

Changes in
SME tax compliance costs
2004 to 2009

Evaluation report 2

Prepared by Evaluation Services

Inland Revenue

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Inland Revenue
Te Tari Taake

Contents

1 Executive Summary	1
Purpose	1
Context	1
Methodology	1
Some definitions	2
Findings for all SMEs	4
Findings by tax type	5
Conclusion.....	6
2 Purpose	8
Structure of report.....	8
3 Context	9
4 Measures and methodology	12
Units of analysis	12
Measure of difference	12
Trimming	12
Combined means vs. internal and external means	13
Psychological costs.....	13
Significance testing	14
Making 2004 and 2009 comparable	14
Ensuring sample comparability	14
Impact of the adjustment.....	14
Inflation adjustment.....	15
Value of time.....	16
Glossary	17
5 Changes in tax compliance costs – 2004 to 2009	18
SME profiles for 2004 and 2009.....	18
Overall combined compliance costs	18
Internal compliance costs and hours spent on tax	20
Hours spent on tax	20
External compliance costs	21
Overall mean stress score	21
6 Income tax	26
SMEs that pay income tax.....	26
Key findings – Income tax	26
Changes in level of stress – Provisional tax.....	27
7 GST	31
SMEs that pay GST	31
Key findings – GST.....	31
Changes in level of stress – GST.....	32
8 PAYE	36
SMEs that pay PAYE	36
Key findings – PAYE.....	36
Changes in level of stress – PAYE.....	37
Compliance costs associated with student loans, child support and external payroll services.....	37
Student Loans.....	37
Child Support.....	38

External Payroll	38
9 FBT.....	42
SMEs that pay FBT	42
Key findings – FBT	42
Changes in level of stress – FBT	43
10 KiwiSaver	47
Stress levels.....	47
11 Summary by business size	50
12 Conclusion	51
Hours and hourly costs	51
External costs.....	51
Stress	51
Impact of business size	52
Final remarks.....	53
Appendices	54
A: Summary of mean combined tax compliance costs 2009.....	54
B: February 2009 changes and possible compliance cost implications.....	55
C. Making the 2004 dataset comparable to 2009	57
D: Profile of SMEs 2004 vs 2009 – All SMEs.....	59
E: Profile of SMEs 2004 vs 2009 – Income tax.....	60
F: Profile of SMEs 2004 vs 2009 – GST	61
G: Profile of SMEs 2004 vs 2009 – PAYE	62
Student Loans	63
Child Support	63
External Payroll	63
H: Profile of SMEs 2004 vs 2009 – FBT.....	64
I: Summary of median combined tax compliance costs 2009.....	65

List of tables and figures

Table 1.1: Value of time; 2004, 2004 inflation adjusted and 2009.....	2
Figure 1: Selection of key tax changes relating to SME compliance costs	3
Table 1.2: Summary of changes in (trimmed) mean compliance costs 2004 to 2009, by component, tax type and by number of employees.....	5
Table 3.1: Tax changes announced in February 2009	11
Table 4.1: Changes in thresholds of SME definition	16
Table 4.2: Value of time, 2004 inflation adjusted and 2009.....	16
Table 5.1: Summary of change in mean annual compliance costs for all SME businesses, 2004 to 2009	20
Table 5.2: Change in hours (mean) 2004 to 2009 by personnel, by number of employees.....	22
Table 5.3: Change in hours (mean) 2004 to 2009 by personnel, by tax type	23
Table 5.4: Change in (trimmed) mean external compliance costs 2004 to 2009 by number of employees and tax type.....	24
Table 5.5: Change in mean stress in meeting IRD overall requirements (ignoring finding the money), 2004 to 2009.....	25
Table 5.6: Change in stress proportions in meeting IRD overall requirements (ignoring finding the money), 2004 to 2009.....	25
Table 6.1: Change in (trimmed) mean income tax compliance costs 2004 to 2009 by number of employees.....	28
Table 6.2: Change in (trimmed) mean income tax compliance costs, 2004 to 2009 by turnover.....	29
Table 6.3: Change in mean stress associated with provisional tax (including finding the money), 2004 to 2009.....	30
Table 6.4: Change in stress proportions associated with provisional tax (including finding the money), 2004 to 2009.....	30
Table 7.1: Change in (trimmed) mean GST compliance costs 2004 to 2009 by number of employees	33
Table 7.2: Change in (trimmed) mean GST compliance costs, 2004 to 2009 by turnover	34
Table 7.3: Change in mean stress associated with GST (including finding the money), 2004 to 2009	35
Table 7.4: Change in stress proportions associated with GST (including finding the money), 2004 to 2009	35
Table 8.1: Change in (trimmed) mean PAYE compliance costs, 2004 to 2009 by number of employees	39
Table 8.2: Change in (trimmed) mean PAYE compliance costs, 2004 to 2009 by turnover	40
Table 8.3: Change in mean stress associated with PAYE (including finding the money), 2004 to 2009	41
Table 8.4: Change in stress proportions associated with PAYE (including finding the money), 2004 to 2009	41
Table 9.1: Change in (trimmed) mean FBT compliance costs, 2004 to 2009 by number of employees	44
Table 9.2: Change in (trimmed) mean FBT compliance costs, 2004 to 2009 by turnover.....	45
Table 9.3: Change in mean stress associated with FBT (including finding the money), 2004 to 2009... ..	46
Table 9.4: Change in stress proportions associated with FBT (including finding the money), 2004 to 2009	46

Table 10.1: Change in (trimmed) mean KiwiSaver compliance costs 2004 to 2009 by number of employees.....	47
Table 10.2: Change in (trimmed) mean KiwiSaver compliance costs 2004 to 2009 by turnover	48
Table 10.3: Change in mean stress associated with KiwiSaver (including finding the money),2004 to 2009	49
Table 10.4: Change in stress proportions associated with KiwiSaver (including finding the money), 2004 to 2009.....	49
Table 11.1: Summary of changes in (trimmed) mean compliance costs 2004 to 2009, by component, tax type and by number of employees	50
Table A.1: Summary of mean annual compliance costs by business size (number of employees), 2009	54
Table B.1: Tax changes announced in February 2009 changes and possible compliance cost implications.....	55
Table D.1: Summary of SME profile by key variables: 2004, 2004 adjusted and 2009	59
Table E.1: Summary of SME profile by key variables; 2004 adjusted and 2009	60
Table F.1: Summary of SME profile by key variables; 2004 adjusted and 2009	61
Table G.1: Summary of SME profile by key variables; 2004 adjusted and 2009	62
Table G.2: Summary of employer student loan obligations; 2004 adjusted and 2009	63
Table G.3: Summary of employer child support obligations; 2004 adjusted and 2009	63
Table G.4: Summary of SMEs using external payroll services; 2004 adjusted and 2009	63
Table H.1: Summary of SME profile by key variables; 2004 adjusted and 2009	64
Table I.1: Median annual compliance costs by business size (number of employees), 2009.....	65

1 Executive Summary

Purpose

An objective of undertaking the 2009 survey of tax compliance costs of SMEs is to measure the change in these compliance costs since 2004. The report addresses two key questions:

1. Have SME tax compliance costs been reduced since 2004? If so, by how much?
2. Which aspects of compliance costs have changed more than others: in relation to which revenues and compliance cost components? And for which businesses?

This report compares the self-reported tax compliance costs of SMEs provided in the baseline survey of 1,739 small and medium businesses (SMEs) in 2004 and the follow-up survey of 1,728 SMEs in 2009.

Context

The long history of tax policy and administration aimed at reducing and limiting the cost of complying for taxpayers is summarised in the timeline given at Figure 1.

In 2007, the workplace-based superannuation scheme KiwiSaver was introduced and created additional responsibilities for employers. To better understand the effect of KiwiSaver on overall tax compliance costs, it is treated separately from PAYE in this research.

Methodology

This report is based on compliance costs measured from two paper-based surveys mailed out to 5,000 SMEs in October 2004 and September 2009 respectively. These survey responses were linked with key Inland Revenue administrative variables for richer analyses.

The rigour of the analyses depends on the 2004 data being comparable with the 2009 data. Special care has been taken ensuring that the samples of businesses have the same parameters and that dollar values across years are comparable by a process of Inflation adjustment.

Converting internal time to a dollar values is based on hourly rates of three groups of personnel who spent time meeting their SMEs tax obligations. The following table shows the hourly rates applied to time to convert 2004 and 2009 hours to dollars.

Table 1.1: Value of time; 2004, 2004 inflation adjusted and 2009

Personnel	2004 unadjusted value	2004 inflation adjusted value	2009	Source
Owners	\$ 43.99	\$52.04	\$61.12	SME Tax Compliance Cost Survey Respondents
Paid employees	\$ 20.31	\$23.17	\$25.39	Statistics New Zealand QES
Unpaid family/friends	\$25.70	\$29.32	\$33.31	SME Tax Compliance Cost Survey Respondents

Independent advice from the business community, academia and subject matter experts were obtained for key methodological decisions taken. Additionally, the processes and computer programs used to generate the estimates were peer-reviewed.

Trimmed compliance cost means have been compared from 2004 and 2009. The trimming systematically removes 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. Note that the means are not additive.

Some definitions

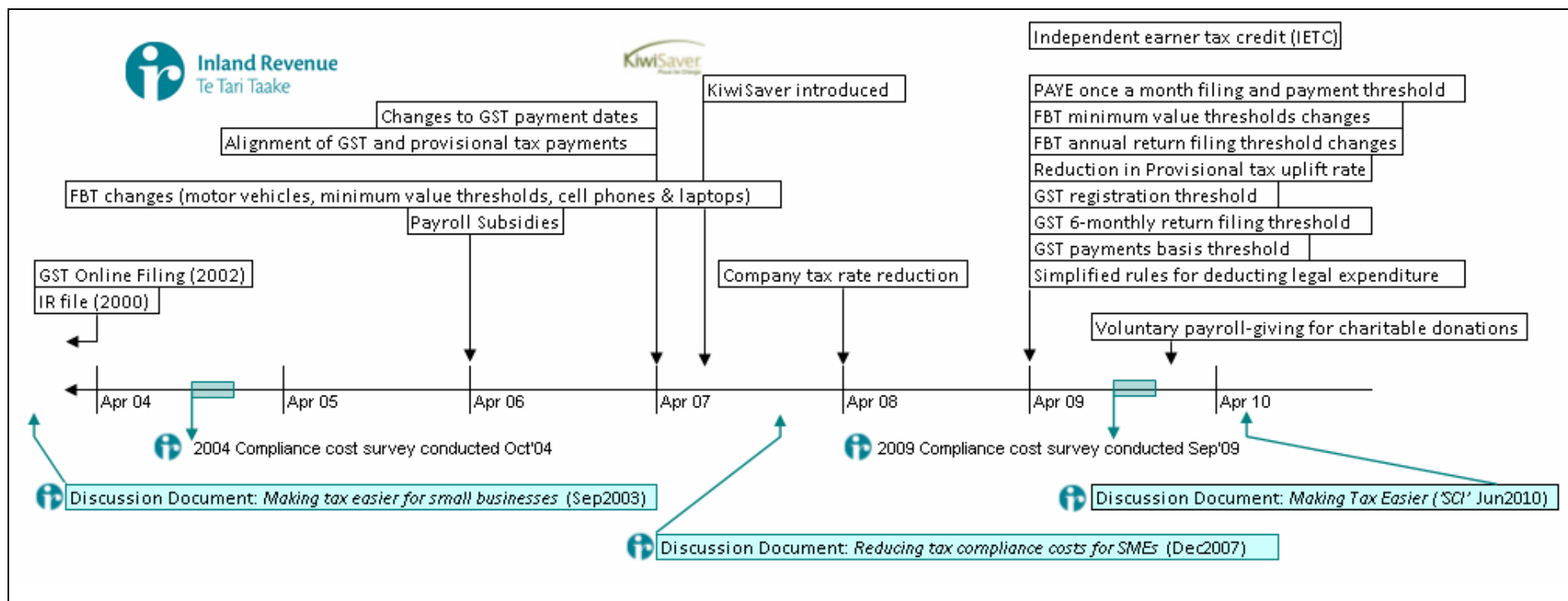
A simplified version of the compliance cost definition as used in this report is

$$\text{Combined compliance cost} = \text{hours (converted to internal compliance cost)} + \text{external compliance cost} + \text{stress (as a measure of psychological cost)}$$

Additionally, the following terms are used in this report:

- Internal compliance cost – the dollar value spent by businesses doing their tax from within the business. This is the product of the number of hours spent doing tax within the business with the hourly dollar value of labour for, either the business owner, or an employee or a friend/family member.
- External compliance cost – the dollar value paid by businesses to tax agents or advisors for tax services.
- Combined compliance cost – on a business level, the sum of internal and external compliance costs.
- Psychological cost – a self-reported score from a 7-point scale of stress levels associated with a tax. The higher the score, the more stressful the tax is. Psychological costs are referred to as “stress” in this report.

Figure 1: Selection of key tax changes relating to SME compliance costs



Business sizes by number of employees

The following terms are used to categorise business size:

- Nil – no employees (excluding business owners)
- Micro – 1-5 employees
- Small – 6-19 employees
- Medium – 20+ employees

Distinction is made between cost figures for all SMEs and cost figures for businesses that deal with specific taxes. “All SMEs” refers to every business in the sample even though they may not pay all taxes. This allows for a New Zealand-wide view of SME tax compliance costs.

It is also of interest to look at costs for those businesses that deal with specific tax types. Whenever this is the case, the costs are appropriately described as such.

Findings for all SMEs

The main contributor to reduced costs is the 17.5% decrease in the number of hours (16.3 hours fewer) that businesses spend on tax especially the time spent by owners.

On the other hand, the main additional costs are KiwiSaver and an increase in the dollar value of time over and above inflation. For example, the value of owners’ time increased 17.4% to \$61.12 in 2009 (see table 1.1). So, whereas hours have reduced, the positive impact of this is neutralised by the increase in value of time.

External costs overall have not changed, though there is a significant reduction in relation to GST. On average, external costs are \$1,639 in 2009.

These movements result in a reduction of 1.3% in the average tax compliance costs for all New Zealand SMEs from 2004 to 2009 to a total of \$5,557 in 2009. This includes the additional costs introduced by KiwiSaver.

The overall change is an average – there have been both decreases and increases.

When looked at by tax type, GST had a moderate decrease and income tax a small one. PAYE had a moderate increase and FBT a large one, but predicated on a small base.

“Nil” and “medium” businesses have benefited the most and most consistently across different elements of compliance costs. An exception is PAYE for “medium” businesses which incurred a significant increase in cost. In contrast “small” businesses have experienced increased costs in most respects.

The level of stress level is a useful general indicator of the compliance burden, and stress with meeting all Inland Revenue requirements (excluding finding the money) decreased overall from 3.4 to 3.2 (on a 7-point scale). Stress (including finding the money) decreased in relation to provisional tax, GST and PAYE. It increased in relation to FBT but started from a low base and remains lower than for other taxes.

Table 1.2: Summary of changes in (trimmed) mean compliance costs 2004 to 2009, by component, tax type and by number of employees

CHANGE	Business size (number of employees)				
	Nil	Micro (1-5)	Small (6-19)	Medium (20+)	All
A. All SMEs					
Combined	-3.8%	-0.6%	9.7%	-5.1%	-1.3%
Hours	-20.3%	-16.8%	5.0%	-30.1%	-17.5%
Internal	-6.0%	-0.2%	12.5%	-13.9%	-2.0%
External	2.5%	-2.8%	10.1%	4.1%	0.2%
B. SMEs with tax type obligations					
Income Tax	-5.2%	0.5%	2.0%	-5.9%	-3.2%
GST	0.4%	-13.8%	2.3%	-32.1%	-6.4%
PAYE	N.A.	3.1%	10.7%	26.0%	6.5%
FBT	63.8%	42.0%	17.1%	11.4%	41.6%

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

Base: B: All respondents who pay/file a particular tax type (excluding missing information and outliers).

Findings by tax type

The high level results are:

- ↓ GST and income tax had reduced compliance costs.
- ↑ PAYE and FBT had increased compliance costs.
- Except for FBT and its very small base, all the changes were small or moderate, though there are some larger decreases and increases within these averages.

The details per tax type are many and reported in the full report. Table 1.2 looks at each tax type by business size, showing that there are some very different outcomes according to size of business, especially in GST and PAYE:

- GST – large decreases for “micro” and “medium” businesses but small increase for “small”.
- PAYE – large increases for “small” and “medium”.

Some examples follow of the more significant movements as a flavour of the level of understanding the research can provide.

Income tax

- ↓ Stress levels for meeting provisional tax requirements reduced from 3.9 to 3.5.
- ↓ Large percentage reduction in the hours that owners spend each year on income tax -22.7% or 5.3 hours.
- Internal compliance costs decreased by \$688 for “medium” businesses, while their external costs increased \$377.

GST

- ↓ External costs decreased by \$54 or by 15.8% to \$287
- ↓ Employee annual hours reduced by 3.1 hours or by 30.1%
- ↓ Big reductions in “medium” businesses’ internal costs, by \$1,045 or 29.4%
- ↓ Big reductions in “medium” businesses’ external costs, by \$267 or 42.8%.

PAYE (exclusive of KiwiSaver)

- ↑ Combined costs increased by \$75 or by 6.5% to \$1,231
- ↓ Owner annual hours reduced by 3 hours or by 18.3%.
- ↓ An exception to the increases is “small” businesses’ external costs which reduced by \$67, or -40.9%.

FBT

- ↑ Stress levels for meeting FBT requirements increased from 2.5 to 2.8 points, most notably for “medium” businesses where stress levels increased from 2.8 to 3.5 points.

KiwiSaver

The details for SMEs paying KiwiSaver in 2009:

- SMEs internally spend 14.5 hours fulfilling KiwiSaver obligations.
- Combined costs relating to KiwiSaver totalled by \$705.
 - Internal costs were \$660.
 - External costs were \$47.
- Stress level is at 3.1 points.
- “Small” businesses spend the most on KiwiSaver, spending about \$743, of that \$695 is internal and \$60 external.

Conclusion

In relation to the two questions posed by this work, we conclude that between 2004 and 2009 there has been a significant 17.5% reduction in the internal time SMEs spend on doing tax. This reduction includes the extra hours due to KiwiSaver. The levels of stress are less too. External costs remain steady. However, additional costs have been added through KiwiSaver and via an increase in value of time. Pulling all these components together, in dollar terms the reduction in hours, the increase in the value of time and the external costs average out to a 1.3% reduction in costs to \$5,557 in 2009.

We cannot be definitive about the drivers of the reduced hours spent on tax and the reduced stress associated with this. For instance, the impact of the economic recession

could work to increase or decrease compliance costs in ways we can only hypothesize. We have discounted some of the more obvious external reasons namely, differences in underlying SME demographic characteristics and inflation. We note that the many changes over recent years in tax policy and administration, whether aimed specifically at reducing the burden of tax or where this is consequential, are designed in ways to effect small but cumulative changes to minimise compliance costs. The reduction in time could well be the accumulation of the many improvements over the five years. The evidence at hand shows that this seems to be happening.

2 Purpose

An objective of undertaking the 2009 survey of tax compliance costs of SMEs is to measure the change in these compliance costs since 2004.

In 2004 Inland Revenue measured the tax compliance costs of SMEs through major surveys of 1,739 SMEs and 275 tax agents.¹ These results provided a baseline before the introduction of several initiatives aimed at making tax easier for small business.² We repeated the exercise in 2009, using methods comparable to 2004, thus enabling the comparison of compliance costs over the five years and allowing for an assessment of the impact of initiatives implemented. The full results on 2009 tax compliance costs for SMEs are reported in a separate companion report.³

This report addresses two key questions:

1. Have SME tax compliance costs been reduced since 2004? If so, by how much?
2. Which aspects of compliance costs have changed more than others: in relation to which revenues and compliance cost components? And for which businesses?

Structure of report

Chapter 3 summarises tax changes of recent years aimed at making tax easier for SMEs; and other changes that may impact on tax compliance costs.

Chapter 4 explains the methodology involved in comparing 2004 compliance costs with 2009 ones.

Chapters 5-11 record the findings. Generally the first page or two of each chapter summarise the main points. This is followed by detailed tables.

Chapter 5 records the changes in the overall tax compliance costs for all SMEs.

Chapters 6-10 look at the changes, tax by tax, mostly in relation to the SMEs that pay the tax in question.

Chapter 11 provides a summary by business size.

Chapter 12 is a conclusion.

¹ *Measuring the tax compliance costs of small and medium-sized businesses – a benchmark survey. Final report*, 20 June 2005, Colmar Brunton, prepared for Inland Revenue.

² Includes GST & provisional tax alignment, subsidised payroll intermediaries, a discount for early payment of provisional tax in the first year of business.

³ Inland Revenue, *SME tax compliance costs 2009*, August 2009, p 30.

3 Context

Changes in the economy, business practices and circumstances can affect compliance costs, but most pertinently, it is changes to tax laws and tax administrative processes that have an impact and which are the context of this analysis.

There is a long history of tax policy and administration aimed at reducing and limiting the cost of complying for taxpayers,⁴ but of course, tax changes can operate in the opposite direction too and add costs. The 2004 baseline survey was prompted by the government's 2003 proposals for *Making tax easier for small business*.⁵ More proposals were put out for discussion in 2007, *Reducing tax compliance costs for small and medium-sized enterprises*. The 2007 report provides a list of simplification changes since 2004:⁶

Areas that have undergone simplification in recent years include goods and services tax (GST), income tax and pay as you earn (PAYE) and fringe benefit tax (FBT). Examples of specific changes include:

- aligning the GST and provisional tax payment dates;
- allowing provisional tax to be paid on the basis of GST taxable supplies;
- increasing the low-value asset write-off threshold;
- introducing a PAYE subsidy to offset costs faced by small businesses in complying with their PAYE obligations; and
- streamlining the FBT rules – including introducing an exemption for the private use of business tools and increasing the minor benefit exemption thresholds.

Changes that may affect compliance costs included the introduction of:

- KiwiSaver, and
- the independent earner tax credit.

In February 2009, in response to the 2007 proposals and the recession, the government announced a range of tax measures aimed at reducing tax impacts on business cash flows and some will have flow-on compliance cost effects. A selection of the important changes are presented in a time line in Figure 1 (See Executive Summary) and listed as follows in table 3.1.

⁴ An indication of this history is given in Evans, c and B Tran-Nam, *The tax compliance costs of small and medium-sized businesses*, ATAX, January 2004. A report prepared for Inland Revenue, New Zealand.

⁵ Hon Dr M Cullen and Hon D Cunliffe, *Making tax easier for small business, a government discussion document*. September 2003, New Zealand.

⁶ Hon Dr M Cullen and Hon P Dunne, *Reducing tax compliance costs for small and medium-sized enterprises., a government discussion document*. December 2007, p3. New Zealand.

It is not possible for us to untangle the actual compliance cost effect of each of these initiatives, but we look at the overall situation. Some of the major influences are unbundled to a degree. We also note that making tax easier does not always equate with reducing compliance costs, but there is a large overlap in these two objectives.

Three further analyses are planned to help understand the part that specific tax changes and administrative processes have had on compliance costs: the relationship between electronic filing and paying with compliance costs, as compared with manual processes; the impact of the ratio option and GST and provisional tax alignment; more detailed examination of compliance costs associated with KiwiSaver.

The survey was conducted in September 2009, about a year into the recession. A recession could work to decrease or increase compliance costs in ways we can only hypothesize. Businesses were asked if anything unusual had happened in the last twelve months that resulted in their tax compliance costs being unusually high or low. 112 noted something had, 24 (1.4% of all SMEs) of which made a reference to the recession, tough economic times, slower business. These businesses reported fewer hours on tax than average (75 vs 77) and lower overall compliance costs (\$4,980 vs \$5,557).

Table 3.1: Tax changes announced in February 2009

Change	
Use of money interest rates	From 1 March 2009, use-of-money-interest rates for underpayments of tax were reduced from 14.24% to 9.73%. The rate for overpayments will go down from 6.66% to 4.23%.
PAYE once a month filing and payment threshold	Increase from \$100,000 to \$500,000 (based on annual PAYE deductions). (To apply from 1 April 2009.)
FBT annual return filing threshold	Increase from \$100,000 to \$500,000 (based on annual PAYE deductions). (To apply from 1 April 2009.)
FBT annual return filing	Allowing owner-employees of closely held businesses to file annually, regardless of their annual PAYE deductions, when their FBT liability is limited to up to 2 vehicles. (To apply from 1 April 2009.)
GST registration threshold	From \$40,000 to \$60,000 (based on annual GST turnover). (To apply from 1 April 2009.)
GST 6-monthly return filing threshold	From \$250,000 to \$500,000 (based on annual turnover). (To apply from 1 April 2009.)
GST payments basis threshold	Increase from \$1.3 million to \$2 million (based on annual GST turnover). (To apply from 1 April 2009.) This provides a cash-flow advantage of only having to pay GST when payment from invoices has been received.
Accounting for financial arrangements	Allowing non-individuals to return income tax for financial arrangements on a cash accounting basis, and increasing the threshold for straight line accounting from \$1.5 million to \$1.85 million (based on the total level of financial arrangements).
Low value trading stock threshold	Increasing the exemption for adjustments from \$5,000 to \$10,000 (based on the value of trading stock).
Provisional tax uplift rate	Reduce the current standard method provisional tax uplift baselines from 105% or 110%, to 100% or 105%, – or to 90% and 95% for transitional provisional taxpayers (based on residual income tax). (To apply from 1 April 2009 to provisional tax payments for the 2008/2009 and 2009/2010 income years payable after this date.) The standard uplift rates of 105% and 110% will apply again in the 2010/2011 tax year.
Provisional tax use of money interest (UOMI) safe harbour threshold	Increase from \$35,000 to \$50,000 (based on annual residual income tax).
FBT on unclassified fringe benefits	Increasing the de minimis thresholds for exempting minor benefits from FBT from \$15,000 per annum per employer and \$200 per quarter per employee, to \$22,500 and \$300 respectively.
Simplified rules for deducting legal expenditure	Allowing businesses to immediately deduct business-related legal expenditure, up to \$10,000 a year, without having to distinguish between revenue and capital. (To apply from the 2009/2010 income year.)

4 Measures and methodology

The methodologies relating to the base 2004 and 2009 surveys are reported in their respective reports.⁷ This section deals with the methodological issues relating to the comparison exercise.

Units of analysis

Depending on the question at hand, the analysis will relate to either:

- all SMEs
- only those SMEs who file or pay the tax in question.

The relevant group is noted in each analysis.

Measure of difference

The comparison between 2004 and 2009 compliance costs is measured by the difference between the trimmed mean compliance cost in 2004 and the trimmed mean compliance cost in 2009.

Trimming

The trimming systematically removes 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. A flexible trimming process that allowed for varying percentages of the data to be trimmed was employed. Details of the trimming can be found in the 2009 SME tax compliance cost report.⁸ In practice, few high values were trimmed before averages were calculated.

Trimmed means are calculated for the following indicators:

- a. overall combined compliance costs (\$): internal compliance costs plus external compliance costs
- b. number of hours spent on tax (used to calculate internal \$ compliance costs)
- c. external \$

⁷ Ibid.

⁸ Ibid.

Because of the heavy skew in the distribution of compliance costs, with most costs at the lower end of the spread, medians were also considered for detecting the change in compliance costs between 2004 and 2009. When comparing medians, however, statistical significance testing at times yielded a “significant” result even when median compliance costs for 2004 and 2009 are, for instance, both \$0. This can arise as the test comparing medians is essentially a rank test instead of a comparison of the difference between the actual medians. This made it very difficult to present meaningful results for the reader and so we turned to means as the measure for comparison. Note, however, that the trimmed means are relatively higher than the median. For the combined costs for instance, the trimmed mean compliance cost is \$5557, 39% higher than the combined median compliance cost of \$3995. Appendix I sets out the 2009 median costs for the record.

Combined means vs. internal and external means

On a business level, combined compliance costs are exactly the sum of internal and external costs. Because of trimming and averaging for groups of businesses however, this might not be the case.

Trimmed means have been used to report the mean compliance costs incurred by businesses. Extreme costs were excluded from the calculation of the mean depending on its relative distance from the other values in the cost variable’s distribution. Because trimming is done for the internal, external, and combined costs independently, the combined trimmed cost may not necessarily be the sum of the internal and external costs.

On an aggregate level, such as the trimmed mean compliance cost for “medium” businesses for instance, the combined trimmed mean is not the sum of the internal cost trimmed mean and the external cost trimmed mean as means are not additive.

Psychological costs

Psychological costs, represented by stress scores, use untrimmed means as the scores are based on a 7-point scale. Thus, unlike hours and \$ compliance cost data, no wild fluctuations in stress scores are expected.

In relation to stress with overall tax obligations, the score does not include the stress associated with finding the money. In relation to specific tax obligations, the stress includes finding the money. This is contrary to an accepted practice in measuring tax compliance costs but because a number of the measures introduced to make tax easier for small businesses respond to cash flow considerations, “finding the money” is an integral part of the response.

Significance testing

Statistical tests of significance show the difference in 2004 and 2009 trimmed mean internal, external and combined costs are all significant. This same result holds even when the internal, external and combined costs are broken down by tax type.

Instead of noting the significance of the difference between 2004 and 2009 costs in every table in this report, the absolute change and the percentage change in compliance costs are presented and remarkable increases or decreases between 2004 and 2009 costs noted.

Making 2004 and 2009 comparable

The rigour of the analyses depends on the 2004 data being comparable with the 2009 data. There are two aspects to this:

1. Ensuring that the sample of businesses have the same parameters.
2. Inflation adjustment – mostly relates to adjusting 2004 values but there is also the question of adjusting 2009 thresholds.

Ensuring sample comparability

1. Improvements were made to the design of the 2009 population, reflecting lessons from the 2004 analyses. The detail of procedures is listed in Appendix C. A significant one to note is the revised and tighter definition for people who file an IR 3 tax return and pay income tax only (not GST or PAYE) to qualify as a business. Applying this to the 2004 sample resulted in 168 fewer SMEs (down from 1907 SMEs to 1739 SMEs).
2. The process of getting the 2009 data ready for analysis – data verification, checking and imputation – involved a number of enhanced business rules. These enhanced rules were applied to the 2004 data. Detail is described in Appendix C.

Impact of the adjustment

The following changes from 2004 to 2004 adjusted are seen:

- 17% reduction in the SME population, from 485,000 to 401,000 mostly as a result of excluding income tax only taxpayers who were not really in business.
- The proportion of businesses paying income tax only (and no other taxes) reduces from 22% to 5%.
- The “nil” business group becomes 56% of the population rather than 63%.
- As a result of taking out a large number of income tax only businesses and altering the shape of the base, there is an increase in proportions paying GST, PAYE and FBT.

The major compliance cost impact of these adjustments was:

- A 22% increase in the average number of hours in 2004, as a result of excluding a large proportion of the smallest businesses with their minimal number of hours spent on tax.

Although there is an 11% increase in the SME population from 2004 adjusted to 2009, the profile of businesses are very similar in the two years, in relation to size (number of employees) and taxes being paid. One difference is in the age of business. 2009 has relatively fewer SMEs that have been in business for over 10 years. But importantly for compliance costs considerations, 2004 and 2009 have similar proportions of new businesses (under 3 years). See Appendix D for a table comparing the profiles.

Inflation adjustment

The following procedures were used to adjust 2004 and 2009 values:

1. The dollar value of time is the major cost component. 2004 values need to be adjusted to reflect real 2009 values. An adjustment factor was applied to the dollar value applied to 2004 hours depending on whether it was the owner, employee or unpaid family/friend who did the tax.

- For owners/directors/partners, an 18.3% adjustment factor was applied.

The 2004 internal compliance costs for business owners/partners/directors were inflation adjusted using the Labour Cost Index (LCI) unadjusted inflation rate of 18.3% for “Professionals”. The unadjusted rate was used as this is the one which breaks down the LCI into different occupation groups.

- For employees, an adjustment factor of 14.1% was applied.

The 2004 internal compliance cost for paid employees were inflated by the LCI unadjusted rate of 14.1% for “Clerks”.

- For unpaid family/friends, a 14.1% adjustment factor was applied.

The 2004 internal compliance cost for unpaid family/friends were inflated by the LCI unadjusted rate of 14.1% for “Clerks”. The occupation group “Clerks” was used because from the survey, we know that the self-reported hourly rates for paid employees and for unpaid friends/relatives are quite close with the value for unpaid friends/relatives being higher.

2. 2004 external costs are adjusted by a factor of 19.2%.

The inflation factor applied on 2004 external \$ compliance cost is broken down as a weighted sum of the LCI (“Professionals”) and the Producers Price Index (PPI) output for “Business Services”. These were 18.3% and 20% respectively. The LCI and PPI output were equally weighted. Note that the two rates are quite similar. The resulting inflation factor for external cost is 19.2%.

The PPI was included as a component of inflation for external costs as we asked the SMEs and/or their tax advisors about the dollar amount they spent for the different tax types and the dollar amounts charged presumably included production inputs.

3. The definition of a SME included lower and upper thresholds. The lower threshold excludes the extremely small businesses and the upper one excludes businesses too large to qualify as a SME. They have been adjusted by 25% (and rounded) on the one hand to avoid siphoning in a proportion of unsuitably small enterprises and, on the other, to include the larger businesses that qualified in 2004. The 25% adjustment is based on the overall PPI. The 2004 and 2009 thresholds are displayed in the following table.

Table 4.1: Changes in thresholds of SME definition

SME threshold	2004	2009
Criteria for lower threshold:		
Turnover	\$20,000	\$25,000
PAYE deductions	\$3,000	\$4000
Criteria for upper threshold:		
Turnover	\$10 million	\$12.5 million
PAYE	50 employees	50 employees

Value of time

Numerous options were considered to convert internal hours to dollar values. Statistics New Zealand's Quarterly Employment Survey (QES), Hays' Annual Salary Survey and the SME Tax Compliance Cost Survey (of 2004 and 2009) were compared to arrive at an hourly valuation of time for the three groups of people (owners, paid employees, unpaid family/friends) who might have put in time to do the business' tax internally. As in 2004, the QES was used to value the 2009 time of paid employees. Moreover, as was done in 2004, the SME Tax Compliance Cost Survey was used to value the time of business owners and unpaid family/friends in 2009.

The following table shows the hourly rates applied to time to convert 2004 and 2009 hours to dollars.

Table 4.2: Value of time, 2004 inflation adjusted and 2009

Personnel	2004 unadjusted value	2004 inflation adjusted value	2009	Source
Owners	\$ 43.99	\$52.04	\$61.12	SME Tax Compliance Cost Survey Respondents
Paid Employees	\$ 20.31	\$23.17	\$25.39	Statistics New Zealand QES
Unpaid family/friends	\$25.70	\$29.32	\$33.31	SME Tax Compliance Cost Survey Respondents

Glossary

Small and medium enterprises (SMEs) - Based on the SME definition used in the 2004 baseline study, a mixture of turnover and employee numbers. Business size categories based on employee numbers is consistent with the Ministry of Economic Development (MED) bands as set by Statistics New Zealand to ensure international comparability⁹.

For business size categories based on number of employees, the following are used in this report:

- Nil – no employees
- Micro – 5 employees
- Small – 6-19 employees
- Medium – 20+ employees

For ease of reading, notation such as “small” is used to refer to SMEs with 6-19 employees.

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

Combined compliance cost

Combined compliance cost = hours (converted to internal compliance cost)
+ external advisor costs) + psychological costs
- (cash flow benefits + tax deductibility)

In this report, internal time (hours converted to internal compliance cost, external advisor costs and psychological costs (stress levels) were measured.

External advisor costs – the dollar value paid by business to tax agents and or tax advisors. Throughout this report external costs are referred to interchangeably as agent and or advisor costs.

Psychological costs - Qualitatively measured in terms of a 7-point stress level scale. Throughout this report Psychological costs are generally referred to as “stress”. For example, *Table 6.1: Change in mean stress associated with provisional tax*, is an estimate of changes in mean psychological costs related to income tax.

Owner – “Owner” has been used as shorthand for “owner / partner / director / trustee” in many places in this report.

⁹ Ministry of Economic Development, SMEs in New Zealand: Structure and Dynamics, August 2005.

5 Changes in tax compliance costs – 2004 to 2009

SME profiles for 2004 and 2009

Profiles of the SMEs between 2004 and 2009 were compared and have been found to be similar between the two study periods, particularly in regard to size of business, use of tax agents, and the proportion of young businesses (Appendix D.).

Overall combined compliance costs

This section looks at the difference in average (mean) annual combined compliance costs for **all**¹⁰ small and medium-sized businesses, ie, their internal and external costs combined.

Compliance costs have decreased 1.3% over the 5 years from 2004 to 2009, by -\$71 to a total of \$5,557 per SME. This is an average, made up of increases and decreases - the change is by no means evenly spread across type of cost, size of business, type of tax being incurred. Some of the more significant changes and findings are summarised here and in table 5.1:

- *Overall combined.* Average tax compliance cost decreased by 1.3%, or - \$71 per year per SME. This includes the additional cost of KiwiSaver.
- *Source of costs.* Internal costs decreased in a small way whilst external ones remained unchanged:

Internal	-\$80	-2.0%
External	+\$4	+0.2%

To understand in more detail the overall change in compliance costs, components that contribute and influence the direction of change are listed below.

Note that although these components are individually highlighted here, they do not affect the overall costs independently of each other, i.e. they overlap to some extent.

¹⁰ Again, we need to stress that this chapter records the average compliance costs for all taxes for all SMEs in New Zealand even though they may not pay all taxes. In contrast, the following chapters look at the costs restricted to those who actually have the tax obligation in question.

Components that contribute to a decrease in compliance costs

- *Internal hours* spent on tax have reduced overall by 17.5% (-16.3 hours per year). There was a reduction for all sizes of business except “small” ones.
- *Personnel time.* The time owners spend on tax reduced by 17% (-11.3 hours) and employees by 9.4% (-1.9 hours). There has been a shift of time from owners to employees in the larger businesses (“small” and “medium”).

Components that contribute to an increase in compliance costs

- *KiwiSaver.* Included in the overall compliance costs is the additional 14.5 hours and \$186 per year for KiwiSaver (over **all** SMEs, costs that did not exist in 2004).
- *Personnel salary and wages.* The hourly value of time for owners, employees and unpaid friends increased by 17.4%, 9.6% and 13.6% respectively, over and above inflation. These values were used to convert the internal hours spent by a business on tax to dollar values.

Compliance costs change by business size

- *Size, number of employees.* SMEs with 20+ employees (the largest grouping) decreased their compliance costs by 5.1% (-\$503). “Nil” SMEs had a small decrease of 3.8% (-\$165). “Small” SMEs has increased costs by as much as 89.7% (\$837). No change for “micro” businesses.
- *Size, turnover.* There were large reductions in costs for SMEs with the smallest and largest turnover: 27.3% (-\$1,396) for those with less than \$40,000 annual turnover, and 16.4% (-\$1,757) for those with over \$5 million turnover. There was a moderate increase in costs for those with turnover between \$40,000 and \$100,000: 7.6% (+\$324).

Table 5.1: Summary of change in mean annual compliance costs for all SME businesses, 2004 to 2009

All SMEs	Mean compliance costs			
	\$ 2004	\$ 2009	\$ change	% change
Overall combined	\$5,628	\$5,557	-\$71	-1.3%
Internal or external costs				
Internal	\$4,075	\$3,995	-\$80	-2.0%
External	\$1,635	\$1,639	\$4	0.2%
Number of employees				
Nil	\$4,303	\$4,138	-\$165	-3.8%
Micro (1-5)	\$6,737	\$6,698	-\$39	-0.6%
Small (6-19)	\$8,664	\$9,501	\$837	9.7%
Medium (20+)	\$9,950	\$9,447	-\$503	-5.1%
Turnover				
Less than \$40,000	\$5,109	\$3,713	-\$1,396	-27.3%
\$40,000 to less than \$100,000	\$4,261	\$4,585	\$324	7.6%
\$100,000 to less than \$250,000	\$5,690	\$5,843	\$153	2.7%
\$250,000 to less than \$500,000	\$6,348	\$6,423	\$75	1.2%
\$500,000 to less than \$1.3 million	\$7,901	\$7,698	-\$203	-2.6%
\$1.3 million to less than \$5 million	\$8,525	\$8,455	-\$70	-0.8%
\$5 million and over	\$10,724	\$8,967	-\$1757	-16.4%

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

Internal compliance costs and hours spent on tax

Internal compliance costs have decreased over the five years. There are two components to this figure: the hours spent, and the value put on these hours.

The hours have decreased significantly by 17.5%, and the dollar value of time has increased significantly for owners by 17.8% over and above inflation. Owners account for around 70% of the internal time spent by businesses in doing tax.

The hourly dollar values of time for employees and unpaid family and friends have also been inflation adjusted and show an increase above the rate of inflation but not as highly as the rate of increase in the value of owners' hours (see the "Value of time" section in Chapter 4).

Hours spent on tax

The hours spent have decreased by 17.5% (-16.3 hrs) over the 5 years to an average of 77 hours per year. (Tables 5.2 and 5.3.)

- Both owners and employees hours have reduced significantly – 17% and 9.4% respectively. The reduction is largest for unpaid family or friends, but this relates to very few hours in the scheme of things.

- “Medium” businesses experienced a sharp 30.1% drop in hours spent on doing taxes with owners’ hours accounting for a sizeable portion of it (down by 38.3%). The internal time spent on taxes by “nil” and “micro” businesses also went down substantially by 20.3% and 16.8% respectively. Only “small” businesses saw an increase in hours, +5.0%.
- A noticeable shift in internal hours from owners to employees is evident for the relatively bigger (“medium” and “small”) businesses. For “small” businesses, owners’ hours decreased by 19.6% while employee hours increased by 24.4%. For “medium” businesses, employee hours increased by 18.3% with owners’ time dropping by 38.3%. The ratio of owner to employee hours also supports the pattern of shifting hours to employees. For “medium” businesses, in 2004, the ratio was roughly 1:2 while in 2009 it was roughly 1:5.
- The reduction in internal hours spent on doing tax is evident in the three main taxes: income tax, GST and PAYE, 17.4%, 21.9% and 11.4% respectively.
- For FBT, the percentage of internal hours increased dramatically. This sharp increase in percentage however represents only an additional 2.8 hours per year and reflects the relatively small hours spent on doing FBT.

External compliance costs

Overall, external costs, ie, cost of external tax advisors, are unchanged. On average they are \$1,639 in 2009 (Table 5.4.). There is, though, some observed variation by business size and tax type. “Small” businesses had an increase of 10.1% or \$269 in external costs.

Overall mean stress score

- The mean overall stress score associated with meeting all Inland Revenue requirements (ignoring finding the money) decreased from 3.4 to 3.2. Stress scores dropped for each of the business sizes. (Table 5.5.)
- The proportion of businesses that rated meeting Inland Revenue requirements as highly stressful decreased across all the different business sizes. An increase in the proportion of businesses which considered meeting Inland Revenue requirements of low stress is also evident. (Table 5.6.)

Table 5.2: Change in hours (mean) 2004 to 2009 by personnel, by number of employees

Personnel	Business size (number of employees)																			
	Nil				Micro (1-5)				Small (6-19)				Medium (20+)				All			
	2004	2009	change		2004	2009	change		2004	2009	change		2004	2009	change		2004	2009	change	
			hrs	%			hrs	%			hrs	%			hrs	%			hrs	%
Owners, partners, directors	56.5 (516)	44.8 (514)	-11.7	-20.7%	78.1 (771)	66.9 (568)	-11.2	-14.3%	87.9 (274)	70.7 (319)	-17.2	-19.6%	62.9 (110)	38.8 (199)	-24.1	-38.3%	66.3 (1671)	55.0 (1650)	-11.3	-17.0%
Employees	NA	NA	NA		26.5 (782)	21.6 (586)	-4.9	-18.5%	62.4 (288)	77.6 (330)	15.2	24.4%	151.9 (115)	179.7 (209)	27.8	18.3%	20.2 (1719)	18.3 (1702)	-1.9	-9.4%
Unpaid family, friends	4.5 (537)	2.2 (529)	-2.3	-51.1%	4.8 (790)	4.0 (595)	-0.8	-16.7%	4.0 (292)	3.8 (339)	-0.2	-5.0%	0.7* (119)	0.0 (213)	-0.7	-100.0%	4.4 (1738)	2.8 (1727)	-1.6	-36.4%
Overall	65.4 (499)	52.1 (502)	-13.3	-20.3%	113.0 (772)	94.0 (584)	-19.0	-16.8%	148.3 (282)	155.7 (329)	7.4	5.0%	228.5 (111)	159.8 (195)	-68.7	-30.1%	93.3 (1664)	77.0 (1661)	-16.3	-17.5%

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

* Two of the 199 "medium" businesses showed non-zero hours for unpaid family/friends resulting in a non-zero mean. These non-zero hours were incurred for PAYE.

Table 5.3: Change in hours (mean) 2004 to 2009 by personnel, by tax type

Personnel	Business size (number of employees)																			
	Income tax				GST				PAYE				KiwiSaver				FBT			
	2004	2009	change		2004	2009	change		2004	2009	change		2004	2009	change		2004	2009	change	
			hrs	%			hrs	%			hrs	%			hrs	%				
Owners, partners, directors	23.3 (1653)	18.0 (1625)	-5.3	-22.7%	35.7 (1581)	29.1 (1532)	-6.6	-18.5%	16.4 (1267)	13.4 (1163)	-3.0	-18.3%		7.5 (796)	7.5	NA	3.0 (625)	4.4 (424)	1.4	46.7%
Employees	3.6 (1661)	3.9 (1660)	0.3	8.3%	10.3 (1641)	7.2 (1556)	-3.1	-30.1%	8.6 (1264)	7.6 (1184)	-1.0	-11.6%		5.3 (787)	5.3	NA	2.3 (628)	3.6 (422)	1.3	56.5%
Unpaid family, friends	1.0 (1684)	0.4 (1663)	-0.6	-60.0%	2.3 (1654)	1.6 (1592)	-0.7	-30.4%	0.7 (1287)	0.8 (1211)	0.1	14.3%		0.4 (815)	0.4	NA	0.1 (641)	0.0 (429)	-0.1	-100.0%
Overall	27.0 (1596)	22.3 (1591)	-4.7	-17.4%	47.9 (1589)	37.4 (1552)	-10.5	-21.9%	27.2 (1246)	24.1 (1157)	-3.1	-11.4%		14.5 (770)	14.5	NA	6.3 (628)	9.1 (429)	2.8	44.4%

Base: All respondents who file/pay a particular tax type (excluding outliers).

Table 5.4: Change in (trimmed) mean external compliance costs 2004 to 2009 by number of employees and tax type

External costs	Business size (number of employees)																			
	Nil				Micro (1-5)				Small (6-19)				Medium (20+)				All			
A. All SMEs	2004	2009	change		2004	2009	change		2004	2009	change		2004	2009	change		2004	2009	change	
			\$	%			\$	%			\$	%			\$	%			\$	%
Income Tax	\$959 (471)	\$1,012 (458)	\$53	5.5%	\$1,494 (677)	\$1,419 (530)	-\$75	-5.0%	\$1,811 (221)	\$2,138 (270)	\$327	18.1%	\$2,192 (87)	\$2,547 (172)	\$355	16.2%	\$1,227 (1456)	\$1,248 (1475)	\$21	1.7%
GST	\$230 (481)	\$181 (468)	-\$49	-21.3%	\$402 (689)	\$351 (527)	-\$51	-12.7%	\$567 (229)	\$557 (280)	-\$10	-1.8%	\$624 (97)	\$343 (189)	-\$281	-45.0%	\$321 (1496)	\$267 (1510)	-\$54	-16.8%
PAYE	NA (485)	NA (471)	NA	NA	\$85 (695)	\$94 (531)	\$9	10.6%	\$164 (231)	\$97 (280)	-\$67	-40.9%	\$105 (101)	\$124 (190)	\$19	18.1%	\$47 (1512)	\$45 (1519)	-\$2	-4.3%
FBT	\$9 (484)	\$6 (472)	-\$3	-33.3%	\$38 (699)	\$19 (534)	-\$19	-50.0%	\$62 (233)	\$65 (284)	\$3	4.8%	\$126 (99)	\$83 (192)	-\$43	-34.1%	\$26 (1515)	\$16 (1529)	-\$10	-38.5%
All	\$1,205 (473)	\$1,235 (466)	\$30	2.5%	\$2,011 (679)	\$1,955 (542)	-\$56	-2.8%	\$2,664 (225)	\$2,933 (291)	\$269	10.1%	\$3,504 (92)	\$3,647 (180)	\$143	4.1%	\$1,635 (1469)	\$1,639 (1524)	\$4	0.2%

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

Table 5.5: Change in mean stress in meeting IRD overall requirements (ignoring finding the money), 2004 to 2009

Level of Stress	Business size (number of employees)									
	Nil		Micro (1-5)		Small (6-19)		Medium (20+)		All	
	2004	2009	2004	2009	2004	2009	2004	2009	2004	2009
Mean	3.3	3.0	3.6	3.4	3.5	3.2	3.5	3.3	3.4	3.2
	(508)	(496)	(777)	(581)	(282)	(333)	(118)	(207)	(1685)	(1664)

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

Table 5.6: Change in stress proportions in meeting IRD overall requirements (ignoring finding the money), 2004 to 2009

Level of Stress	Business size (number of employees)									
	Nil		Micro (1-5)		Small (6-19)		Medium (20+)		All	
	2004	2009	2004	2009	2004	2009	2004	2009	2004	2009
High (%)	23%	16%	25%	23%	26%	19%	25%	24%	24%	19%
Moderate (%)	26%	21%	29%	23%	24%	25%	19%	21%	26%	22%
Low (%)	52%	64%	46%	53%	49%	56%	56%	55%	50%	59%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
	(508)	(496)	(777)	(581)	(282)	(333)	(118)	(207)	(1685)	(1664)

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

6 Income tax

SMEs that pay income tax

95% of businesses in the survey reported paying income tax¹¹ in 2009, 68% of which have external income tax compliance costs. This is comparable with the 97% and 72% in 2004.

The 2009 demographic profile of SMEs that pay income tax is comparable to 2004 in most respects (Appendix E), especially in regard to business size which correlates with compliance cost.

In 2009 there were fewer older businesses (over 10 years) but importantly for understanding compliance costs, the proportion of new businesses (under 3 years) was the same in 2004 and 2009.

2009 has fewer businesses paying FBT as well as income tax. FBT changes in 2006 and 2009 no doubt contributed to this.

Key findings – Income tax

From 2004 to 2009, the changes in average compliance costs associated with income tax filers/payers:

- decreased by 3.2%, -\$82
- hours spent on income tax reduced 17.4%, -4.7 hours
- owners' hours reduced by 22.7% (-5.3 hours) while employees' hours increased 11.4% (0.4 hrs). (Table 5.3.)
- internal compliance costs decreased by 5.4%, -\$71, and
- external compliance costs increased by 6.1%, \$74.

Changes relating to size by number of employees:

- A moderate decrease in combined costs was evident for “nil” and “medium” SMEs. There was no real change for “micro” and “small” SMEs.

¹¹ Although all the respondents in the survey should be dealing with income tax, some of these businesses did not tick the income tax box in Q1 of the survey that asks which taxes the SME deals with. Other reasons for a non-income tax response are that the businesses did not enter any time against income tax in Q13, or no external cost data were reported by the business or their tax agent. Because income tax is filed once a year, it is also possible that a business that has only paid provisional tax did not record this as income tax.

- “Medium” sized businesses had very large decreases in internal costs compensated by a large increase in external costs; -31.2% (-\$688) and 17.1% (+\$377) respectively.
- “Small” business also saw a increase in external costs, 16.2% (\$305).

Changes relating to size by turnover:

- There is no consistent pattern in the changes in relation to size of turnover (Table 6.2).
- The largest decrease was experienced by businesses with turnover \$5 million and over per year, -30.0%.
- There was a relatively large increase for turnover \$1.3 million to \$5 million (10.3%).
- In some instances the change was more in internal costs, in others it was more external costs.

Changes in level of stress – Provisional tax

- The average level of stress associated with meeting provisional tax requirements (including finding the money) decreased from 3.9 to 3.5 from 2004 to 2009. This reduction in stress scores is evident across all the different business sizes (Table 6.3).
- The proportion of businesses which said that stress levels are high has decreased while the proportion of those that said stress levels are low increased. This finding is consistent across all the business sizes (Table 6.4).

Table 6.1: Change in (trimmed) mean income tax compliance costs 2004 to 2009 by number of employees

Income tax	Business size (number of employees)																			
	Nil				Micro (1-5)				Small (6-19)				Medium (20+)				All			
SMEs with income tax requirements																				
	2004	2009	change		2004	2009	change		2004	2009	change		2004	2009	change		2004	2009	change	
			\$	%			\$	%			\$	%			\$	%			\$	%
Internal	\$1,256 (508)	\$1,140 (496)	-\$116	-9.2%	\$1,284 (747)	\$1,309 (558)	\$25	1.9%	\$1,473 (272)	\$1,445 (315)	-\$28	-1.9%	\$2,207 (116)	\$1,519 (198)	-\$688	-31.2%	\$1,314 (1643)	\$1,244 (1616)	-\$70	-5.3%
External	\$984 (456)	\$1,055 (441)	\$71	7.2%	\$1,532 (658)	\$1,475 (515)	-\$57	-3.7%	\$1,886 (214)	\$2,191 (263)	\$305	16.2%	\$2,203 (86)	\$2,580 (170)	\$377	17.1%	\$1,259 (1414)	\$1,296 (1433)	\$37	2.9%
Combined	\$2,193 (502)	\$2,080 (488)	-\$113	-5.2%	\$2,712 (738)	\$2,726 (555)	\$14	0.5%	\$3,475 (264)	\$3,545 (304)	\$70	2.0%	\$4,523 (105)	\$4,255 (189)	-\$268	-5.9%	\$2,536 (1609)	\$2,454 (1585)	-\$82	-3.2%

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

Table 6.2: Change in (trimmed) mean income tax compliance costs, 2004 to 2009 by turnover

Income Tax		Turnover						
		Less than \$40,000	\$40,000 to less than \$100,000	\$100,000 to less than \$250,000	\$250,000 to less than \$500,000	\$500,000 to less than \$1.3 million	\$1.3 million to less than \$5 million	\$5 million and over
SMEs with income tax requirements								
Internal	2004	\$1,345	\$1,201	\$1,215	\$1,140	\$1,588	\$1,562	\$1,444
		(108)	(259)	(365)	(266)	(263)	(243)	(56)
	2009	\$1,106	\$1,196	\$1,320	\$1,417	\$1,234	\$1,457	\$990
		(195)	(271)	(276)	(189)	(262)	(232)	(181)
	Change	-\$239	-\$5	\$105	\$277	-\$354	-\$105	-\$454
%change	-17.8%	-0.4%	8.6%	24.3%	-22.3%	-6.7%	-31.4%	
External	2004	\$891	\$848	\$1,270	\$1,615	\$1,956	\$2,126	\$3,112
		(99)	(224)	(330)	(231)	(214)	(198)	(40)
	2009	\$756	\$992	\$1,394	\$1,393	\$1,962	\$2,166	\$2,894
		(171)	(240)	(253)	(171)	(221)	(221)	(145)
	Change	-\$135	\$144	\$124	-\$222	\$6	\$40	-\$218
%change	-15.2%	17.0%	9.8%	-13.7%	0.3%	1.9%	-7.0%	
Combined	2004	\$2,320	\$2,021	\$2,352	\$2,736	\$3,346	\$3,580	\$5,556
		(101)	(256)	(362)	(267)	(253)	(237)	(50)
	2009	\$1,877	\$2,110	\$2,533	\$2,608	\$3,037	\$3,947	\$3,831
		(186)	(269)	(280)	(189)	(258)	(229)	(165)
	Change	-\$443	\$89	\$181	-\$128	-\$309	\$367	-\$1,725
%change	-19.1%	4.4%	7.7%	-4.7%	-9.2%	10.3%	-31.0%	

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

Table 6.3: Change in mean stress associated with provisional tax (including finding the money), 2004 to 2009

Level of Stress	Business size (number of employees)									
	Nil		Micro (1-5)		Small (6-19)		Medium (20+)		All	
	2004	2009	2004	2009	2004	2009	2004	2009	2004	2009
Mean	3.7	3.3	4.1	3.6	4.1	3.8	4.1	3.6	3.9	3.5
	(438)	(411)	(680)	(466)	(247)	(279)	(108)	(183)	(1473)	(1384)

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

Table 6.4: Change in stress proportions associated with provisional tax (including finding the money), 2004 to 2009

Level of Stress	Business size (number of employees)									
	Nil		Micro (1-5)		Small (6-19)		Medium (20+)		All	
	2004	2009	2004	2009	2004	2009	2004	2009	2004	2009
High	35%	23%	42%	33%	46%	34%	47%	34%	39%	28%
Moderate	18%	23%	21%	18%	15%	27%	16%	17%	18%	21%
Low	47%	54%	37%	49%	39%	39%	37%	49%	43%	50%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
	(438)	(411)	(680)	(466)	(247)	(279)	(108)	(183)	(1473)	(1384)

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

7 GST

SMEs that pay GST

93% of businesses in the survey reported paying GST in 2009, 40% of these incurred external GST costs. This is comparable with the 94% and 37% in 2004.

Demographically, the businesses are very similar in 2004 and 2009, with the same similarities and differences as for the income tax group: same profile in terms of size of business; same proportion of new businesses in 2009; and fewer paying FBT as well as GST in 2009.

Key findings – GST

From 2004 to 2009, the changes in average compliance costs associated with GST filers/payers:

- decreased by 6.4% or -\$160
- hours spent on GST reduced by 21.9% (-10.5 hrs) (Table 5.3).
- internal compliance costs decreased by 5.4% or -\$116
- external compliance costs decreased by 15.8% or -\$54
- external costs are small relative to internal ones; and compared with income tax external costs.

Changes relating to size by number of employees:

- The biggest decrease was for the “micro” and “medium” groups where combined costs went down by 13.8% or -\$392 and 32.1% or -\$1,346 respectively.
- “Nil” and “small” businesses experienced nominal increases of less than 3% or less.
- Internal compliance costs decreased substantially for “micro” and “medium” businesses, 11.7% and 29.4%) respectively.
- “Small” SMEs had an increase of 6.4% in relation to their internal costs.
- External compliance costs decreased across all groups ranging from 1.2% (“small”) to a drop of 42.8% (“medium”).

Changes relating to size by turnover:

- All turnover groups, except the \$40,000 to \$100,000 turnover group, decreased their GST combined compliance costs, ranging from a reduction of 5.6% to 19.3%.

- The \$40,000 to \$100,000 turnover group had a 9% increase in combined compliance costs.
- There were some very large changes in external costs. Six of the seven turnover groups observed reductions ranging from 1.5% to 55.1%. Only SMEs with an annual turnover of \$100,000-\$250,000 recorded an increase of 11.3% in their external costs.

Changes in level of stress – GST

- The average level of stress associated with meeting GST requirements (including finding the money) decreased from 3.9 to 3.4 from 2004 to 2009. This reduction in stress scores is evident across all the different business sizes but more so for the smaller businesses (Table 7.3).
- There percentage of businesses that said stress was high decreased while those that said stress was low increased (Table 7.4).

Table 7.1: Change in (trimmed) mean GST compliance costs 2004 to 2009 by number of employees

GST	Business size (number of employees)																			
	Nil				Micro (1-5)				Small (6-19)				Medium (20+)				All			
SMEs with GST requirements																				
	2004	2009	change		2004	2009	change		2004	2009	change		2004	2009	change		2004	2009	change	
			\$	%			\$	%			\$	%			\$	%			\$	%
Internal	\$1,855	\$1,825	-30	-1.6%	\$2,359	\$2,082	-\$277	-11.7%	\$2,406	\$2,560	\$154	6.4%	\$3,552	\$2,507	-\$1,045	-29.4%	\$2,134	\$2,018	-\$116	-5.4%
	(436)	(401)			(754)	(569)			(274)	(320)			(113)	(200)			(1577)	(1541)		
External	\$254	\$205	-49	-19.3%	\$404	\$353	-\$51	-12.6%	\$567	\$560	-\$7	-1.2%	\$624	\$357	-\$267	-42.8%	\$341	\$287	-\$54	-15.8%
	(412)	(356)			(686)	(523)			(229)	(279)			(97)	(186)			(1424)	(1390)		
Combined	\$2,102	\$2,111	\$9	0.4%	\$2,835	\$2,443	-\$392	-13.8%	\$2,976	\$3,044	\$68	2.3%	\$4,199	\$2,853	-\$1,346	-32.1%	\$2,500	\$2,340	-\$160	-6.4%
	(442)	(400)			(757)	(573)			(275)	(321)			(112)	(202)			(1586)	(1547)		

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

Table 7.2: Change in (trimmed) mean GST compliance costs, 2004 to 2009 by turnover

GST		Turnover						
		Less than \$40,000	\$40,000 to less than \$100,000	\$100,000 to less than \$250,000	\$250,000 to less than \$500,000	\$500,000 to less than \$1.3 million	\$1.3 million to less than \$5 million	\$5 million and over
SMEs with GST requirements								
Internal	2004	\$1,792	\$1,793	\$2,264	\$2,111	\$2,784	\$2,787	\$2,090
		(107)	(267)	(374)	(265)	(267)	(233)	(56)
	2009	\$1,626	\$2,039	\$2,131	\$1,940	\$2,257	\$2,306	\$2,219
		(140)	(247)	(274)	(199)	(265)	(238)	(177)
	Change	-\$166	\$246	-\$133	-\$171	-\$527	-\$481	\$129
%change	-9.3%	13.7%	-5.9%	-8.1%	-18.9%	-17.3%	6.2%	
External	2004	\$258	\$201	\$328	\$453	\$531	\$547	\$838
		(106)	(242)	(345)	(245)	(223)	(203)	(51)
	2009	\$153	\$198	\$365	\$278	\$453	\$491	\$376
		(126)	(222)	(247)	(178)	(225)	(228)	(163)
	Change	-\$105	-\$3	\$37	-\$175	-\$78	-\$56	-\$462
%change	-40.7%	-1.5%	11.3%	-38.6%	-14.7%	-10.2%	-55.1%	
Combined	2004	\$2,022	\$2,038	\$2,642	\$2,517	\$3,240	\$3,461	\$2,775
		(108)	(267)	(373)	(272)	(268)	(234)	(54)
	2009	\$1,908	\$2,221	\$2,494	\$2,181	\$2,881	\$2,792	\$2,537
		(140)	(247)	(275)	(200)	(265)	(241)	(178)
	Change	-\$114	\$183	-\$148	-\$336	-\$359	-\$669	-\$238
%change	-5.6%	9.0%	-5.6%	-13.3%	-11.1%	-19.3%	-8.6%	

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

Table 7.3: Change in mean stress associated with GST (including finding the money), 2004 to 2009

Level of Stress	Business size (number of employees)									
	Nil		Micro (1-5)		Small (6-19)		Medium (20+)		All	
	2004	2009	2004	2009	2004	2009	2004	2009	2004	2009
Mean	3.7	3.1	4.0	3.7	4.0	3.8	3.8	3.7	3.8	3.4
	(447)	(393)	(777)	(581)	(282)	(337)	(119)	(206)	(1625)	(1564)

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

Table 7.4: Change in stress proportions associated with GST (including finding the money), 2004 to 2009

Level of Stress	Business size (number of employees)									
	Nil		Micro (1-5)		Small (6-19)		Medium (20+)		All	
	2004	2009	2004	2009	2004	2009	2004	2009	2004	2009
High	33%	20%	33%	31%	42%	32%	40%	33%	35%	26%
Moderate	22%	19%	24%	21%	20%	22%	15%	18%	22%	20%
Low	46%	61%	38%	48%	38%	46%	46%	49%	43%	54%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
	(447)	(393)	(777)	(581)	(282)	(337)	(119)	(206)	(1625)	(1564)

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

8 PAYE

SMEs that pay PAYE

49% of SMEs paid PAYE in 2009; 21% of these incurred external costs. This is comparable with the 53% and 21% in 2004.

Although the total SME population has the same business size profile, when confined to those with PAYE responsibilities there does appear to be relatively more of the smallest employers (“micro”, 1-5 employees) in 2009 than in 2004.¹² In 2009 “micro” businesses averaged 94 hours on PAYE compared with “small” 155.7 hours and this may account for a proportion of the 11.4% decrease in hours spent on PAYE.

Once again the decrease in 2009 of business with FBT as well as PAYE is significant.

The proportion of businesses using external payroll services and those employing staff who are paying child support are similar in 2004 and 2009.

The proportion with staff repaying a student loan has however increased significantly, from 17% to 25%. The details in relation to compliance costs are discussed below.

Key findings – PAYE

From 2004 to 2009, the changes in average compliance costs associated with PAYE for PAYE filers/payers:

- increased by 6.5%, \$75
- hours spent on PAYE reduced 11.4%, -3.1 hours per year (Table 5.3)
- both owners (more so) and employees reduced the hours spent on PAYE
- internal compliance costs increased 4.6%, \$50
- external compliance costs, practically the same, nominally increased by 1.1%, \$1.

Significant changes are noted by size and number of employees:

- Costs increased for “small” and “medium” SMEs; and to a small extent for the “micro” SMEs.
- “Small” businesses seem to be making less use of intermediaries. Their external costs decreased by 40.9% (-\$67). Their internal costs increased by 9.3%.

¹² This analysis is unclear to a degree because of the relatively large percentage of businesses with unknown number of employees in 2004.

- “Medium” businesses increased both internal and external costs substantially, the former by 20.6% (+\$311), the latter by 18.8% (+\$19).

Broken down by turnover:

- There was one turnover group with a significant reduction in compliance costs. The smallest businesses, those with turnover of less than \$40,000, experienced a reduction in internal, external and combined compliance costs: -33.9% combined or -\$421.
- Large increases were experienced by the following turnover groups: \$40,000 to less than \$100,000, up by \$108 or 16.4%; \$250,000 to less than \$500,000, up by \$259 or 21.5% and \$1.3 million to less than \$5 million, up by \$300 or 20.3%.

Changes in level of stress – PAYE

- The mean stress levels associated with PAYE (excluding KiwiSaver but including finding the money) reduced from a mean of 3.2 in 2004 to a mean of 3.1 in 2009. There was no real difference in stress scores between the different business sizes. Indeed, “medium” businesses stress increased slightly (Tables 8.3 and 8.4).

Compliance costs associated with student loans, child support and external payroll services

Student Loans

There are two interesting features relating to SMEs with employees repaying student loans (see Table G.2 Appendix G):

1. The proportion of SMEs with employees repaying student loans has increased. More SMEs in 2009 indicated they had staff who had a student loan obligation, 25% up from 17% of all SMEs in 2004.
2. Compliance costs are more for SMEs employing staff dealing with student loans than those not. Hours spent on PAYE for SMEs with employees repaying a student loan are more than twice that for those without (41hrs vs 18hrs in 2009), and the combined PAYE costs are also more than half as much again (\$1,848 vs \$1,021 in 2009) (see table G.3 in appendix G). This is particularly the case in 2009 for “micro” employers rather than the larger ones. The pattern is the generally the same in 2004 and 2009 though the hours have reduced by 6.8% to 41 hours in 2009.

This increase in proportion of businesses with student loan employees, with their higher hours is a movement that would increase compliance costs and is counter to the observed decrease in hours overall, and decrease in PAYE related hours.

Child Support

1 in 10 SMEs employ staff paying child support in 2009. A slight increase since the 9% recorded in 2004. Much the same pattern of costs is exhibited as for SME employing staff dealing with student loans in that they spend twice as much time dealing with PAYE (44hrs in 2009) as SMEs who don't have "child support" staff (22hrs in 2009). In terms of combined compliance costs again SMEs employing staff dealing with child support have costs almost twice as high (\$2,030 in 2009) as SMEs who don't have "child support" staff (\$1,130 in 2009) (Table G.3 in appendix G).

In the same way, student loan data is counterintuitive, higher hours relating to PAYE for SMEs with child support staff is a movement that would increase compliance costs and is counter to the observed decrease in hours overall, and decrease in PAYE related hours.

External Payroll

The proportion of businesses utilising external payroll services has increased from 6.9% in 2004 to 8.0% in 2009. During this time however, mean payments to external payroll services have dropped from \$1,700 to \$1,020 in 2009 (Table G.4 in appendix G).

It might be suggested that businesses which outsource some of their payroll function, while not directly related to cost of PAYE compliance, may observe lower compliance costs as a result of the way which their payroll data / information is managed. This appears not to be the case. In fact, the opposite is true SMEs; using external payroll services tend to have higher PAYE compliance costs. In terms of hours spent on PAYE those SMEs using external payroll services spend (in 2009) 27 hours annually compared to the 24 hours spent by SMEs which deal with all payroll "in-house".

Table 8.1: Change in (trimmed) mean PAYE compliance costs, 2004 to 2009 by number of employees

PAYE	Business size (number of employees)																			
	Nil				Micro (1-5)				Small (6-19)				Medium (20+)				All			
	2004	2009	change		2004	2009	change		2004	2009	change		2004	2009	change		2004	2009	change	
\$			%	\$			%	\$			%	\$			%					
SMEs with PAYE requirements																				
Internal	NA	NA	NA	NA	\$1,061	\$1,101	\$40	3.8%	\$1,697	\$1,855	\$158	9.3%	\$1,507	\$1,818	\$311	20.6%	\$1,091	\$1,141	\$50	4.6%
	(74)	(13)			(777)	(582)			(283)	(328)			(110)	(208)			(1244)	(1172)		
External	NA	NA	NA	NA	\$85	\$94	\$9	10.6%	\$164	\$97	-\$67	-40.9%	\$105	\$124	\$19	18.1%	\$91	\$92	\$1	1.1%
	(78)	(12)			(695)	(531)			(231)	(280)			(101)	(190)			(1105)	(1060)		
Combined	NA	NA	NA	NA	\$1,133	\$1,168	\$35	3.1%	\$1,780	\$1,970	\$190	10.7%	\$1,549	\$1,951	\$402	26.0%	\$1,156	\$1,231	\$75	6.5%
	(74)	(10)			(775)	(581)			(277)	(329)			(110)	(208)			(1236)	(1169)		

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

Table 8.2: Change in (trimmed) mean PAYE compliance costs, 2004 to 2009 by turnover

PAYE		Turnover						
		Less than \$40,000	\$40,000 to less than \$100,000	\$100,000 to less than \$250,000	\$250,000 to less than \$500,000	\$500,000 to less than \$1.3 million	\$1.3 million to less than \$5 million	\$5 million and over
SMEs with PAYE requirements								
Internal	2004	\$1,101	\$613	\$1,043	\$1,101	\$1,413	\$1,436	\$1,152
		(43)	(136)	(273)	(237)	(251)	(232)	(57)
	2009	\$750	\$718	\$1,056	\$1,361	\$1,377	\$1,590	\$1,290
		(43)	(105)	(169)	(177)	(246)	(248)	(182)
	Change	-\$351	\$105	\$13	\$260	-\$36	\$154	\$138
%change	-31.9%	17.1%	1.2%	23.6%	-2.5%	10.7%	12.0%	
External	2004	\$91	\$44	\$74	\$116	\$119	\$120	\$166
		(41)	(126)	(255)	(212)	(209)	(198)	(52)
	2009	\$69	\$48	\$89	\$115	\$114	\$152	\$57
		(40)	(102)	(155)	(158)	(209)	(228)	(166)
	Change	-\$22	\$4	\$15	-\$1	-\$5	\$32	-\$109
%change	-24.2%	9.1%	20.3%	-0.9%	-4.2%	26.7%	-65.7%	
Combined	2004	\$1,241	\$657	\$1,081	\$1,205	\$1,478	\$1,479	\$1,263
		(42)	(135)	(272)	(237)	(249)	(229)	(58)
	2009	\$820	\$765	\$1,109	\$1,464	\$1,499	\$1,779	\$1,369
		(43)	(105)	(165)	(177)	(246)	(249)	(182)
	Change	-\$421	\$108	\$28	\$259	\$21	\$300	\$106
%change	-33.9%	16.4%	2.6%	21.5%	1.4%	20.3%	8.4%	

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

Table 8.3: Change in mean stress associated with PAYE (including finding the money), 2004 to 2009

Level of Stress	Business size (number of employees)									
	Nil		Micro (1-5)		Small (6-19)		Medium (20+)		All	
	2004	2009	2004	2009	2004	2009	2004	2009	2004	2009
Mean	NA	NA	3.2	3.1	3.4	3.3	3.2	3.3	3.2	3.1
	NA	NA	(769)	(556)	(282)	(337)	(118)	(207)	(1207)	(1115)

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

Table 8.4: Change in stress proportions associated with PAYE (including finding the money), 2004 to 2009

Level of Stress	Business size (number of employees)									
	Nil		Micro (1-5)		Small (6-19)		Medium (20+)		All	
	2004	2009	2004	2009	2004	2009	2004	2009	2004	2009
High	NA	NA	19%	22%	26%	24%	22%	25%	21%	22%
Moderate	NA	NA	20%	16%	19%	20%	15%	20%	20%	17%
Low	NA	NA	61%	63%	55%	57%	63%	55%	59%	61%
Total	NA	NA	100%	100%	100%	100%	100%	100%	100%	100%
	NA	NA	(769)	(556)	(282)	(337)	(118)	(207)	(1207)	(1115)

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

9 FBT

SMEs that pay FBT

In 2009, 12% of SMEs filed or paid FBT; 46% of these incurred external FBT costs. This compares with 24% of SMEs in 2004, 29% with external FBT costs.

Unlike the other tax types where the population ratios are the same or very similar, the 2004 to 2009 population ratio for SMEs that deal with FBT is around 2:1. The large reduction in the FBT population is not unexpected given the FBT changes targeted to remove or limit FBT for the smallest businesses (Table H1 in appendix H).

Analysed by the counts of businesses that deal with FBT, a significant drop in “nil” and “micro” businesses is seen, as expected. For the larger SMEs the counts are similar.

There is a larger proportion of businesses with FBT that are new (less than three years) in 2009 than in 2004.

Key findings – FBT

Changes in FBT compliance costs show larger increases than for other taxes, but they start from relatively small dollar bases. From 2004 to 2009, the changes in average compliance costs associated with FBT:

- increased by 41.6%, \$126
- hours increased 44.4%, an additional 2.8 hours per year
- internal compliance costs increased by 41.3%, \$93
- external compliance costs decreased by 8.7%, -\$9

By number of employees:

- FBT compliance costs increased markedly for all business sizes
- Both internal costs and external costs (except external costs for “nil” SMEs)
- increases were greatest for “nil” businesses at 63.8%, \$113¹³
- and least for “medium” businesses at 11.4%, \$67.

By turnover:

- no consistent pattern, with some large increases and large decreases
- for SMEs with a turnover of between \$250,000 < \$500,000 combined compliance costs increased by 227.2% from \$224 to \$509 in 2009.
- combined compliance costs decreased for SMEs with a turnover between \$100,000 and \$250,000 by 29.6% (-\$94), and those with more than \$5 million turnover, by 15.4%, -\$112.
- there were insufficient SMEs with a turnover of less than \$100,000 paying/filing FBT in 2009 to enable comment on changes in their compliance costs.

Changes in level of stress – FBT

The level of stress and changes in this is different for FBT compared with other taxes. There has been an increase rather than a decrease, but FBT had and has markedly lower stress levels compared with other taxes.

- The average level of stress associated with FBT (including finding the money) increased from 2.5 to 2.8 between 2004 and 2009.
- It was particularly notable in “nil” and “medium” businesses. Mean levels of stress increased by 52% for “medium” businesses, from 2.3 to 3.5.
- “Small” businesses had lower stress levels.

Table 9.1: Change in (trimmed) mean FBT compliance costs, 2004 to 2009 by number of employees

FBT	Business size (number of employees)																			
	Nil				Micro (1-5)				Small (6-19)				Medium (20+)				All			
	2004	2009	change		2004	2009	change		2004	2009	change		2004	2009	change		2004	2009	change	
\$			%	\$			%	\$			%	\$			%					
SMEs with PAYE requirements																				
Internal	\$124	\$197	\$73	58.9%	\$233	\$303	\$70	30.0%	\$291	\$401	\$110	37.8%	\$467	\$535	\$68	14.6%	\$225	\$318	\$93	41.3%
	(92)	(22)			(284)	(120)			(165)	(138)			(84)	(138)			(625)	(423)		
External	\$60	\$98	\$38	63.3%	\$111	\$94	-\$17	-15.3%	\$129	\$87	-\$42	-32.6%	\$202	\$159	-\$43	-21.3%	\$103	\$94	-\$9	-8.7%
	(81)	(21)			(263)	(110)			(131)	(125)			(70)	(126)			(545)	(388)		
Combined	\$177	\$290	\$113	63.8%	\$305	\$433	\$128	42.0%	\$421	\$493	\$72	17.1%	\$589	\$656	\$67	11.4%	\$303	\$429	\$126	41.6%
	(92)	(22)			(285)	(117)			(165)	(136)			(82)	(134)			(624)	(413)		

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

Table 9.2: Change in (trimmed) mean FBT compliance costs, 2004 to 2009 by turnover

FBT		Turnover						
		Less than \$40,000	\$40,000 to less than \$100,000	\$100,000 to less than \$250,000	\$250,000 to less than \$500,000	\$500,000 to less than \$1.3 million	\$1.3 million to less than \$5 million	\$5 million and over
SMEs with FBT requirements								
Internal	2004	\$51	\$149	\$242	\$150	\$335	\$289	\$521
		(23)	(60)	(111)	(86)	(129)	(160)	(50)
	2009	-	-	\$152	\$566	\$334	\$270	\$522
		(14)	(11)	(35)	(34)	(74)	(114)	(141)
	Change	-	-	-\$90	\$416	-\$1	-\$19	\$1
%change	-	-	-37.2%	277.3%	-0.3%	-6.6%	0.2%	
External	2004	\$112	\$98	\$82	\$85	\$94	\$124	\$282
		(23)	(55)	(102)	(79)	(103)	(132)	(46)
	2009	-	-	\$77	\$60	\$122	\$111	\$149
		(12)	(12)	(34)	(28)	(69)	(105)	(128)
	Change	-	-	-\$5	-\$25	\$28	-\$13	-\$133
%change	-	-	-6.1%	-29.4%	29.8%	-10.5%	-47.2%	
Combined	2004	\$109	\$241	\$318	\$224	\$368	\$380	\$725
		(22)	(60)	(112)	(87)	(128)	(159)	(50)
	2009	-	-	\$224	\$733	\$468	\$387	\$613
		(14)	(9)	(35)	(34)	(71)	(112)	(138)
	Change	-	-	-\$94	\$509	\$100	\$7	-\$112
%change	-	-	-29.6%	227.2%	27.2%	1.8%	-15.4%	

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

Table 9.3: Change in mean stress associated with FBT (including finding the money), 2004 to 2009

Level of Stress	Business size (number of employees)									
	Nil		Micro (1-5)		Small (6-19)		Medium (20+)		All	
	2004	2009	2004	2009	2004	2009	2004	2009	2004	2009
Mean	2.1	2.8	2.4	2.8	2.9	2.5	2.8	3.5	2.5	2.8
	(46)	(16)	(193)	(95)	(135)	(128)	(76)	(134)	(450)	(375)

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

Table 9.4: Change in stress proportions associated with FBT (including finding the money), 2004 to 2009

Level of Stress	Business size (number of employees)									
	Nil		Micro (1-5)		Small (6-19)		Medium (20+)		All	
	2004	2009	2004	2009	2004	2009	2004	2009	2004	2009
High	10%	7%	14%	14%	21%	10%	22%	29%	15%	13%
Moderate	8%	23%	8%	19%	13%	13%	10%	15%	9%	19%
Low	82%	69%	77%	67%	65%	75%	68%	56%	75%	68%
Total	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
	(46)	(16)	(193)	(64)	(135)	(88)	(76)	(85)	(450)	(375)

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

10 KiwiSaver

KiwiSaver was introduced in 2007, bringing with it responsibilities and compliance costs for employers. This analysis looks at these costs in 2009, all of which of course are additional to those that existed in 2004. The survey measured ongoing costs, not the transitional costs associated with becoming set up for KiwiSaver as we assumed these would have passed for most employers by 2009.

In 2009, 24% of SMEs dealt with KiwiSaver, 15% of whom incurred external KiwiSaver costs as well as spent time on KiwiSaver. Compliance cost outcomes for those with KiwiSaver responsibilities include:

- 14.5 hours per year; 69% of them spent by owners
- \$705 per SME
- \$660 internal compliance costs
- \$47 external compliance costs
- little difference by size of business, though a gentle increase as number of employees increase
- only noticeable exception is the high internal costs for businesses with a turnover of less than \$40,000 (note small numbers in this category).

Stress levels

The mean level of stress associated with KiwiSaver was 3.1. “Medium” SMEs had a higher level at 3.6.

Table 10.1: Change in (trimmed) mean KiwiSaver compliance costs 2004 to 2009 by number of employees

KiwiSaver	Business size (number of employees)				
	Nil	Micro (1-5)	Small (6-19)	Medium (20+)	All
SMEs with KiwiSaver requirements					
Internal	N.A.	\$579 (303)	\$695 (281)	\$666 (194)	\$660 (791)
External	N.A.	\$42 (283)	\$60 (241)	\$60 (184)	\$47 (720)
Combined	N.A.	\$623 (300)	\$743 (283)	\$721 (194)	\$705 (790)

Base: All respondents who deal with KiwiSaver (excluding missing information and outliers).

Table 10.2: Change in (trimmed) mean KiwiSaver compliance costs 2004 to 2009 by turnover

KiwiSaver		Turnover						
		Less than \$40,000	\$40,000 to less than \$100,000	\$100,000 to less than \$250,000	\$250,000 to less than \$500,000	\$500,000 to less than \$1.3 million	\$1.3 million to less than \$5 million	\$5 million and over
SMEs with KiwiSaver requirements								
Internal	2009	\$1032	\$713	\$644	\$736	\$591	\$594	\$521
		(17)	(33)	(72)	(107)	(177)	(212)	(173)
External	2009	\$37	\$12	\$39	\$23	\$60	\$84	\$57
		(12)	(30)	(75)	(91)	(154)	(197)	(161)
Combined	2009	\$1063	\$740	\$683	\$755	\$650	\$671	\$568
		(17)	(32)	(72)	(107)	(175)	(213)	(174)

Base: All respondents who deal with KiwiSaver (excluding missing information and outliers).

Table 10.3: Change in mean stress associated with KiwiSaver (including finding the money), 2004 to 2009

Level of Stress	Business size (number of employees)				
	Nil	Micro (1-5)	Small (6-19)	Medium (20+)	All
	2009	2009	2009	2009	2009
Mean	N.A.	3.1 (289)	3.1 (285)	3.6 (194)	3.1 (769)

Base: All respondents who deal with KiwiSaver (excluding missing information and outliers).

Table 10.4: Change in stress proportions associated with KiwiSaver (including finding the money), 2004 to 2009

Level of Stress	Business size (number of employees)				
	Nil	Micro (1-5)	Small (6-19)	Medium (20+)	All
	2009	2009	2009	2009	2009
High (%)	N.A.	20.5%	23.8%	36.8%	22.0%
Moderate (%)	N.A.	16.7%	15.2%	11.8%	15.9%
Low (%)	N.A.	62.8%	60.9%	51.4%	62.1%
Total	N.A.	100% (289)	100% (285)	100% (194)	100% (769)

Base: All respondents who deal with KiwiSaver (excluding missing information and outliers).

11 Summary by business size

Table 11.1 summarises the compliance changes for each business size, looking at the main components of compliance costs and in relation to each tax type.

Most notably, it highlights the fact that “medium” businesses have experienced reductions in nearly all respects, and large ones at that. In contrast “small” business have increased costs in all components (even number of hours) and for all taxes.

The smaller SMEs (“nil” and “micro”) have a mixture of decreases and increases, some of them relatively large and cancelling each other out.

Table 11.1: Summary of changes in (trimmed) mean compliance costs 2004 to 2009, by component, tax type and by number of employees

CHANGE	Business size (number of employees)				
	Nil	Micro (1-5)	Small (6-19)	Medium (20+)	All
A. All SMEs					
Combined	-3.8%	-0.6%	9.7%	-5.1%	-1.3%
Hours	-20.3%	-16.8%	5.0%	-30.1%	-17.5%
Internal	-6.0%	-0.2%	12.5%	-13.9%	-2.0%
External	2.5%	-2.8%	10.1%	4.1%	0.2%
B. SMEs with tax type obligations					
Income Tax	-5.2%	0.5%	2.0%	-5.9%	-3.2%
GST	0.4%	-13.8%	2.3%	-32.1%	-6.4%
PAYE	N.A.	3.1%	10.7%	26.0%	6.5%
FBT	63.8%	42.0%	17.1%	11.4%	41.6%

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

Base: B: All respondents who pay/file a particular tax type (excluding missing information and outliers).

12 Conclusion

Have compliance costs reduced since 2004? Which aspects? To answer these research questions, we return to the equation highlighting the main elements of compliance costs and discuss the influence the tax system and its administration may have on them:

$$\text{Combined compliance cost} = \text{hours} + \text{external compliance cost} + \text{stress}$$

The major component of the compliance cost equation is the hours spent on doing tax, and is the bedrock of the quantification. It is the large 17.5% reduction in hours that is the main contributor to the 1.3% decrease in combined compliance costs. Owners spend the most time completing the business' tax requirements. This reduction in hours includes the additional hours of KiwiSaver since its introduction in 2007.

Hours and hourly costs

The number of hours that businesses spend meeting their tax requirements is something the tax administration can influence and has aimed to do through the many, often incremental, tax changes over the five years. The tax system can take some credit for this.

In contrast to the time spent on tax, the tax system does not influence the dollar value businesses put on their time. This hourly cost has increased significantly since 2004, over and above inflation. This increase has effectively negated the real improvement in terms of the number of hours when this is converted and integrated into the combined cost change. The increase in the dollar value of time is a main contributor to size of the change in combined compliance costs.

External costs

The compliance cost of external tax advice has remained steady over the five years. Without being able to posit the extent, some of the change in external costs (or lack of it) will be influenced by changes in the amount of work imposed by the tax system, and some by the rate at which the advice is charged out.

Stress

Reinforcing these positive outcomes are the results about stress levels which are lower in 2009 than 2004. Stress levels measured in this work included meeting IRD requirements overall (excluding finding the money), and meeting requirements for GST, provisional tax,

and PAYE (including finding the money). Stress levels associated with KiwiSaver and PAYE were relatively low. Stress associated with FBT increased, but the level of stress is low compared with other taxes in the first place.

Impact of business size

The differences in compliance costs between 2004 and 2009 are reflected to various degrees within business size and in relation to different taxes. When looked at by tax type and in relation to those businesses that have the particular tax obligation, GST had a moderate decrease and income tax a small one. PAYE had a moderate increase and FBT a large one but predicated on a small base.

“Nil” and “medium” businesses have benefited the most and most consistently across different elements of compliance costs. An exception is PAYE for “medium” businesses which incurred a significant increase in cost. In contrast “small” businesses have experienced increased costs in most respects.

The encouraging outcomes are predicated on the large decrease in hours spent on tax. It remains for us to ask questions around whether the reduction in hours is a real one, or is reflecting changes in the economy or the nature of the SME population. To what extent has the tax administration influenced the reduction?

The main component of compliance costs is the number of hours businesses spend doing tax, and hours have reduced substantially. The 2009 data reconfirms what is well known that the number of hours increases with the number of employees, raising the question whether the decrease results from a change in the demographics of the SME population rather than there really being less work to do. For a number of reasons, the reduction in hours appears to be real (ie, not the result of a changing SME population).

The reduction in hours does not appear to be the consequence of a greater preponderance of the smaller SMEs in 2009 than in 2004. In terms of demographics, the 2004 SME population and the 2009 one are very similar – they have the same proportion of “nil” and “micro” businesses with the proportionately fewer hours they bring to the equation. However, restricting the comparison to the around 50% of SMEs that pay PAYE, there are more of the smallest employers in 2009, perhaps contributing to some of reduction in hours. Note though, PAYE registers smaller hours anyway and therefore has a lesser impact on the reduction.

It is the case that average hours reduced substantially for three of the four business sizes. Businesses with no employees had a 20.3% reduction in hours and they are the largest proportion of the total SME population. The largest businesses (“medium”) also had a large reduction in hours (30.1%); their average hours are much greater than other SME business sizes but they are only 2% of the SME population.

Contrasting with this is the “small” group with a 5% increase in hours, hours which register at the higher levels compared to the other smaller-sized SMEs (“nil” and “micro”) and similar to “medium” SMEs’. “Small” SMEs have 6-19 employees and arguably are those in transition from smaller to a bigger business which may incur extra costs.

Fewer businesses were using external tax advice in relation to all tax types, a factor that may have contributed to keeping the external costs steady.

Final remarks

There are changes in the nature of obligations and in the way that businesses deal with tax that have added hours – KiwiSaver and an increase in the proportion of businesses with student loan payers, for example – and yet hours overall have decreased.

In relation to the two questions posed by this work, we conclude that between 2004 and 2009 there has been a significant 17.5% reduction in the internal time SMEs spend on doing tax. This reduction includes the extra hours due to KiwiSaver. The levels of stress are less too. External costs remain steady. However, additional costs have been added through KiwiSaver and via an increase in value of time. Pulling all these components together, in dollar terms the reduction in hours, the increase in the value of time and the external costs average out to a 1.3% reduction in costs to \$5,557 in 2009.

Finally, we cannot be definitive about the drivers of the reduced hours spent on tax and the reduced stress associated with this. For instance, the impact of the economic recession could work to increase or decrease compliance costs in ways we can only hypothesize. We have discounted some of the more obvious external reasons namely, differences in underlying SME demographic characteristics and inflation. We note that the many changes over the years in tax policy and administration, whether aimed specifically at reducing the burden of tax or where this is consequential, are designed in ways to minimise compliance costs. The reduction in time could well be the accumulation of the many improvements over the five years. The evidence at hand shows that this seems to be happening.

Appendices

A: Summary of mean combined tax compliance costs 2009

Table A.1: Summary of mean annual compliance costs by business size (number of employees), 2009

		Business size (number of employees)				All SMEs
		Nil	Micro (1-5)	Small (6-19)	Medium (20+)	
GST	Internal	\$1,591 (521) +/- \$98	\$2,065 (575) +/- \$114	\$2,545 (321) +/- \$205	\$2,419 (203) +/- \$409	\$1,873 (1671) +/- \$70
	External	\$181 (468) +/- \$23	\$351 (527) +/- \$30	\$557 (280) +/- \$95	\$343 (189) +/- \$47	\$267 (1510) +/- \$18
	Combined	\$1,859 (512) +/- \$115	\$2,428 (577) +/- \$121	\$3,027 (322) +/- \$217	\$2,753 (205) +/- \$410	\$2,185 (1667) +/- \$78
Income tax	Internal	\$1,076 (519) +/- \$81	\$1,250 (578) +/- \$95	\$1,401 (326) +/- \$120	\$1,494 (201) +/- \$286	\$1,184 (1674) +/- \$55
	External	\$1,012 (458) +/- \$64	\$1,419 (530) +/- \$72	\$2,138 (270) +/- \$226	\$2,547 (172) +/- \$235	\$1,248 (1475) +/- \$46
	Combined	\$2,000 (505) +/- \$104	\$2,630 (570) +/- \$124	\$3,469 (311) +/- \$283	\$4,205 (191) +/- \$433	\$2,369 (1627) +/- \$74
PAYE	Internal	\$4 (529) +/- \$4	\$1,101 (582) +/- \$70	\$1,855 (328) +/- \$150	\$1,818 (208) +/- \$190	\$542 (1688) +/- \$28
	External	\$8 (471) +/- \$3	\$94 (531) +/- \$13	\$97 (280) +/- \$19	\$124 (190) +/- \$30	\$45 (1519) +/- \$5
	Combined	\$12 (468) +/- \$6	\$1,168 (581) +/- \$70	\$1,970 (329) +/- \$154	\$1,951 (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
	Combined	\$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
	Combined	\$22 (473) +/- \$6	\$84 (540) +/- \$15	\$229 (295) +/- \$45	\$339 (201) +/- \$45	\$65 (1554) +/- \$7
All tax types	Internal	\$2,992 (511) +/- \$189	\$4,824 (583) +/- \$256	\$6,646 (326) +/- \$426	\$6,088 (200) +/- \$814	\$3,995 (1671) +/- \$141
	External	\$1,235 (466) +/- \$74	\$1,955 (542) +/- \$95	\$2,933 (291) +/- \$309	\$3,647 (180) +/- \$338	\$1,639 (1524) +/- \$58
	Combined	\$4,138 (498) +/- \$210	\$6,698 (574) +/- \$285	\$9,501 (322) +/- \$546	\$9,447 (195) +/- \$822	\$5,557 (1639) +/- \$159

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

B: February 2009 changes and possible compliance cost implications

These changes were announced at the time of designing the 2009 survey. We were able to assess possible compliance cost impacts in case they needed to be accommodated in the survey design.

Table B.1: Tax changes announced in February 2009 changes and possible compliance cost implications

Change	
Use of money interest rates	<p>From 1 March 2009, use-of-money-interest rates for underpayments of tax were reduced from 14.24% to 9.73%. The rate for overpayments will go down from 6.66% to 4.23%.</p> <ul style="list-style-type: none"> These changes might have some impact on options SMEs use for estimating provisional tax (including the ratio option), in particular, making it easier for businesses to use the estimation option if they suspect income will fall.
PAYE once a month filing and payment threshold	<p>Increase from \$100,000 to \$500,000 (based on annual PAYE deductions¹⁴). (To apply from 1 April 2009.)</p> <ul style="list-style-type: none"> An estimated additional 19,000 employers would qualify (98% of all employers would be eligible), but not all of these would necessarily change.
FBT annual return filing threshold	<p>Increase from \$100,000 to \$500,000 (based on annual PAYE deductions). (To apply from 1 April 2009.)</p> <ul style="list-style-type: none"> This will again reduce compliance costs, but for a smaller number of SMEs than the PAYE threshold change above. About an additional 4,800 employers would qualify; 98% of all employers would be eligible.
FBT annual return filing	<p>Allowing owner-employees of closely held businesses to file annually, regardless of their annual PAYE deductions, when their FBT liability is limited to up to 2 vehicles. (To apply from 1 April 2009.)</p> <ul style="list-style-type: none"> Again, this seems likely to affect only a small proportion of SMEs.
GST registration threshold	<p>From \$40,000 to \$60,000 (based on annual GST turnover). (To apply from 1 April 2009.)</p> <ul style="list-style-type: none"> "It is estimated that by increasing the GST registration threshold to \$60,000, approximately 47,000 entities would be entitled to deregister if they wished to do so. However, of these entities, an estimated 28,000 entities would choose to remain within the GST system, for competitive reasons or for the ability to obtain input tax deductions, regardless of the increase in the threshold". (The Taxation (Business Tax Measures) Bill, p. 14.)
GST 6-monthly return filing threshold	<p>From \$250,000 to \$500,000 (based on annual turnover). (To apply from 1 April 2009.)</p> <ul style="list-style-type: none"> "Based on current figures, however, increasing the threshold to \$500,000 would mean that an extra 58,000 taxpayers would be able to file GST returns six-monthly if they wish to do so." (Cullen & Dunne, 2007, p. 15)
GST payments basis threshold	<p>Increase from \$1.3 million to \$2 million (based on annual GST turnover). (To apply from 1 April 2009). This provides a cash-flow advantage of only having to pay GST when payment from invoices has been received.</p> <ul style="list-style-type: none"> An additional 5,600 entities would be able to use the payments basis if they wished to do so (96% of all registered GST entities would be eligible).

¹⁴ Details of changes taken from The Taxation (Business Tax Measures) Bill
[www.taxpolicy.ird.govt.nz/publications/files/Tax\(BTM\)Bill.pdf](http://www.taxpolicy.ird.govt.nz/publications/files/Tax(BTM)Bill.pdf), accessed 25 February 2009.

Change	
Accounting for financial arrangements	<p>Allowing non-individuals to return income tax for financial arrangements on a cash-accounting basis, and increasing the threshold for straight line accounting from \$1.5 million to \$1.85 million (based on the total level of financial arrangements).</p> <ul style="list-style-type: none"> • These appear to be complex matters affecting relatively few SMEs.
Low value trading stock threshold	<p>Increasing the exemption for adjustments from \$5,000 to \$10,000 (based on the value of trading stock).</p>
Provisional tax uplift rate	<p>Reduce the current standard method provisional tax uplift baselines from 105% or 110%, to 100% or 105%, or to 90% and 95% for transitional provisional taxpayers (based on residual income tax). (To apply from 1 April 2009 to provisional tax payments for the 2008/2009 and 2009/2010 income years payable after this date.) The standard uplift rates of 105% and 110% will apply again in the 2010/2011 tax year.</p> <ul style="list-style-type: none"> • The Bill (p. 17) anticipated this would cause the greatest increase in compliance costs (and estimated \$0.5m). • Large numbers could be affected. Estimates are that reduction in provisional tax payable could affect 223,000 individuals and 45,000 companies. • Cash flow impacts are large (and massively outweigh estimates of compliance cost increases). Estimates for SMEs provided suggested \$245m reductions in payments from SMEs in 2008/09 and \$85m less in 2009/2010 (with a \$320m increase in 2010/11).
Provisional tax use-of-money interest (UOMI) safe harbour threshold	<p>Increase from \$35,000 to \$50,000 (based on annual residual income tax).</p> <ul style="list-style-type: none"> • Affects large numbers: Inland Revenue estimates about 125,000 taxpayers for underpayment of income tax, 100,000 taxpayers for overpayment of income tax, with some more for other taxes.
FBT on unclassified fringe benefits	<p>Increasing the de minimis thresholds for exempting minor benefits from FBT from \$15,000 per annum per employer and \$200 per quarter per employee, to \$22,500 and \$300 respectively.</p> <ul style="list-style-type: none"> • This will reduce the number of businesses needing to make FBT returns.
Simplified rules for deducting legal expenditure	<p>Allowing businesses to immediately deduct business-related legal expenditure, up to \$10,000 a year, without having to distinguish between revenue and capital. (To apply from the 2009/2010 income year.)</p> <ul style="list-style-type: none"> • May have little impact on SME compliance costs.

C. Making the 2004 dataset comparable to 2009

In designing and implementing the 2009 research methodology, we used the 2004 methodology as a starting point. Experience gained from the 2004 benchmarking research and the availability of specialist statistical software meant the 2009 research could benefit from a number of design improvements. These changes were made for the 2009 study, along with modifications to reflect the introduction of the ratio option¹⁵ and KiwiSaver, but make the 2004 data not directly comparable without correction. The following tasks were carried out addressing the changes in design between the 2004 and 2009 datasets so that results can be directly compared to the 2009 study. The two required tasks are below:

1 2004 population design changes

1.1 Improvements were made to the design of the 2009 SME population to reflect lessons learnt and enhancements from the 2004 study. These changes include:

- a) Improved definition of turnover incorporating IR 10 and IR 3 and GST turnover (in 2004 we used only GST-based turnover).
- b) Using a 12-month period to check PAYE and GST registration rather than the point in time method used in 2004. Has the SME been registered for GST or PAYE in the last 12 months? That is, for 2009 did registration end after 31 July 08 or is it still active? We also removed those registrations “opened in error” and those started and ended the same day.
- c) Family trusts were deliberately dealt with by excluding those obviously not in business. A trust was deemed to be in business if at least half of the trust’s income came from business income “net profits”.
- d) The few Maori authorities have been excluded (by entity type).
- e) Estate and Foreign Trusts were excluded from 2009.
- f) The list of Not for Profits exemptions were updated, adding VT - Vet. Service Clubs to the list.
- g) Individuals – PT¹⁶ were included in the base population (added to SE and EM) – all have to pass a subsequent “in business test”.
- h) Based on feedback from 2004 and the difficulties with correctly defining the self employed income-only sub population, we revised the business test for income only IR 3 filers replacing the test with a much tighter one. For Sole Traders [Entity type = I (individual)] a new test was introduced: if income from self-employment was at least \$16,095¹⁷ then the individual was considered a SME of interest and included in the population.

1.2 The 2004 Colmar Brunton report is based on 1,907 respondents. Once the 2004 population was redefined, the 1,907 sample respondents from the 2004 survey were checked to see if they remained in the population and hence valid SMEs under the new definition. The 2004 revised dataset contains 1,739 SMEs – a loss of 168 respondents from the 2004 study.

¹⁵ 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.

¹⁶ EM – Self-employed & employer, PT – Other provisional taxpayer, SE – Self-employed – not employer

¹⁷ Self-employed income appears (NET_PROFIT) as Q22 on the 2009 IR 3. An income of \$16,095 reflects the threshold at which an individual has to pay provisional tax (RIT > \$2,500).

The 168 were excluded under the revised 2009 population definitions because:

- 29 (17%) individuals were not sole traders
- 64 (38%) were trusts not in business
- 53 (32%) were too small

Of the 168 respondents lost:

- 53% were income only
- 66 (38%) were trusts, 51 (30%) were individuals
- 87 (52%) had GST obligations; 36 (21%) had PAYE.

2 Applying 2009 business rules to 2004 dataset

The process of getting the 2009 dataset ready for analysis – the data verification, checking and imputing phases – involved applying a number of enhanced business rules. Some of these are different to the approach that was taken by Colmar Brunton in 2004. For example, in 2004 answers to Q1 (which tax type) were the only factor in deciding the tax type split for tables and chapters relating to those who filed/paid the particular tax type. In 2009, hours spent by activity by tax type (Q13a) and external costs were taken into account in defining a respondent's tax type obligations as well as Q1. These three factors were used to create "tax type indicators" INC_ind, GST_ind etc.

For consistency and to aid comparison with the 2009 dataset, the 2004 dataset needs to be subjected to the same business rules. The modified and new business rules¹⁸ implemented in 2009 were concerned with incomplete or contradictory data in relation to the following questions and issues:

- i. Q1 (which tax type): tax type indicators also used rather than relying solely on Q1.
- ii. Q13a: hours spent by activity by tax type – respondents reporting time for individual activities but no total time.
- iii. Q13b: hours spent by personnel by tax type – respondents reporting time for person types but no total time.
- iv. Different Q13a and Q13b totals.
- v. External costs: as well as dealing with inconsistencies, there were rules to apportion the external cost totals across tax type where SMEs had no linked agent survey information, had more than one external tax type, but did supply a total external dollar cost.

¹⁸ A detailed set of rules is available from Evaluation Services, Inland Revenue Department, New Zealand.

D: Profile of SMEs 2004 vs 2009 – All SMEs

Table D.1: Summary of SME profile by key variables: 2004, 2004 adjusted and 2009

SME demographics	2004 unadjusted	2004 adjusted	2009
	%	%	%
Number of employees			
Nil	63	56	57
Micro (1-5)	28	32	33
Small (6-19)	7	8	9
Medium (20+)	3	3	2
Total	100	100	100
Tax type			
Income tax	97	97	95
GST	78	94	93
PAYE	44	53	49
KiwiSaver	NA	NA	24
FBT	7	24	12
Tax type combination			
Income only	22	5	7
Income, GST	29	35	40
Income, GST, PAYE	26	33	37
Income, GST, PAYE, FBT	16	19	10
Length of time in business			
Less than six months	} 3	0	1
Six months < 1 year	}	2	2
1 – 2 years	11	11	10
3 – 5 years	18	20	27
6 – 10 years	17	18	21
> 10 years	48	46	38
missing	1	1	1
Total	98	100	100
Use a tax advisor :			
Regardless of tax type	80	83	80
SME population	485,149	400,884	444,699

Base: All respondents regardless whether they pay/file a particular tax type (excluding missing information, unless indicated).

Note: "Total" may not add up to 100% due to rounding

E: Profile of SMEs 2004 vs 2009 – Income tax

Table E.1: Summary of SME profile by key variables; 2004 adjusted and 2009

SME demographics – Income tax	2004 adjusted	2009
	%	%
Number of employees		
Nil	56	56
Micro (1-5)	32	33
Small (6-19)	8	9
Medium (20+)	3	2
Total	100	100
Tax type		
Income tax	100	100
GST	94	93
PAYE	53	49
KiwiSaver	NA	25
FBT	25	12
Tax type combination		
Income only	6	7
Income, GST	36	42
Income, GST, PAYE	33	39
Income, GST, PAYE, FBT	19	10
Length of time in business		
Less than six months	0	1
Six months < 1 year	2	2
1 – 2 years	11	10
3 – 5 years	20	27
6 – 10 years	18	21
> 10 years	47	39
missing	1	1
Total	100	100
Use a tax advisor for:		
Income tax	72	68
SME population	389,634	423,859
Population ratio	1	1.1

Base: All respondents who file/pay income tax (excluding missing information, unless indicated).

Note: "Total" may not add up to 100% due to rounding

F: Profile of SMEs 2004 vs 2009 – GST

Table F.1: Summary of SME profile by key variables; 2004 adjusted and 2009

SME demographics – GST	2004 adjusted	2009
	%	%
Number of employees		
Nil	54	53
Micro (1-5)	34	35
Small (6-19)	9	9
Medium (20+)	3	2
Total	100	100
Tax type		
Income tax	97	95
GST	100	100
PAYE	56	52
KiwiSaver	NA	26
FBT	26	12
Tax type combination		
Income only	0	0
Income, GST	37	43
Income, GST, PAYE	34	40
Income, GST, PAYE, FBT	20	10
Length of time in business		
Less than six months	0	1
Six months < 1 year	3	2
1 – 2 years	12	10
3 – 5 years	20	27
6 – 10 years	18	21
> 10 years	46	38
missing	1	1
Total	100	100
Use a tax advisor for:		
GST	40	37
SME population	378,577	413,440
Population Ratio	1	1.1

Base: All respondents who file/pay GST (excluding missing information, unless indicated).

Note: "Total" may not add up to 100% due to rounding

G: Profile of SMEs 2004 vs 2009 – PAYE

Table G.1: Summary of SME profile by key variables; 2004 adjusted and 2009

SME demographics – PAYE	2004 adjusted	2009
	%	%
Number of employees		
Micro (1-5)	61	72
Small (6-19)	16	19
Medium (20+)	6	5
Unknown	17	4
Total	100	100
Tax type		
Income tax	97	96
GST	100	99
PAYE	100	100
KiwiSaver	NA	49
FBT	36	20
Tax type combination		
Income only	0	0
Income, GST	0	0
Income, GST, PAYE	61	76
Income, GST, PAYE, FBT	36	20
Length of time in business		
Less than six months	0	2
Six months < 1 year	2	1
1 – 2 years	10	10
3 – 5 years	20	24
6 – 10 years	18	20
> 10 years	47	42
missing	1	1
Total	100	100
Use a tax advisor for:		
PAYE	23	21
SME population	212,250	215,752
Population ratio	1	1.0

Base: All respondents who file/pay PAYE (excluding missing information, unless indicated).

Note: "Total" may not add up to 100% due to rounding

Student Loans

Table G.2: Summary of employer student loan obligations; 2004 adjusted and 2009

Student Loans (PAYE)	2004 adjusted	2009
% who employ staff paying student loans	17.1% (1290)	25.1% (1212)
Hours spent on PAYE (mean) SMEs who employ staff paying student loans	44 hrs	41 hrs
Hours spent on PAYE (mean) SMEs who DO NOT employ staff paying student loans	24 hrs	18 hrs
Mean combined PAYE compliance costs SMEs who employ staff paying student loans	\$1,630	\$1,848
Mean combined PAYE compliance costs SMEs who DO NOT employ staff paying student loans	\$1,059	\$1,021
Overall mean combined PAYE compliance costs -- [For comparison] --	\$1,156	\$1,231

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

Child Support

Table G.3: Summary of employer Child Support obligations; 2004 adjusted and 2009

Child Support (PAYE)	2004 adjusted	2009
% who employ staff paying child support	9.2% (1290)	10.7% (1212)
Hours spent on PAYE (mean) SMEs who employ staff paying child support	52 hrs	44 hrs
Hours spent on PAYE (mean) SMEs who DO NOT employ staff paying child support	25 hrs	22 hrs
Mean combined PAYE compliance costs SMEs who employ staff paying child support	\$1,879	\$2,028
Mean combined PAYE compliance costs SMEs who DO NOT employ staff paying child support	\$1,084	\$1,134
Overall mean combined PAYE compliance costs -- [For comparison] --	\$1,156	\$1,231

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

External Payroll

Table G.4: Summary of SMEs using external payroll services; 2004 adjusted and 2009

External Payroll (PAYE)	2004 adjusted	2009
% SMEs using external payroll services	6.9% (1290)	8.0% (1212)
Mean cost of external payroll services (NOT INCLUDED in Compliance cost calculations)	\$1,704	\$1,022
Hours spent on PAYE (mean) SMEs who use external payroll services	34 hrs	27 hrs
Hours spent on PAYE (mean) SMEs who DO NOT use external payroll services	27 hrs	24 hrs

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

H: Profile of SMEs 2004 vs 2009 – FBT

Table H.1: Summary of SME profile by key variables; 2004 adjusted and 2009

SME demographics - FBT	2004 adjusted	2009
	%	%
Number of employees		
Nil	33 <i>(32,003)</i>	24 <i>(11,554)</i>
Micro (1-5)	44 <i>(42,809)</i>	44 <i>(21,306)</i>
Small (6-19)	15 <i>(14,669)</i>	23 <i>(11,053)</i>
Medium (20+)	8 <i>(8,188)</i>	9 <i>(4,447)</i>
Total	100	100
Tax type		
Income tax	99	100
GST	100	100
PAYE	79	83
KiwiSaver	NA	60
FBT	100	100
Tax type combination		
Income only	0	0
Income, GST	0	0
Income, GST, PAYE	0	0
Income, GST, PAYE, FBT	78	88
Length of time in business		
Less than six months	1	0
Six months < 1 year	3	2
1 – 2 years	12	6
3 – 5 years	18	21
6 – 10 years	17	25
> 10 years	48	46
missing	1	0
Total	100	100
Use a tax advisor for:		
FBT	29	46
SME population	97,669	51,440
Population Ratio	1	0.5

Base: All respondents who file/pay FBT (excluding missing information, unless indicated).

Figures in brackets in "Number of employees" section of table are weighted population counts eg, *(32,003)*

Note: "Total" may not add up to 100% due to rounding

I: Summary of median combined tax compliance costs 2009

Table I.1: Median annual compliance costs by business size (number of employees), 2009

		Business size (number of employees)				All SMEs
		Nil	Micro (1-5)	Small (6-19)	Medium (20+)	
GST	Internal	\$1,039 (529)	\$1,433 (595)	\$1,577 (340)	\$838 (213)	\$1,222 (1728)
	External	\$0 (472)	\$0 (537)	\$100 (285)	\$0 (193)	\$0 (1534)
	Overall	\$1,100 (529)	\$1,642 (595)	\$2,200 (340)	\$1,158 (213)	\$1,467 (1728)
Income tax	Internal	\$550 (529)	\$611 (595)	\$886 (340)	\$733 (213)	\$611 (1728)
	External	\$717 (472)	\$1,000 (537)	\$1,500 (285)	\$1,570 (193)	\$828 (1534)
	Overall	\$1,465 (529)	\$1,926 (595)	\$2,446 (340)	\$2,184 (213)	\$1,589 (1728)
PAYE	Internal	\$0 (529)	\$722 (595)	\$1,219 (340)	\$1,066 (213)	\$0 (1728)
	External	\$0 (472)	\$0 (537)	\$0 (285)	\$0 (193)	\$0 (1534)
	Overall	\$0 (529)	\$733 (595)	\$1,298 (340)	\$1,219 (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	\$1,711 (529)	\$3,300 (595)	\$4,878 (340)	\$3,859 (213)	\$2,384 (1728)
	External	\$900 (483)	\$1,500 (550)	\$2,700 (300)	\$2,438 (199)	\$1,098 (1580)
	Overall	\$2,850 (529)	\$5,017 (595)	\$7,476 (340)	\$6,855 (213)	\$3,719 (1728)

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

Source: 2009 SME Compliance Cost report table 14.5