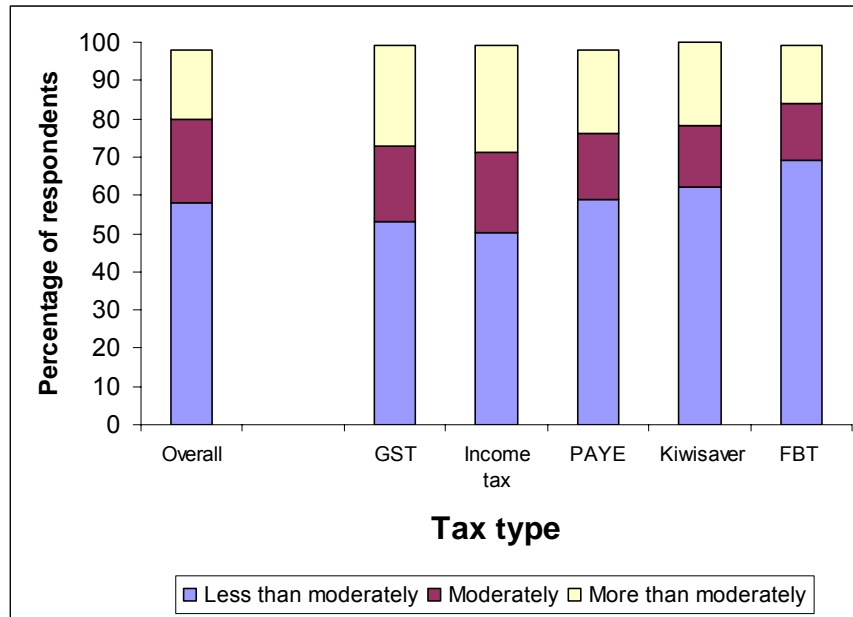


Figure 15.1: Percentage of respondents reporting each banded level of stress for each tax type

Table 15.2 summarises the levels of overall reported stress (scale of 1 – 7) by business size as a measure of overall psychological costs. These data are grouped into three bands in Figure 15.2. A higher percentage (61%) of businesses with no employees (“nil”) report that the stress associated with tax compliance is *less than moderately stressful* than for any other group. Of this group, 19% state that it is not at all stressful compared with 10% of “micro”; 16% of “small”, and 11% of “medium” size SMEs as determined by the number of employees.

Table 15. 2: Overall psychological compliance costs by business size (number of employees)

Level of reported stress	Business size (number of employees)				All (1617) %
	Nil employees (496) %	Micro (1-5) (581) %	Small (6-19) (333) %	Medium (20+) (207) %	
1 (not all stressful)	19	10	16	11	16
2	21	23	19	27	22
3	21	19	21	17	20
4 (moderately stressful)	20	23	25	21	22
5	7	13	13	16	10
6	5	6	5	6	5
7 (extremely stressful)	3	4	1	2	3
Mean score	3.0	3.4	3.2	3.3	3.2

Base: All respondents excluding those who indicated Q29 was not applicable

Source: Long questionnaire Q4 and Q29

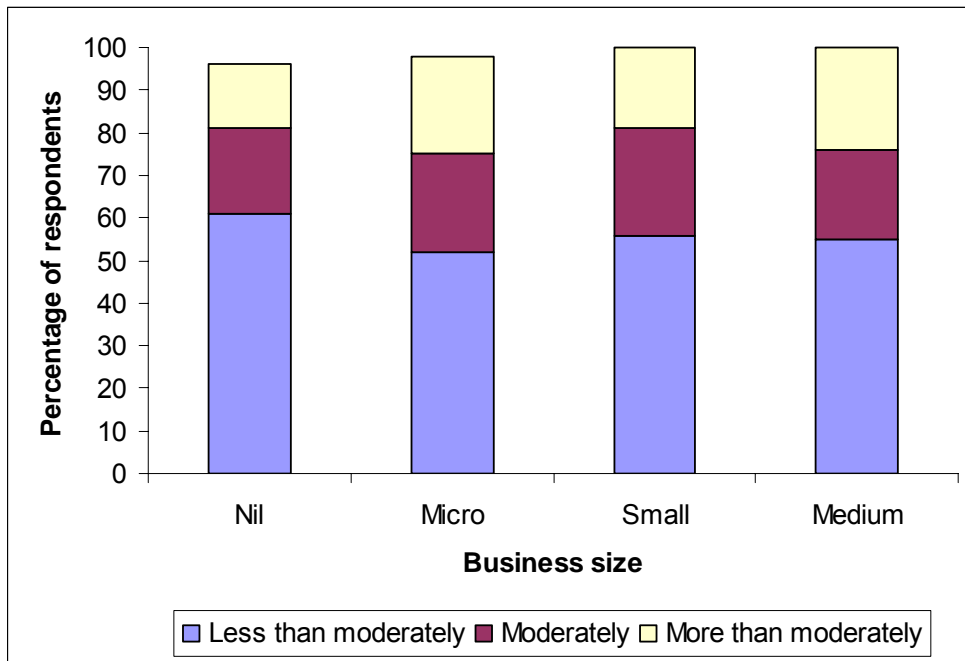


Figure 15.2: Percentage of respondents reporting each banded level of stress for each tax type

Concluding comments

This report reflects the self-reported tax compliance costs of small and medium businesses in New Zealand, as defined. It draws together survey data from New Zealand's small and medium businesses and their tax agents, alongside information from Inland Revenue's administrative records, to create a detailed picture of how much it costs SMEs to meet their tax requirements.

Two accompanying publications, the comparison report between 2009 and 2004 SME tax compliance costs figures and the evaluation of the GST-provisional tax alignment will be completed shortly after this report. These three reports, collectively, will address the research objectives of measuring SME tax compliance costs in 2009, measuring the change in SME tax compliance costs since 2004 and evaluating the effectiveness of the alignment of GST and provisional tax.

Appendices

A. Population and sample strata

This section shows the strata sizes for the overall SME population and selected samples. Income only, ratio option and KiwiSaver strata were selected using a simple random sample, the remaining multi-tax population a disproportional random sample.

Table A.1: Population distribution income tax only

INC only		Total
Company	IR 4	3,520
Individual	IR 3*	8,567
Partnership	IR 7	12,451
Trust	IR 6	3,318
Total		27,856

* Includes those with associations which were not sampled

Table A.2: Population distribution multi-tax

	Turnover				Total
	Nil T'over	<100k	100k-1.3m	1.3m+	
Ratio option	Nil T'over	Small	Medium	Large	Total
No employees	0	558	789	14	1,361
Small 1-5	0	71	1,142	76	1,289
Medium 6-19	1	1	663	234	899
Large 20+	0	0	42	140	182
Total	1	630	2,636	464	3,731

KiwiSaver and super	Nil T'over	Small	Medium	Large	Total
No employees	0	0	0	0	0
Small 1-5	8	12	141	45	206
Medium 6-19	6	1	165	259	431
Large 20+	25	0	18	491	534
Total	39	13	324	795	1,171

*These strata consisted of SMEs having staff involved in both KiwiSaver and who had a superannuation scheme in place prior to KiwiSaver.

Remaining multi tax	Nil T'over	Small	Medium	Large	Total
No employees	0	158,794	91,953	5,244	255,991
Small 1-5	1,811	26,169	83,235	4,421	115,636
Medium 6-19	710	991	23,140	7,773	32,614
Large 20+	253	70*	1,823	5,624	7,770
Total	2,774	186,024	200,151	23,062	412,011

*Weighted population figures in the body of the report exclude these 70 SMEs as none of the 70 is in the sample.

TOTAL	Nil T'over	Small	Medium	Large	Total
No employees	0	159,352	92,742	5,258	257,352
Small 1-5	1,819	26,252	84,518	4,542	117,131
Medium 6-19	717	993	23,968	8,266	33,944
Large 20+	278	70*	1,883	6,255	8,486
Total	2,814	186,667	203,111	24,321	416,913

Source: Inland Revenue administrative data

*Weighted population figures in the body of the report exclude these 70 SMEs as none of the 70 is in the sample.

Table A.3: Sample distribution income tax only

INC only		Total
Company	IR4	125
Individual	IR3	125
Partnership	IR7	125
Trust	IR6	125
Total		500

Table A.4: Sample distribution multi-tax

	Turnover				Total
	Nil T'over	<100k	100k-1.3m	1.3m+	
Ratio option (SRS)	Nil T'over	Small	Medium	Large	Total
No employees	0	73	117	3	193
Small 1-5	0	13	155	11	179
Medium 6-19	0		82	26	108
Large 20+	0		3	17	20
Total	0	86	357	57	500

Simple random sample used (SRS)

KiwiSaver (SRS)	Nil T'over	Small	Medium	Large	Total
No employees	0	0	0	0	0
Small 1-5	4	5	57	16	82
Medium 6-19	2	0	82	124	208
Large 20+	11	0	11	188	210
Total	17	5	150	328	500

Simple random sample used (SRS)

Remaining multi tax	Nil T'over	Small	Medium	Large	Total
No employees	0	810	560	47	1417
Small 1-5	15	222	850	68	1155
Medium 6-19	7	13	380	188	588
Large 20+	7	0	58	275	340
Total	29	1045	1848	578	3500

TOTAL - multi	Nil T'over	Small	Medium	Large	Total
No employees	0	883	677	50	1610
Small 1-5	19	240	1062	95	1416
Medium 6-19	9	13	544	338	904
Large 20+	18	0	72	480	570
Total	46	1136	2355	963	4500

B. Sample profile – unweighted data

Table B.1: Sample profile by business size – unweighted data

	Business size (number of employees)				All SMEs %
	Nil employees %	Micro (1-5) %	Small (6-19) %	Medium (20+) %	
Number of owners working in the business					
0	11	6	12	28	7
1	42	47	29	23	12
2	23	41	44	32	39
3 +	2	5	15	18	35
Missing information	22	0	0	0	8
Business size - Number of employees (full-time and part-time combined³⁵)					
Nil	100	0	0	0	31
Micro (1-5 employees)	0	100	0	0	34
Small (6-19 employees)	0	0	100	0	20
Medium (20+ employees)	0	0	0	100	12
Missing information	0	0	0	0	3
Business size - turnover					
Nothing	3	1	1	0	1
\$1 – \$19,999	10	1	1	0	4
\$20,000 – \$39,999	18	3	1	1	7
\$40,000 – \$59,999	16	4	1	0	7
\$60,000 - \$99,999	16	8	0	0	9
\$100,000 – \$249,999	22	24	3	1	16
\$250,000 – \$499,999	6	24	7	1	12
\$500,000 – \$1,299,999	4	23	30	5	16
\$1.3 million – \$1,999,999	0	5	17	6	6
\$2 million - \$4,999,999	0	3	26	21	9
\$5 million – \$9,999,999	0	1	8	32	6
\$10 million – \$23,999,999	0	0	3	21	3
\$24 million - \$49,999,999	0	0	0	8	1
\$50 million – \$99,999,999	0	0	0	1	0
\$100 million or more	0	0	0	1	0
Missing information	5	3	2	1	3
Length of time in business					
Less than six months	0	1	0	0	1
Six months to less than 1 year	2	1	1	1	1
1 – 2 years	8	8	4	2	7
3 – 5 years	27	21	13	8	20
6 – 10 years	22	20	17	12	19
> 10 years	39	48	63	76	52
Missing information	2	1	0	1	1
Use of a tax advisor					
Don't use a tax advisor	23	18	17	16	19
Use a tax advisor	77	82	83	84	81
Missing information	0	0	0	0	0

³⁵ This refers to the total number of full-time employees plus the total number of part-time employees.

Table B.1: Sample profile by business size – unweighted data (cont.)

	Business size (number of employees)				All SMEs %
	Nil employees %	Micro (1-5) %	Small (6-19) %	Medium (20+) %	
Main business activity					
Agriculture, forestry, fishing	17	15	9	7	13
Mining	0	0	0	0	0
Manufacturing	2	6	10	17	6
Electricity, gas, water supply	0	1	0	0	0
Construction, landscape, building repair	9	14	10	9	11
Wholesale trade	2	3	9	11	5
Retail trade	4	10	12	14	9
Accommodation, café, restaurant	3	5	7	6	5
Transport, storage	3	3	5	4	3
Communication services	2	1	1	0	1
Finance, insurance	3	3	1	1	2
Property and business services	16	11	9	6	12
Education	2	2	2	1	2
Health and community services	2	5	5	3	4
Cultural and recreational services	1	1	1	0	1
Personal and other services	1	2	1	1	2
Other	28	16	16	15	20
Missing information	7	3	2	3	4
Industry sector groupings					
Primary produce	18	16	10	8	14
Industrial	13	24	24	30	21
Distribution	9	17	29	31	18
Business and finance	39	24	16	13	26
Service	18	19	21	17	19
Missing information	2	1	1	1	1
Number of sites					
1	95	94	90	78	92
2	5	5	8	13	7
3	0	0	1	5	1
4	0	0	0	2	0
5	0	0	1	0	0
6	0	0	0	0	0
7	0	0	0	0	0
8	0	0	0	0	0
Missing information	0	0	0	0	0
Legal entity					
Company	35	72	88	97	66
Individual	31	15	2	1	17
Partnership	20	10	9	2	12
Trust	13	3	1	0	6
Missing information	0	0	0	0	0
Number of respondents (unweighted)	529	595	340	213	1728

Table B.1: Sample profile by business size – unweighted data (cont.)

	Business size (number of employees)				All SMEs %
	Nil employees %	Micro (1-5) %	Small (6-19) %	Medium (20+) %	
Provisional tax option used 09/10					
Estimator	4	6	6	21	2
Provisional	9	8	12	19	6
Ratio	11	13	9	0	14
Safe harbour	34	45	56	49	43
Unknown – non-provisional tax payer	41	28	16	8	35
Missing	0	0	1	3	0

Base: All respondents, SMEs with missing business size are not shown

	Business size (number of employees)				All %
	Nil employees %	Micro (1-5) %	Small (6-19) %	Medium (20+) %	
Filing methods for EMS (IR 348)					
Electronic	0	18	53	81	38
Manual	15	71	36	8	47
Mixed ^	0	5	9	10	6
Missing	85	6	3	1	8
PAYE payment method					
Electronic	0	33	49	54	40
Manual	0	48	33	29	38
Mixed ^	8	13	16	16	13
Missing	92	6	3	1	9
Number of respondents (unweighted)	13	595	340	213	1212

Base: All respondents who pay/file PAYE, SMEs with missing business size are not shown

^ Mixed refers to SMEs that utilise more than 1 different filing or payment method during the period Oct 08 – Oct 09 (more than 10% occurrence of a different method will place them in this mixed category)

Source: Long questionnaire Q4; IRD database information used for filing and payment methods for PAYE

	Business size (number of employees)				All %
	Nil employees %	Micro (1-5) %	Small (6-19) %	Medium (20+) %	
Filing methods for GST (IR 101)					
Electronic	21	20	24	26	22
Manual	66	65	65	55	64
Mixed ^	11	14	11	14	12
Missing/NA	1	1	1	5	2
GST basis					
Hybrid	0	1	1	0	1
Invoice	16	19	50	86	33
Payment	82	80	49	13	65
Both invoice and payment	0	0	0	0	0
Missing	1	1	1	0	1
Nature of GST registration					
Forced	0	0	0	0	0
Required	83	94	97	98	92
Voluntary	15	6	2	2	7
Missing	1	1	1	0	1
GST filing frequency					
Monthly	4	6	8	19	7
Two-monthly	67	84	90	81	80
Six-monthly	29	10	2	0	13
Missing	0	0	1	0	0
GST payment method					
Electronic	26	31	45	45	34
Manual	51	49	37	30	44
Mixed ^	11	16	15	17	15
Missing	11	5	4	9	7
Number of respondents (unweighted)	409	589	339	210	1598

Base: All respondents who pay/file GST, SMEs with missing business size are not shown

^ Mixed refers to SMEs that utilise more than 1 different filing or payment method during the period Oct 08 – Oct 09 (more than 10% occurrence of a different method will place them in this mixed category)

Source: Long questionnaire Q4; Inland Revenue database information used for GST basis, nature of GST registration, GST filing frequency, filing and payment methods for GST

Table B.2: Sample profile by tax type – unweighted data.

	Tax type					All SMEs %
	GST %	Income Tax %	PAYE %	KS %	FBT %	
Number of owners working in the business						
0	13	12	12	14	20	12
1	42	39	39	34	29	39
2	37	34	40	40	37	35
3 +	8	8	10	12	14	8
Missing information	0	7	0	0	0	7
Business size - Number of employees (full-time and part-time combined³⁶)						
Nil	26	30	1	0	5	31
Micro (1-5 employees)	37	34	49	38	28	34
Small (6-19 employees)	21	20	28	36	33	20
Medium (20+ employees)	13	13	18	25	33	12
Missing information	3	3	4	1	1	3
Business size - turnover						
Nothing	1	1	1	0	0	1
\$1 – \$19,999	3	3	1	1	1	4
\$20,000 – \$39,999	6	7	2	1	2	7
\$40,000 – \$59,999	7	7	3	1	1	7
\$60,000 - \$99,999	9	9	6	3	2	9
\$100,000 – \$249,999	17	17	14	9	8	16
\$250,000 – \$499,999	12	12	14	13	8	12
\$500,000 – \$1,299,999	17	16	21	22	18	16
\$1.3 million – \$1,999,999	6	6	8	11	10	6
\$2 million - \$4,999,999	10	9	12	16	17	9
\$5 million – \$9,999,999	6	6	8	12	16	6
\$10 million – \$23,999,999	3	3	5	7	11	3
\$24 million - \$49,999,999	1	1	2	2	4	1
\$50 million – \$99,999,999	0	0	0	0	1	0
\$100 million or more	0	0	0	0	0	0
Missing information	2	3	2	1	1	3
Length of time in business						
Less than six months	1	0	1	0	0	1
Six months to less than 1 year	1	1	1	1	1	1
1 – 2 years	7	6	6	6	3	7
3 – 5 years	20	20	17	15	11	20
6 – 10 years	19	19	18	16	15	19
> 10 years	52	52	57	62	69	52
Missing information	1	1	1	0	1	1
Use of a tax advisor						
Don't use a tax advisor	19	19	18	16	15	19
Use a tax advisor	81	82	82	84	85	81
Missing information	0	0	0	0	0	0

Base: All respondents

Source: Long questionnaire Q1, Q3, Q4, Q9a, Q26, Q27, Q28; Short questionnaire Q3, Q9, Q10, Q11

³⁶ This refers to the total number of full-time employees plus the total number of part-time employees.

Table B.2: Sample profile by tax type – unweighted data (cont.)

	Tax type					All SMEs %
	GST %	Income Tax %	PAYE %	KS %	FBT %	
Main business activity						
Agriculture, forestry, fishing	14	13	12	9	6	13
Mining	0	0	0	0	0	0
Manufacturing	7	7	9	11	13	6
Electricity, gas, water supply	0	0	0	0	0	0
Construction, landscape, building repair	12	11	12	10	10	11
Wholesale trade	5	5	6	7	13	5
Retail trade	9	8	11	11	9	9
Accommodation, café, restaurant	4	5	5	6	3	5
Transport, storage	4	3	4	4	5	3
Communication services	1	1	1	1	1	1
Finance, insurance	2	3	2	3	3	2
Property and business services	11	12	10	9	10	12
Education	1	2	2	2	1	2
Health and community services	4	4	5	6	4	4
Cultural and recreational services	1	1	1	1	0	1
Personal and other services	2	2	2	1	0	2
Other	19	20	17	17	18	20
Missing information	4	4	3	2	3	4
Industry sector groupings						
Primary produce	15	14	13	10	7	14
Industrial	22	21	24	24	26	21
Distribution	19	18	22	24	30	18
Business and finance	24	26	20	20	22	26
Service	19	19	19	21	15	19
Missing information	1	1	1	0	1	1
Number of sites						
1	91	92	90	89	84	92
2	7	7	7	8	11	7
3	1	1	1	2	3	1
4	0	0	0	1	1	0
5	0	0	0	0	0	0
6	0	0	0	0	0	0
7	0	0	0	0	0	0
8	0	0	0	0	0	0
Missing information	0	0	0	0	0	0
Legal entity						
Company	70	66	79	87	93	66
Individual	16	17	10	5	3	17
Partnership	11	12	8	6	3	12
Trust	4	6	2	2	1	6
Missing information	0	0	0	0	0	0
Number of respondents (unweighted)	1598	1670	1212	815	431	1728

Base: All respondents

Source: Long questionnaire Q1, Q3, Q4, Q9a, Q26, Q27, Q28; Short questionnaire Q3, Q9, Q10, Q11

Table B.3: Tax type by business size – unweighted data.

	Business size (number of employees)				All SMEs %
	Nil employees %	Micro (1-5) %	Small (6-19) %	Medium (20+) %	
Tax type					
Income tax	96	97	97	99	97
GST	77	99	100	99	92
PAYE	2	100	100	100	70
KS	0	52	86	95	47
FBT	4	20	41	66	25
Tax type combinations					
Income tax only	23	0	0	0	7
Income, GST	67	0	0	0	20
Income, GST, PAYE	1	40	9	2	16
Income, GST, PAYE, KS	0	36	46	29	21
Income, GST, PAYE, FBT	1	5	4	2	5
Income, GST, PAYE, FBT, KS	0	15	37	63	25
Others	8	4	4	3	6

Base: All respondents

Source: Long questionnaire Q1, Q4, short questionnaire

C. Internal time – excludes those who spent zero hours

Table C.1 gives the number of hours spent on specific tax activities for each tax type. The number of hours in each cell has been calculated using a base that excludes respondents who indicated they spent zero hours (for that tax activity in relation to that tax type) but they do file/pay that tax. It is useful in understanding this is the time actually spent on each activity.

Table C.1: Internal time spent on tax activities (annual hours) by tax type – means

	Mean (trimmed) annual number of hours					
	GST	Income tax (including provisional tax)	PAYE (including child support, student loans, ACC levy)	FBT	KS	All tax types
Recording information	24.8 (1275)	15.3 (871)	14.7 (873)	6.4 (241)	6.0 (627)	44.0 (1441)
Calculating tax, completing and filing returns, paying tax	13.1 (1098)	9.6 (763)	9.4 (683)	5.1 (246)	4.9 (554)	26.4 (1269)
Dealing with Inland Revenue	6.5 (506)	5.6 (384)	5.4 (486)	2.5 (71)	4.8 (283)	12.3 (800)
Tax planning	8.7 (155)	8.2 (302)	6.2 (62)	7.9 (22)	NA	10.7 (372)
Dealing with tax advisors (including providing information to them)	9.8 (633)	9.4 (863)	8.2 (304)	3.0 (90)	5.5 (148)	16.6 (1025)
Learning about tax laws (new or existing)	6.0 (792)	5.9 (634)	4.7 (632)	3.6 (204)	4.7 (482)	13.8 (987)
Other	22.8 (20)	46.6 (26)	8.9 (44)	2.1 (6)	4.0 (177)	8.8 (201)
All activities	43.0 (1406)	30.8 (1268)	30.5 (1033)	13.0 (338)	15.7 (742)	87.9 (1559)

Base: All respondents who filed/paid the particular tax type (excluding missing information and outliers) and gave a response of more than zero hours on the particular task

Source: Long questionnaire Q13a; short questionnaire Q6a

Sample sizes are shown in brackets

Table C.2 details the amount of time that different types of personnel spend on tax activities in relation to each tax type. The number of hours in each cell has been calculated using a base that **excludes** respondents who indicated they spent zero hours on that tax type.

Table C.2: Internal time spent by personnel on all tax activities (annual hours) by tax type - means

Personnel	Mean (trimmed) annual number of hours					
	GST	Income tax (including provisional tax)	PAYE (including child support, student loans, ACC levy)	FBT	KS	All tax types
Owners/partners/directors/trustees	35.8 (1051)	26.4 (1043)	21.1 (640)	9.4 (157)	11.0 (401)	65.4 (1260)
Paid employees	45.2 (543)	31.7 (453)	32.4 (532)	16.1 (218)	15.7 (440)	108.5 (624)
Unpaid friends or relatives	42.8 (49)	13.4 (44)	43.2 (26)	- (5)	- (16)	55.9 (75)
All personnel	40.6 (1425)	29.6 (1272)	30.0 (1032)	14.0 (341)	15.2 (742)	83.5 (1565)

Base: All respondents who filed the particular tax type (excluding missing information and outliers) and gave a response of more than zero hours for that tax type

Source: Long questionnaire Q13b; short questionnaire Q6b, Q6c

D. External costs based on tax obligations

Table D.1 presents external compliance costs by tax type and business size. The amounts under each tax type relate to the average payment made for external advice in regard to that tax type among businesses that file that tax type regardless of whether or not they pay for external advice.

Note: Those who do not pay for external tax services relating to that tax type have been allocated a zero value and included in these calculations.

The final “All” column is based on all businesses and gives the average payment made for tax services relating to any tax type according to business size. Again, businesses that do not pay for external tax services have been allocated a zero value and included in these calculations.

Table D.1: External mean compliance costs by tax type and business size (number of employees)

Business size (number of employees)	Mean (trimmed) external annual compliance costs					
	Tax type*					
	GST	Income tax	PAYE	KS	FBT	All
Nil employees	\$205 (356)	\$1,055 (441)	\$215 (12)	\$44 (2)	\$98 (21)	\$1,235 (466)
Micro (1-5)	\$353 (523)	\$1,475 (515)	\$94 (531)	\$42 (283)	\$94 (110)	\$1,955 (542)
Small (6-19)	\$560 (279)	\$2,191 (263)	\$97 (280)	\$60 (241)	\$87 (125)	\$2,933 (291)
Medium (20+)	\$357 (186)	\$2,580 (170)	\$124 (190)	\$60 (184)	\$159 (126)	\$3,647 (180)
All SMEs	\$287 (1390)	\$1,296 (1433)	\$92 (1060)	\$47 (720)	\$94 (388)	\$1,639 (1524)

Base: *Utilises imputed data, business survey data and tax advisor data. Base is all businesses who file the particular tax type, excluding missing information and outliers

Source: Long questionnaire Q4, Q10a, Q10b, Q10d; short questionnaire Q4; Advisor sub-survey Q5

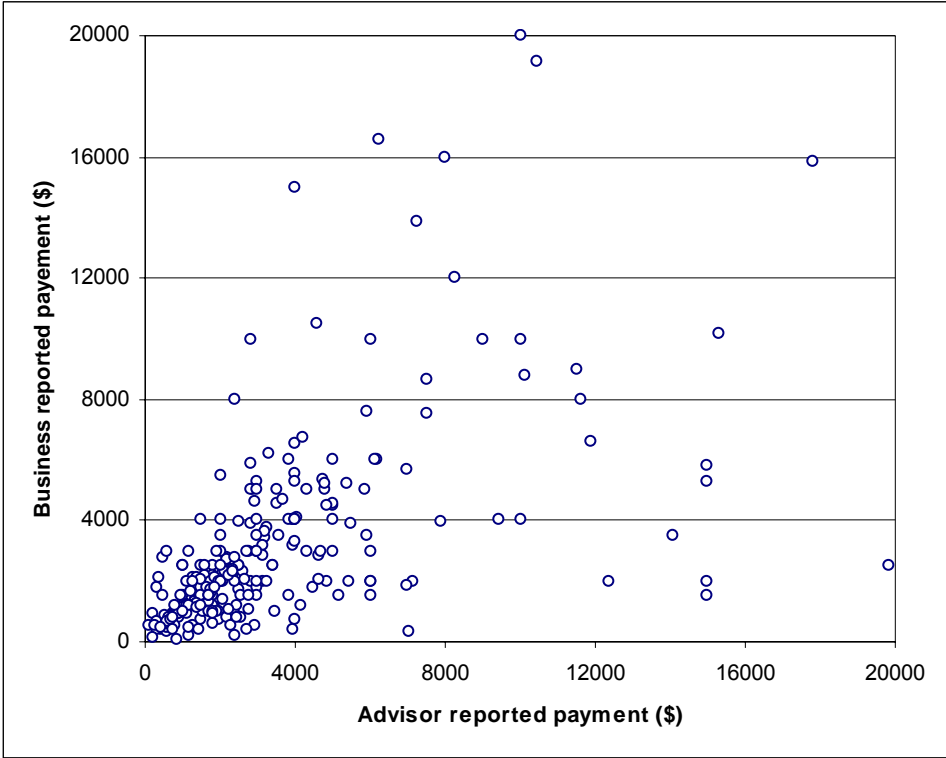
E. Payment for external tax services – comparison of tax advisor and business survey data

Of the 345 agents who completed questionnaires, there were 276 responses where both advisor and SME had reported a dollar value of external costs. The comparison below (see Figure E.1) uses those 276 responses. In the other 69 cases a comparison cannot be made because either the advisor did not provide a dollar value or the SME did not provide a dollar value.

Comparing the 276 instances where SMEs and advisor reported external costs, 20% are within \$100 of each other.

The SMEs reported costs higher than their advisors in 45% of comparisons.

Figure E.1: All SMEs (n= 276, r=0.44)



Where possible, advisor data was used in the calculation of external costs.

F. Analysis by sector

This section provides analyses by sector.

Table F.1: Internal time spent on tax activities (annual hours) by sector

Tax activity	Mean number of hours (annual)					
	Sector					
	Primary produce	Industrial	Distribution	Business and Finance	Service	All sectors
Recording information	37.3 (235)	37.8 (341)	42.9 (296)	34.6 (426)	38.3 (314)	37.6 (1612)
Calculating tax, completing and filing returns, paying tax	15.0 (239)	22.3 (352)	19.7 (309)	15.9 (412)	17.8 (317)	17.8 (1629)
Dealing with Inland Revenue	4.0 (244)	5.3 (355)	6.4 (309)	2.9 (435)	4.5 (322)	4.4 (1665)
Tax planning	2.7 (245)	2.1 (356)	2.2 (309)	1.3 (437)	1.4 (323)	1.9 (1670)
Dealing with tax advisors (including providing information to them)	8.0 (240)	11.5 (349)	12.6 (302)	7.1 (427)	10.5 (314)	9.5 (1632)
Learning about tax laws (new or existing)	6.1 (243)	6.7 (358)	9.4 (311)	4.6 (431)	7.2 (321)	6.5 (1664)
Other	0.4 (245)	0.6 (354)	0.7 (309)	0.3 (442)	0.4 (319)	0.4 (1669)
All activities	75.6 (238)	92.6 (351)	91.3 (305)	69.3 (425)	87.7 (314)	81.6 (1,633)

Base: All respondents excluding missing information and outliers

Source: Long questionnaire Q13a, Q21; short questionnaire Q6a, Q12

Table F.2 shows the amount of time that different types of personnel spend on tax activities for each tax type by size of sector.

Table F.2: Internal time spent by all personnel on all tax activities (annual hours) by sector

Personnel	Mean (trimmed) number of hours (annual)					
	Sector					
	Primary produce	Industrial	Distribution	Business and Finance	Service	All sectors
Owners/partners/directors/trustees	58.6 (240)	51.6 (352)	64.2 (300)	49.0 (426)	58.2 (311)	55.3 (1629)
Paid employees	8.9 (247)	26.7 (356)	26.3 (313)	15.0 (442)	19.2 (323)	18.3 (1681)
Unpaid friends or relatives	2.7 (249)	4.0 (363)	3.9 (317)	2.4 (447)	2.0 (329)	2.9 (1705)
All personnel	74.4 (239)	81.8 (351)	92.5 (308)	65.5 (427)	82.8 (314)	77.4 (1,639)

Base: All respondents (excluding missing information and outliers)

Source: Long questionnaire Q13b, Q21; short questionnaire Q6b, Q6c, Q12

Table F.3 details the amount of time that businesses (covering all personnel) spend on each tax type by sector.

Table F.3: Internal time spent on all tax activities for each tax type (annual hours) by sector

Tax type	Mean (trimmed) number of hours (annual)					
	Sector					
	Primary produce	Industrial	Distribution	Business and Finance	Service	All sectors
GST	40.5 (227)	35.1 (334)	43.5 (296)	33.4 (366)	36.8 (285)	37.3 (1508)
Income tax (including provisional tax)	21.6 (229)	20.5 (335)	23.7 (293)	23.3 (408)	23.0 (309)	22.4 (1574)
PAYE (including child support, student loans, ACC levy)	22.8 (140)	22.2 (286)	32.8 (261)	19.1 (230)	25.5 (229)	24.3 (1146)
KiwiSaver	13.2 (72)	11.7 (192)	15.1 (188)	14.5 (154)	17.3 (160)	14.5 (766)
FBT	5.9 (31)	6.9 (110)	16.2 (129)	8.7 (92)	7.8 (63)	9.2 (425)
All tax types	74.4 (239)	81.8 (351)	92.5 (308)	65.5 (427)	82.8 (314)	77.4 (1639)

Base: All respondents who according to Q1 filed the particular tax type (excluding missing information and outliers)

Source: Long questionnaire Q13b, Q21; short questionnaire Q6a, Q12

G. Analysis by age of business

The next four tables show the internal time spent on tax compliance for each of the tax types with an analysis by age of business and turnover.

Table G.1: Internal time spent (annual hours) on Income tax by age of business and business size (turnover)

Turnover	Mean (trimmed) annual number of hours					
	Age of business					
	Less than 12 months	1-2 years	3-5 years	6-10 years	10 years +	All
Up to \$39,999	42.1 (7)	19.9 (31)	12.0 (42)	16.0 (40)	24.4 (68)	19.6 (188)
\$40,000 to \$59,999	(0)	28.6 (9)	26.2 (31)	22.8 (27)	19.4 (54)	23.1 (121)
\$60,000 to \$99,999	0.0 (2)	16.3 (12)	20.6 (44)	24.6 (29)	20.6 (51)	20.9 (138)
\$100,000 to \$249,999	13.7 (9)	27.5 (19)	24.1 (74)	21.1 (58)	22.5 (114)	22.8 (274)
\$250,000 to \$499,999	12.3 (2)	25.3 (8)	25.1 (37)	33.2 (44)	19.1 (91)	24.1 (182)
\$500,000 to less than \$1.3 million	12.3 (4)	15.5 (14)	20.9 (48)	34.0 (62)	20.2 (131)	22.6 (259)
\$1.3 million to less than \$2 million	(0)	56.0 (2)	13.7 (15)	9.4 (8)	29.6 (71)	24.5 (96)
\$2 million and up	11.5 (2)	14.3 (7)	54.0 (28)	23.7 (35)	26.1 (237)	28.5 (309)
All	24.3 (26)	21.9 (102)	21.7 (319)	23.7 (303)	21.9 (817)	22.3 (1,567)

Base: All respondents who file Income tax excluding missing information and outliers

Source: Long questionnaire Q13b, Q20 and Q22; short questionnaire Q6b, Q11 and Q13.

Table G.2: Internal time spent (annual hours) on GST by age of business and business size (turnover)

Turnover	Mean (trimmed) annual number of hours					
	Age of business					
	Less than 12 months	1-2 years	3-5 years	6-10 years	10 years +	All
Up to \$39,999	34.1 (10)	33.0 (23)	19.2 (31)	30.4 (28)	33.4 (47)	29.2 (139)
\$40,000 to \$59,999	(0)	69.8 (10)	40.1 (31)	47.1 (22)	29.8 (42)	41.5 (105)
\$60,000 to \$99,999	53.1 (4)	14.7 (13)	27.7 (43)	36.2 (29)	37.2 (50)	32.1 (139)
\$100,000 to \$249,999	33.2 (9)	63.3 (21)	41.2 (76)	29.5 (55)	36.5 (109)	38.8 (270)
\$250,000 to \$499,999	16.7 (2)	26.2 (10)	30.5 (39)	45.1 (45)	38.7 (102)	37.0 (198)
\$500,000 to less than \$1.3 million	37.8 (4)	52.5 (16)	41.0 (48)	50.2 (58)	42.9 (130)	44.5 (256)
\$1.3 million to less than \$2 million	(0)	99.9 (3)	41.5 (16)	37.2 (9)	43.3 (70)	45.3 (98)
\$2 million and up	18.5 (2)	24.6 (8)	50.3 (24)	55.1 (36)	44.6 (235)	45.0 (305)
All	36.4 (31)	42.8 (104)	34.0 (308)	38.5 (282)	37.5 (785)	37.3 (1510)

Base: All respondents who file GST (Q1) excluding missing information and outliers

Source: Long questionnaire Q13b, Q20 and Q22

Table G.3: Internal time spent (annual hours) on PAYE by age of business and business size (turnover)

Turnover	Mean (trimmed) annual number of hours					
	Age of business					
	Less than 12 months	1-2 years	3-5 years	6-10 years	10 years +	All
Up to \$39,999	12.2 (5)	25.2 (8)	3.2 (5)	28.2 (6)	4.4 (19)	13.2 (43)
\$40,000 to \$59,999	(0)	11.7 (6)	5.7 (12)	21.5 (7)	11.5 (12)	11.2 (37)
\$60,000 to \$99,999	20.8 (2)	8.1 (8)	13.7 (18)	13.3 (11)	17.0 (25)	14.4 (64)
\$100,000 to \$249,999	29.9 (8)	22.1 (14)	24.6 (41)	11.9 (33)	16.8 (69)	19.3 (165)
\$250,000 to \$499,999	7.7 (2)	19.1 (9)	22.3 (35)	38.8 (38)	32.1 (91)	30.2 (175)
\$500,000 to less than \$1.3 million	59.9 (2)	41.9 (13)	30.3 (40)	35.1 (61)	29.3 (128)	32.0 (244)
\$1.3 million to less than \$2 million	(0)	18.2 (3)	32.8 (15)	32.5 (9)	31.0 (74)	30.8 (101)
\$2 million and up	20.5 (2)	16.9 (8)	45.5 (27)	34.9 (38)	39.1 (245)	37.0 (320)
All	22.4 (21)	20.7 (69)	22.0 (193)	27.0 (203)	25.4 (663)	24.3 (1149)

Base: All respondents who file PAYE excluding missing information and outliers

Source: Long questionnaire Q13b, Q20 and Q22

Table G.4: Internal time spent (annual hours) on FBT by age of business and business size (turnover)

Turnover	Mean (trimmed) annual number of hours					
	Age of business					
	Less than 12 months	1-2 years	3-5 years	6-10 years	10 years +	All
Up to \$39,999	3.3 (0)	3.3 (2)	6.0 (3)	8.6 (5)	6.2 (4)	6.7 (14)
\$40,000 to \$59,999	0.0 (0)	0.0 (1)	0.0 (2)	0.0 (1)	0.0 (0)	0.0 (4)
\$60,000 to \$99,999	1.0 (0)	1.0 (1)	72.0 (1)	5.7 (2)	5.4 (4)	17.5 (8)
\$100,000 to \$249,999	0.0 (1)	3.7 (3)	2.0 (9)	1.7 (6)	4.6 (16)	3.0 (35)
\$250,000 to \$499,999	2.8 (1)	0.0 (0)	3.4 (5)	24.2 (9)	5.5 (19)	11.8 (34)
\$500,000 to less than \$1.3 million	18.0 (1)	5.3 (4)	4.2 (8)	11.6 (16)	12.1 (45)	10.8 (74)
\$1.3 million to less than \$2 million	0.0 (0)	0.0 (1)	1.2 (5)	0.5 (3)	4.8 (33)	3.2 (42)
\$2 million and up	8.0 (1)	12.0 (1)	8.3 (16)	10.9 (22)	20.0 (175)	16.6 (215)
All	6.3 (4)	3.2 (49)	7.5 (49)	9.5 (64)	10.6 (296)	9.1 (426)

Base: All respondents who file FBT (Q1) excluding missing information and outliers

Source: Long questionnaire Q13b, Q20 and Q22

H. 2009 Multi-tax questionnaire

Research ID:



Inland Revenue
Te Tari Taake

SME Tax Compliance Cost Survey

Evaluation Services
Inland Revenue
PO Box 2198
Wellington 6140

IMPORTANT

- **This form should be completed on behalf of the business (or person with business income) to which it is addressed.** Please ignore all related business entities, such as subsidiaries or holding companies.
- If your business has more than one site, please ensure your answers include estimates for all sites (in total – you don't need to provide separate estimates per site).
- Many questions ask you to provide information about "the last 12 months". If you cannot easily estimate this, please use the most recent 12 month period possible (e.g. perhaps your last tax year).
- You should be able to answer all of the questions without needing to consult tax advisors outside the business.
- If the question is not applicable, write NA.

1 Which of the following taxes did this **business/organisation** pay or complete a return for during the last 12 months? *Include taxes where your accountant/tax advisor completed the return for you*

1 GST (tick only if you are GST-registered)

2 Income tax (including provisional tax)

3 PAYE

4 Fringe Benefit Tax (nil return only)

5 Fringe Benefit Tax (including some payment)

ESCT (Employer Superannuation Contribution Tax): If you are one of the few businesses to pay ESCT, please ignore it throughout this questionnaire.

2 Is this organisation a charity or not-for-profit organisation?

1 No

2 Yes, and we are income tax exempt

3 Yes, but we are not income tax exempt

4 Other (please describe)

3 How many **owners who work** in this business at the end of last month were:

Full time – usually working 30 hours or more per week

Part time – usually working less than 30 hours a week

4 How many **employees** in this business at the end of last month were (excluding owners):

Full time – usually working 30 hours or more per week

Part time – usually working less than 30 hours a week

- Include any:*
- Casual
 - Temporarily absent from work (e.g. sick, on leave/or strike or temporary layoffs etc)
 - Working for commission, unless registered for GST
 - Managerial staff (excluding working proprietors/owners)

5 How does the business process staff **wages**? Please note this question is **not** about PAYE.

Tick as many as apply

Not applicable – no staff

Paper-based/manual (used in-house)

Computerised payroll or accounting software (used in-house)

Other computing used in-house (e.g. spreadsheet)

External (e.g. bureau/Internet payroll service)

6 What type of accounting system does this business use for GST?

Tick as many as apply

Not applicable – not GST-registered

Paper-based/manual (used in-house)

Computerised accounting software (used in-house) such as MYOB, NZA Gold

Other computing used in-house (e.g. spreadsheet)

Internet accounting system (e.g. Xero)

Other external system

7 Have you had an IRD tax audit during the last 12 months?

1 No ➔ **GO TO Q8**

2 Don't know ➔ **GO TO Q8**

3 Yes

If YES: Please estimate the time and costs as a result of the tax audit:

Hours within the business

\$ External costs (e.g. fees to accountant outside the business), but **excluding** any change in tax liability or penalties

Please **exclude** the time and cost associated with IRD tax audits in your calculations for the rest of this questionnaire.

8 PLEASE READ: Tax compliance costs are the time, money and effort your business spends in meeting IRD tax requirements. Many activities occur because you are in business, but they are **not** tax compliance costs. For example, the following are **not** tax compliance costs, nor is paying for advice about them:

- Processing customer invoices/cash received
- Following up debtors
- Banking
- Paying bills and wages
- Checking bank statements against cash records
- Stock control
- Investment planning unrelated to tax

Please consider **only** the extra work necessary to meet the requirements of IRD in answering the rest of this questionnaire.

9a Did the business pay for any **tax** services in the last 12 months from an advisor outside the business (eg. an accountant, tax agent or lawyer)?

1 No ➔ **GO TO Q10**

2 Yes

If YES, how much did you pay these advisors **because of tax**? \$

PLEASE CHECK: The amount may or may not be your total bill. Does this amount **only** cover what you paid because of tax requirements?

1 Yes

2 No ➔ **Please change your answer so it includes ONLY tax costs**

9b Which of the following does your "Yes" response in Question 9a relate to?

Yes	No	
1 <input type="checkbox"/>	2 <input type="checkbox"/>	CST
1 <input type="checkbox"/>	2 <input type="checkbox"/>	Income tax (including provisional tax)
1 <input type="checkbox"/>	2 <input type="checkbox"/>	Fringe Benefit Tax
1 <input type="checkbox"/>	2 <input type="checkbox"/>	PAYE (including Child Support, Student Loans, ACC earner levy)
1 <input type="checkbox"/>	2 <input type="checkbox"/>	KiwiSaver

9c Tax advisors outside the business will often know more accurately than their clients how much of their fee was tax-related and how much of their fee related to GST versus PAYE etc. We would therefore like consent from your business for IRD to ask your tax advisor how much each tax costs you. Is this okay? We will tell the tax advisor to answer questions **only** if they are happy to do so without charging you.

1 No, please don't contact our tax advisor ➔ **Go to Q9d**

2 Yes, OK for IRD to ask our tax advisor about this

If YES: please write the contact details for your main tax advisor below:

Name:

Postal Address:

9d Did the business pay for tax services in the last 12 months from an advisor(s) **other than** your main tax advisor?

1 No ➔ **GO TO Q10**

2 Yes

If YES: Roughly, how much of this cost for tax advisor(s) other than your main tax advisor resulted from each tax?

Any Cost?	Approx. fee (if possible)
Yes No	
1 <input type="checkbox"/> 2 <input type="checkbox"/> GST	\$ <input type="text"/>
1 <input type="checkbox"/> 2 <input type="checkbox"/> Income tax (including provisional tax)	\$ <input type="text"/>
1 <input type="checkbox"/> 2 <input type="checkbox"/> Fringe Benefit Tax	\$ <input type="text"/>
1 <input type="checkbox"/> 2 <input type="checkbox"/> PAYE (incl. Child Support, Student Loans, ACC earner levy)	\$ <input type="text"/>
1 <input type="checkbox"/> 2 <input type="checkbox"/> KiwiSaver	\$ <input type="text"/>

10 Did the business pay for any external payroll services in the last 12 months? Do not count any services that you have already given the costs for (eg. costs from your accountant in Q9a).

1 No ➔ **GO TO Q11**

2 Yes

If YES, about how much did you pay in total? \$

11 Did the business pay for any other external accounting computer services (eg. internet service like Xero) in the last 12 months? Do not count any services that you have already given the costs for (eg. costs from your accountant in Q9a).

1 No

2 Yes

If YES, about how much did you pay in total? \$

12 Did the business buy or update tax software (eg. payroll or accounting software used for PAYE, GST, FBT or income tax purposes) in the last 12 months?

1 No

2 Yes, bought new software

3 Yes, updated software only

If YES: How much did this buying and/or updating cost?

Nothing (eg. updating done within the business)

OR \$

Internal Time/Costs



13a In answering this question

- Please estimate the average hours **per month** with in this business spent on tax activities during the last 12 months. Some taxes are dealt with only once or twice a year, please include this time on a monthly basis (e.g. if you spent 12 hours on end-of-year income tax count this as 1 hour per month).
- Include time spent by owners/partners/directors/trustees, paid employees, and unpaid friends or relatives, but **exclude** time spent by a tax advisor or accountant.
- Only count hours **once** (e.g. if you count some hours beside the heading "Recording information needed for tax", do not count the same hours beside "Calculating tax, completing tax forms, paying tax").
- If no time was spent on a particular activity, please write in '0'. If the tax type does not apply to your business, you can cross out the column.

	GST	Income Tax, including provisional tax	PAYE, including Child Support, Student Loans, ACC levy but excluding KiwiSaver	KiwiSaver	Fringe Benefit Tax
Recording information needed for tax (e.g. GST amounts, employee tax codes, enrolling employees in KiwiSaver and processing operations). To work this out, <i>imagine New Zealand became tax-free. Consider what you would stop recording and write down how much time you would save.</i>	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins
Calculating tax, completing and returning tax forms, paying tax (including making KiwiSaver deductions from employees and paying your employer contributions)	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins
Dealing with IRD (e.g. letters, phone calls, visits, email)	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins
Taxplanning (e.g. for losses)	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins
Dealing with tax advisors (including providing information to them)	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins
Learning about tax laws (new or existing) e.g. from newsletters, Tax Information Bulletin, the Internet, KiwiSaver guides	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins
Other tax activities (please describe)	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins
Total hours per month (on average)	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins	<input type="text"/> hrs <input type="text"/> mins

Internal Time/Costs



13b Now, please tell us how the time you recorded in Q13a was divided across different people. In answering this question:

- Please estimate how many **hours per month** the following **people** within this business spent on the taxes below during the last 12 months. **The total for each tax should be the same as for question 13a.**
- For taxes which are dealt with only once or twice a year, please include this time on a monthly basis (eg, if you spend 12 hours on end-of-year income tax, count this as 1 hour per month).
- If there is more than one person in a category, provide the total number of hours for all the people in that category.
- If no time was spent, please write in '0'. If the tax type does not apply to your business, you can cross out the column.

	GST	Income Tax, including provisional tax	PAYE, including Child Support, Student Loans, ACC levy but excluding KiwiSaver	KiwiSaver	Fringe Benefit Tax
Owners/Partners/Directors/Trustees	hrs mins	hrs mins	hrs mins	hrs mins	hrs mins
Paid employees (eg, clerks, managers, internal accountants, IT staff)	hrs mins	hrs mins	hrs mins	hrs mins	hrs mins
Unpaid friends or relatives (if applicable)	hrs mins	hrs mins	hrs mins	hrs mins	hrs mins
Total hours per month (on average)	hrs mins	hrs mins	hrs mins	hrs mins	hrs mins

Please Check: Are the totals immediately above the same as the totals for question 13a?

Yes No **if not, please check and adjust**

13c What was the approximate value per hour for each group of people? (If possible, give wage/salary hourly rate.)

Owners/partners/directors/trustees	\$	per hour
Paid employees	\$	per hour
Unpaid friends or relatives (if applicable)	\$	per hour



14 During the last 12 months, did your business employ staff paying Child Support (non-custodial parent)?

1 No ➔ GO TO Q15

2 Yes

IF YES: In Question 13 you estimated the hours per month spent on PAYE. On average, about how much of this time was spent dealing with Child Support?

hrs mins per month

15 During the last 12 months, did your business employ staff repaying Student Loans?

1 No ➔ GO TO Q16

2 Yes

IF YES: In Question 13 you estimated the hours per month spent on PAYE. On average, about how much of this time was spent dealing with Student Loans?

hrs mins per month

16 In recent years, Inland Revenue introduced the ratio option as an alternative option for calculating provisional tax. The ratio option is based on a percentage of your GST taxable supplies and reflects your cash flow. It's designed to benefit small to medium sized businesses so they can match provisional tax payments with business cashflows and avoid use-of-money interest costs.

Were you aware of the ratio option before it was mentioned above?

1 Never heard of it.

2 Had heard of it, but knew little about it.

3 Knew enough about the ratio option to choose whether or not to use it for this business.

17 During the last year, how many hours within the business were spent on...

Calculating provisional tax and deciding which provisional tax option to choose (i.e. standard option [+5% or +0% since April 2009] versus estimation/estimating income versus the ratio option)

1 None

2 Don't know

hrs mins per year

18 From 1 April 2009, the PAYE payment threshold changed. If your annual PAYE deductions are between \$100,000 and \$500,000, you can now choose to pay PAYE only once a month, not twice. Did this change affect this business?

1 No ➔ GO TO Q19

2 Don't know ➔ GO TO Q19

3 Yes

IF YES: About how much internal time do you expect PAYE monthly filing to save this business over the next 12 months in total?

hrs mins per year

Roughly, how much in costs paid outside this business (eg. to tax advisors) do you expect PAYE monthly filing to save over the next 12 months in total?

Nothing

OR \$

**19 PLEASE READ FOR QUESTIONS 20 TO 24:
GST/PROVISIONAL TAX ALIGNMENT**

- If not registered for GST, go to Q 25.
- From the start of the 2008/09 tax year, GST and provisional tax customers now pay their provisional tax at the same time as GST.
- The GST/provisional tax alignment may have affected the number of tax payments you make, how easy or hard it is to remember dates for tax payments, and/or how easy or hard it is to find money for your tax payments.

20 Has the GST/provisional tax alignment reduced the number of tax payments made by this business in the last 12 months?

- 1 No **GO TO Q21**
2 Yes

If YES: About how much time would the reduced number of tax payments save this business in a year?

hrs mins per year

21 Is it easier or harder to remember payment dates for GST and provisional tax now?

- 1 Much easier
2 Easier
3 No different
4 Harder
5 Much harder
6 NA (eg. not GST registered or not calculating provisional tax)

22 Did the GST/provisional tax alignment increase or decrease work done by your tax agent in the last 12 months?

- 1 Large decrease
2 Small decrease
3 About the same
4 Small increase
5 Large increase
6 Don't know

7 NA (eg. tax agent does not provide service for GST and provisional tax)

23 Is it easier or harder to find the money to pay provisional tax because of the GST/provisional tax alignment?

- 1 Much easier
2 Easier
3 No different
4 Harder
5 Much harder
6 NA (eg. not doing tax before change)

24 Overall, did the GST/provisional tax alignment make GST/provisional tax harder or easier for this business?

- 1 Much easier
2 Easier
3 No different
4 Harder
5 Much harder
6 NA (eg. not doing tax before change)

25 Were there any unusual things (eg. temporary closure) during the last 12 months that resulted in your tax compliance costs being unusually high or unusually low (for a business of your size)?

- 1 No
2 Don't know
3 Yes

If YES: please describe briefly:

26 Please estimate the turnover of the business for your last tax year (excluding GST).

Tick one only

- 1 \$0
2 \$1 – \$19,999
3 \$20,000 – \$39,999
4 \$40,000 – \$59,999
5 \$60,000 – \$99,999
6 \$100,000 – \$249,999
7 \$250,000 – \$499,999
8 \$500,000 – \$1,299,999
9 \$1.3 million – \$1,999,999
10 \$2 million – \$4,999,999
11 \$5 million – \$9,999,999
12 \$10 million – \$23,999,999
13 \$24 million – \$49,999,999
14 \$50 million – \$99,999,999
15 \$100 million or more

27 What is the main activity of the business?

Tick one only

- 1 Agriculture, forestry and fishing
- 2 Mining
- 3 Manufacturing
- 4 Electricity, gas and water supply
- 5 Construction (incl. landscaping and all activities involving construction) and repair of buildings
- 6 Wholesale trade
- 7 Retail trade
- 8 Accommodation, cafes and restaurants
- 9 Transport and storage
- 10 Communication services
- 11 Finance and insurance
- 12 Property and business services ("business services" incl. lawyers, accountants, architects, engineers, etc.)
- 13 Education
- 14 Health and community services
- 15 Cultural and recreational services
- 16 Personal and other services ("personal services" incl. photographers, hairdressers, laundries, gardeners, lawn mowing)
- 17 Other (please describe)

28 About how long has this business/organisation been trading?

Tick one only

- 1 Less than 6 months
- 2 6 months to less than 1 year
- 3 1 – 2 years
- 4 3 – 5 years
- 5 6 – 10 years
- 6 More than 10 years

29 Overall during the last 12 months, how stressful did you find meeting IRD requirements (ignoring finding the money)?

Please circle one number

Not at all Stressful	Moderately Stressful	Extremely Stressful	N/A
1	2	3	4
5	6	7	8
9			

30 During the last 12 months, how stressful did you find meeting requirements for GST, including finding the money?

Please circle one number

Not at all Stressful	Moderately Stressful	Extremely Stressful	N/A
1	2	3	4
5	6	7	8
9			

31 During the last 12 months, how stressful did you find meeting requirements for provisional tax, including finding the money?

Please circle one number

Not at all Stressful	Moderately Stressful	Extremely Stressful	N/A
1	2	3	4
5	6	7	8
9			

32 During the last 12 months, how stressful did you find meeting requirements for PAYE (excluding KiwiSaver), including finding the money?

Please circle one number

Not at all Stressful	Moderately Stressful	Extremely Stressful	N/A
1	2	3	4
5	6	7	8
9			

33 During the last 12 months, how stressful did you find meeting requirements for KiwiSaver, including finding the money?

Please circle one number

Not at all Stressful	Moderately Stressful	Extremely Stressful	N/A
1	2	3	4
5	6	7	8
9			

34 During the last 12 months, how stressful did you find meeting requirements for Fringe Benefit Tax, including finding the money?

Please circle one number

Not at all Stressful	Moderately Stressful	Extremely Stressful	N/A
1	2	3	4
5	6	7	8
9			

35 Who answered or assisted with answering the last six questions about how stressful tax activities are?

Tick as many as apply

- Owner/partner/director/trustee
- Manager
- Internal accountant or lawyer
- External accountant or tax advisor
- Clerk or IT staff
- Unpaid friend or family member
- Other (please specify)

--

