



Inland Revenue
Te Tari Taake

SME tax compliance costs 2004 to 2013

Evaluation report 2

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SME tax compliance costs 2004 to 2013

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Section 1. Executive summary

Purpose

An objective of undertaking the 2013 survey of SME tax compliance costs is to measure the change in these costs since 2004. This report addresses two key questions:

1. Have SME tax compliance costs been reduced since 2004 and/or 2009? 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 1,730 small and medium businesses (SMEs) in 2004, the follow-up survey of 1,728 SMEs in 2009 and the second follow-up survey of 1,206 SMEs in 2013/14. However, it should be noted that the results as described in this comparative report are not based upon a longitudinal study of the same businesses' tax compliance costs over time. Each survey was conducted as an independent study, wherein businesses were randomly sampled on a stratified basis for each survey. As such, the comparisons detailed in this report are based upon three different measures of samples of New Zealand SMEs.

Context

Successive New Zealand governments have used tax policy and administration to ensure taxpayers meet their tax obligations, in addition to reducing and limiting the costs of compliance for taxpayers. However, it is a given that tax policy and administration changes can operate in the opposite direction as well, by adding compliance costs.

Changes in the economy (e.g. those resulting from the recent financial recession), business practices (e.g. the use of third party agents) and circumstances can also affect compliance costs. However, it is believed that changes to tax laws and tax administrative processes can have the most significant impact on compliance costs.

Changes to tax laws and administrative processes that have occurred since 2011 include:

2011

Effective April 2011, the reduction of the company tax rate from 33 percent to 28 percent resulted in most companies needing to deduct RWT from dividends. This was expected to have an impact on Business Income Tax administration and increase the amount of time involved for those companies which pay out dividends. In 2011 there was also a streamlining of different entity types, with the elimination of loss attributing qualifying company (LAQC) rules and the introduction of 'flow-through' or looking through companies (LTC), which was also expected to increase Business Income Tax-related costs.

2012

Of the changes implemented in the Taxation Act 2012, the two that were expected to have the biggest impacts were:

- Changes in the record keeping rules, with the expected flow-on to businesses being a decrease in time and costs spent on record keeping, and
- The introduction of ESCT/removal of ESCT exemption in relation to KiwiSaver. This was expected to increase the costs associated with administering KiwiSaver initially, but this would be expected to abate over time as businesses made the relevant changes to their internal tax systems.

Other policy administration changes in 2012, expected to decrease tax compliance costs, were the simplification of IR's website and processes for e-filing GST (eGST), which were anticipated to have an impact on GST-related compliance; and the simplification of the IR10, expected to decrease time and costs spent by self-employed businesses.

2013

In April 2013 a change in relation to the mixed-use asset regime came into effect, which was expected to have an impact on Business Income Tax-related compliance costs for companies with five or fewer employees that have mixed-use assets (e.g. boats, baches).

Other potential factors

All of the above information has been provided for contextual purposes, as it is not possible to untangle the actual compliance cost effect of these different initiatives; i.e. there is insufficient data to attribute a causative effect of a particular policy/administrative change to any observed changes in the 2013 survey results, when compared with 2004 or 2009. It should also be noted that making a tax 'easier', does not necessarily equate with reducing compliance costs. However, we would expect that some of the changes observed in 2013, particularly in relation to the reduction of hours spent on specific tax types, are likely to be in part a result of some of the above changes.

The survey was conducted in the latter part of 2013 and early 2014, roughly one year into New Zealand's economic recovery. However, there is some evidence of the impact of the Global Financial Crisis (GFC) on New Zealand businesses. This can be seen in the value SMEs place on their time in 2013, which has not increased significantly compared with the 2009 survey. The GFC's impact can also be observed in the inflation factors which have been used to adjust the historic 2004 and 2009 micro data to 2013 dollar costs (based on historic economic performance data sourced from Statistics New Zealand; specifically, the Producers Price Index and the Consumers Price Index).

Other than what appears to be an impact on the value of owners' time and inflation rates, as noted above, no data on the GFC's broader impact on businesses' practices was factored into the design of the 2009 and 2013 surveys. As such, the impacts and their flow-on effects of the GFC on tax compliance costs have not been taken into account in the approach to analysing the survey data. Neither have any attempts been made to explicitly or implicitly attribute any changes in tax compliance costs over time that are noted in this report as being due to the GFC. To do so without explicit evidence would be conjecture on our part.

Similarly, any impacts of the Christchurch earthquakes, and more recently the Seddon earthquakes, have not been taken into account in our analysis or reporting.

Methodology

This report is based on the compliance costs measured from two paper-based surveys conducted with SMEs in October 2004 and September 2009 respectively, and a mixed methods (online and paper-based) survey of SMEs in late 2013/early 2014, referred to throughout this report as the 2013 survey.

Particular care has been taken to ensure the 2013 survey replicated the methodologies used in 2004 and 2009, including sampling parameters. In addition, dollar values associated with reported tax-compliance hours spent as reported in 2004 and 2009 were inflation-adjusted to 2013 dollar values for the purposes of making comparisons with the 2013 survey results.

This entailed recalibrating the micro data from the 2004 and 2009 surveys, based upon changes in the Labour Cost Index (LCI) and Producers Price Index (PPI) and recalculating the trimmed means of all hour and dollar-related data. Specific details as to how this was done are described in Section 4 of this report. Table 1.1 below shows the unadjusted and adjusted hourly rates applied to respondents' time, based upon the personnel type, for the 2004 and 2009 surveys, as well as the hourly rates applied to 2013 survey respondents' time.

Table 1.1: Value of time; 2004 and 2009, 2004 and 2009 inflation adjusted, and 2013

Personnel	2004 unadjusted value	2004 inflation adjusted value	2009 unadjusted value	2009 inflation adjusted value	2013	Source
Owners	\$43.99	\$58.26	\$61.12	\$66.13	\$61.13	SME Tax Compliance Cost Survey respondents
Paid employees	\$20.31	\$25.54	\$25.39	\$27.42	\$28.03	Statistics New Zealand QES*
Unpaid family/friends	\$25.70	\$32.31	\$33.31	\$35.97	\$38.69	SME Tax Compliance Cost Survey respondents

*Average hourly rate from the New Zealand Income Survey December 2013 quarter.

Some definitions

Overall tax compliance costs

A simplified version of the definition of compliance costs, as used in this report, is as follows:

- Combined compliance cost = hours spent dealing with tax-related activities (converted to internal compliance costs) + external compliance cost + stress (as a measure of psychological cost).

Business size by number of employees

The following terms are used in this report to categorise business size:

- Nil – no employees excluding the business owner
- Micro – 1-to-5 employees excluding the business owner
- Small – 6 to 9 employees excluding the business owner
- Medium – 20 plus employees excluding the business owner.

The upper threshold at which a businesses was no longer considered a “medium” SME, and therefore outside of the research’s scope, was 50 employees and/or turnovers of \$13.5 million or greater.

“All SMEs”

Distinction is made between cost figures for all SMEs (as reported in Section 5) and cost figures for businesses that deal with specific taxes, each of which is reported in a different section of the report. “All SMEs” refers to every business in the sample, even though they may not file/pay all taxes (and therefore would have *no* costs associated with those taxes). This allows for providing the reader a New Zealand-wide view of SME tax compliance costs.

Sample profiles for all three years’ survey results (all SMEs, regardless of tax type) can be found in Appendix C.

Findings for all SMEs

Changes in SMEs demographic characteristics

- An examination of the profiles of 2004, 2009 and 2013 SMEs found that in 2013 a larger proportion of SMEs do not have any employees (64 percent, compared with 57 percent in 2009 and 56 percent in 2004).
- More SMEs in 2013 report having been in operation for 10 or more years (51 percent), when compared with 2009 (38 percent), however the number of SMEs reporting this is the case is in line with the 2004 survey findings (46 percent).

Overall combined compliance costs

Overall combined compliance costs have not changed significantly over the five years since the 2009 study (\$5,861 in 2013 compared with \$5,962 in 2009). However, they have decreased overall since 2004 by 11.7 percent, from \$6,640.

There have also been a number of increases and decreases in relation to specific taxes – with the changes by no means being proportional across the different types of cost incurred, size of business and/or type of tax. Some of the most significant changes include:

- *Overall combined.* As noted above, the average combined tax compliance cost has not changed significantly (a 1.7 percent decrease, or reduction of \$101 per year per SME), when compared with 2009. However, it has decreased by 11.7 percent, or \$779 per year per SME, when compared with 2004.
- *Source of costs 2009 versus 2013.* Despite the lack of significant change in overall combined internal/external costs since 2009, the 2013 survey suggests that there has been some shifting of costs from internal to external sources since 2009. While internal costs have decreased by 12.6 percent since 2009 (a decrease of \$543), external costs increased by \$332, a 22.0 percent increase since 2009.
- *Source of costs 2004 versus 2013.* While there are no significant differences between 2004 and 2013 external costs (a decrease of only 1.1 percent or \$21), internal costs have decreased significantly – down 17.0 percent when comparing those reported in 2004 and those in reported 2013 (a decrease of \$774 per SME on average).

Components that contribute to a decrease in overall compliance costs

- *Internal hours* spent on tax have reduced by 19.7 percent overall since 2004. While the results also suggest that SMEs are spending fewer internal hours on tax compliance in 2009, the observed decrease is not statistically significant and should therefore be treated as indicative only.
- *Personnel-specific time* spent by owners in particular is down significantly from 2004 (20.8 percent), as well as that spent by employees (down 18.3 percent since 2004). There has also been a decrease in the number of hours reported for unpaid friends and family. However, as those hours do not contribute significantly to overall internal costs, the decrease in unpaid friends and family hours has not contributed significantly to the overall decrease observed.
- *Shifting of costs.* As noted there has been a shifting of costs from internal components (i.e. owners and staff time) to external tax advisors and/or external payroll providers since 2009.

Components that contribute to an increase in overall compliance costs

- *Personnel salary and wages.* While the hourly dollar value for owners' time is less than that reported in 2009, overall hourly dollar values for owners, employees and unpaid friends and family are up significantly when compared to inflation-adjusted 2004 hourly values. For example, the inflation-adjusted hourly rate for owners (whose time is the greatest contributor to overall internal compliance costs) in 2013 is \$61.13, compared with \$58.32 in 2004 (an overall change of 4.9 percent). The value of employees' time has risen from \$25.54 in 2004 to \$28.03 in 2013 (an overall increase of 9.7 percent).
- *External compliance costs* associated with income tax and GST. When compared with the inflation-adjusted external tax costs reported in 2009, external costs in 2013 (\$1,842) are significantly higher (up 22.0 percent from \$1,510 in 2009). The increase in overall external costs between 2009 and 2013 for all businesses (regardless of whether they pay/file a particular tax) are driven by the significant increase in income tax and GST external costs (up 20.8 percent and 51.4 percent respectively).

Changes in internal costs

2004 to 2013

- Internal costs have trended downward since the 2004 benchmark from \$4,552 in 2004 to \$4,321 in 2009. Based on the 2013/14 survey results, mean internal costs decreased a further 12.6 percent to \$3,778 between 2009 and 2013 – a total decrease of 17.0 percent since 2004 (in 2013 dollars). However, due to the relevant margins of error associated with the 2009 and 2013 results, the observed 12.6 percent decrease should be treated as indicative only.
- The overall 24.1 percent decrease in hours spent by SMEs in relation to Income Tax since 2004 can be attributed to a significant decrease in the number of owner hours, while the 22.5 percent decrease in hours spent on GST is the result of a combination of reductions in both owner and employee hours.

2009 to 2013

- Compared with 2009, there have been no significant changes in the number of hours spent on different taxes (reductions or increases), overall or by personnel type. However, in 2013 SMEs spent less time in relation to Income Tax, GST and/or FBT than they would have done in 2004. This suggests that the significant reductions in time spent by all SMEs in relation to those particular taxes between 2004 and 2009 have not been reversed by changes to the tax regime over the last five years.

Changes in external compliance costs

2004 to 2013

- Overall, external costs (i.e. the cost of external tax advisors) are unchanged since 2004 after adjusting the 2004 costs to 2013 dollars. This is despite the introduction of KiwiSaver since 2004. On average, SMEs paid \$1,842 in external tax compliance costs in 2013, compared with \$1,863 in 2004.

2009 to 2013

- When compared with the inflation-adjusted external tax costs reported in 2009, external costs in 2013 (\$1,842) are significantly higher (up 22.0 percent from \$1,510 in 2009). The increase in overall external costs between 2009 and 2013 for all businesses (regardless of whether they pay/file a particular tax) is driven by the significant increase in Income tax and GST external costs (up 20.8 percent and 51.4 percent respectively).

Tables 1.2a and 1.2b overleaf provide details as to the percentage of change in mean compliance costs by component, tax type and number of employees. The first table compares results between 2004 and 2013, and the second table compares 2009 and 2013. Similar tables comparing the actual mean dollar costs for all SMEs in 2013, with the adjusted dollar costs as reported in 2004 and 2009, can be found in Section 5 of this report.

Changes in overall stress levels

The mean overall stress score (measured on a scale of 1 to 7) associated with meeting all Inland Revenue requirements (ignoring finding the money) in 2013 has decreased significantly from 3.4 in 2004 to 3.0 in 2013. However, when compared with 2009 reported stress levels, the observed decrease from 3.2 is not statistically significant.

The proportions of all businesses that rated meeting Inland Revenue requirements as highly stressful (16 percent)¹, is also down significantly from 2004 (24 percent), with significantly more businesses also reporting low stress (63 percent in 2013, compared with 50 percent in 2004). However, there are no statistically significant differences between reported stress levels in 2013 and 2009.

¹ High stress is defined as a score of 5 or higher, while low stress is defined as a score of 3 or lower.

Table 1.2a: Summary of changes in (trimmed) mean compliance costs 2004 to 2013 by component, tax type and by number of employees

Change	Nil	Micro (1-5)	Small (6-19)	Medium (20+)	All
A. All SMES					
Combined costs	-10.8%	-6.9%	-2.7%	7.1%	-11.7%
Hours	-15.7%	-12.2%	-9.1%	-24.3%	-19.7%
Internal costs	-19.5%	-7.6%	-1.1%	-16.2%	-17.0%
External costs	2.2%	-0.9%	13.2%	38.5%	-1.1%
B. SMEs with tax type obligation					
Income Tax	-4.2%	-6.8%	-3.3%	4.3%	-7.2%
GST	-5.4%	-11.4%	-6.0%	-28.1%	-10.3%
PAYE	N/A	5.8%	-2.3%	12.0%	-4.0%
KiwiSaver	N/A	N/A	N/A	N/A	N/A
FBT	-65.9%	-37.2%	1.0%	-6.2%	-38.1%

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 outliers).

Table 1.2b: Summary of changes in (trimmed) mean compliance costs 2009 to 2013 by component, tax type and by number of employees (2009)

Change	Nil	Micro (1-5)	Small (6-19)	Medium (20+)	All
A. All SMES					
Combined costs	2.2%	2.6%	-2.6%	23.6%	-1.7%
Hours	5.8%	5.5%	-13.4%	8.2%	-2.7%
Internal costs	-11.4%	-4.4%	-9.4%	0.0%	-12.6%
External costs	24.6%	24.0%	23.9%	43.7%	22.0%
B. SMEs with tax type obligation					
Income Tax	14.6%	8.6%	7.4%	23.3%	9.8%
GST	-0.7%	8.7%	-2.0%	10.7%	1.1%
PAYE	NA	7.6%	-7.6%	-2.8%	-5.1%
KiwiSaver	NA	-18.1%	-15.7%	-18.0%	-38.5%
FBT	-77.2%	-51.6%	-6.8%	-8.9%	-52.5%

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 outliers).

Findings by tax type among tax-specific liable businesses

Income tax

From 2004 to 2013, changes in mean compliance costs associated with income tax for income tax filers/payers include:

- An overall increase of 9.8 percent since 2009 (\$2,881 in 2013, compared with \$2,624 in 2009). However, income-tax costs are still lower than those reported in 2004 (\$3,106 after adjusting 2004 costs to 2013 dollars).
- The trimmed mean for all internal hours spent on income tax in 2013 (20.5) is in line with those spent by SMEs in 2009 (22.3), but is still down significantly from that reported in 2004 (27.0).
- External compliance costs increased by 7.4 percent (\$101 dollars on average) since 2009, but the increase is not statistically significant. 2013 external costs (\$1,469 on average for businesses who pay/file income tax) are still 10.2 percent lower than those paid by such businesses in 2004 (\$1,636 after adjusting 2004 costs to 2013 dollars).

GST

From 2004 to 2013, changes in mean compliance costs associated with GST for GST filers/payers include:

- A significant increase in GST-related external costs since 2009 (reported as being \$437 on average in 2013, which is a 44.2 percent increase from \$303 in 2009). However, 2013 costs are in line with those reported in 2004 (\$443).
- A significant decrease in GST-related internal costs since 2004 (reported as being \$2,027 on average in 2013, compared with \$2,407 in 2004, a 15.8 percent decrease), though 2013 GST-related internal costs are not significantly different from those reported in 2009 (\$2,183).
- Hours spent on GST in 2013 (37.1 on average) are unchanged from 2009, however, they are down by 22.5 percent from 2004 (47.9).

PAYE

From 2004 to 2013, the findings in relation to mean compliance costs associated with PAYE for PAYE filers/payers include:

- Total PAYE compliance costs (\$1,256) remain relatively unchanged from those reported in 2009 (\$1,324 after adjusting 2009 costs to 2013 dollars) or 2004 (\$1,308).
- However, external costs, which comprise a relatively small proportion of PAYE-related compliance costs, have dropped significantly from \$115 in 2004 and \$97 in 2009 to \$29 on average in 2013, a decrease of 74.8 percent since 2004.

FBT

From 2004 to 2013, changes in mean compliance costs associated with FBT for FBT filers/payers include:

- The costs associated with FBT have decreased significantly from both 2009 and 2004. In 2013 the total compliance cost associated with FBT was \$219 on average (trimmed means), among FBT-liable businesses, compared with \$461 in 2009 (a 52.5 percent reduction) and \$354 in 2004 (a 38.1 percent reduction).
- Despite businesses reporting a similar number of hours dealing with FBT in 2013 compared with 2009 and 2004, businesses who pay/file FBT reported lower internal costs in 2013 (\$197 on average, compared with \$245 in 2004 and \$346 in 2009).
- External costs are also down significantly; reported as being just \$19 on average, compared with \$100 in 2009 and \$134 in 2004.

KiwiSaver

From 2009² to 2013, changes in mean compliance costs associated with KiwiSaver for SMEs which deal with KiwiSaver include:

- On average the total number of hours spent by all businesses on KiwiSaver compliance was 14.9 in 2013, which is in line with 14.5 hours, as reported in the 2009 survey. However, costs associated with KiwiSaver, particularly external costs, are down significantly:
- Internal costs in 2013 are \$459 on average, compared with \$714 in 2009 (a 35.7 percent reduction). The decrease is a reflection of the decreased dollar amounts that owners attached to their time since the 2009 survey.
- External costs in 2013 are just \$2 on average, compared with \$49 in 2009 (a 96.0 percent reduction).
- Total KiwiSaver costs in 2013 are \$468 on average, compared with \$761 in 2009 (a 38.5 percent reduction overall).

² The KiwiSaver scheme was introduced in 2007 and was therefore included in the survey for the first time in 2009.

Section 2. Purpose

An objective of undertaking the 2013 survey of tax compliance costs of SMEs is to measure the change in those costs since 2004 and 2009.

In 2004 Inland Revenue measured the tax compliance costs of nearly 2000 SMEs and 275 tax agents.³ These results provided a baseline before the introduction of several initiatives aimed at making tax easier for small businesses (e.g., GST and provisional tax alignment, subsidised payroll intermediaries, a discount for early payment of provisional tax in the first year of business). In 2009 Inland Revenue conducted a second measure of SMEs' tax compliance costs,⁴ using similar methods to those used in 2004. The objectives of the 2009 survey were to assess trends in compliance costs during the preceding five years, and gauge the impact of major initiatives on tax compliance costs such as the introduction of KiwiSaver.

Repeating the survey in late 2013 and early 2014 enables Inland Revenue to again assess on-going trends in tax compliance costs to small businesses, which is the focus of this report.

The full results of 2013 tax compliance costs for SMEs are reported in a separate companion report – *SME Tax Compliance Costs 2013*.

Evaluation objectives

The overarching objective of this study is to provide evidence-based information on the tax compliance costs of small and medium-sized businesses in 2013, and how those costs have changed since the 2004 and 2009 surveys. As with the two previous surveys, the 2013 survey quantifies SMEs compliance costs in terms of hours and dollars spent, and reported stress levels.

This report specifically addresses two key questions:

1. Have SME tax compliance costs been reduced since 2004 and/or 2009? 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

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

Section 4 explains the methodology involved in comparing 2004 and 2009 compliance costs with those of 2013.

Sections 5-11 record the findings of our analysis of the 2013 survey results, compared with the findings of the 2004 and 2009 surveys, after adjusting 2004 and 2009 dollar costs to 2013 dollars. Generally, the first page or two of each chapter summarises the main points. This is followed by detailed tables.

Section 5 records the changes in the overall tax compliance costs for all SMEs, regardless of whether they file/pay a particular tax. Sections 6-10 examine changes in relation to a specific tax, mostly in relation to those SMEs that pay the tax in question.

Section 11 provides concluding remarks.

³ *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.

⁴ Inland Revenue, *SME Tax compliance costs 2009*. Final report, August 2009.

Section 3. Context

Changes in the economy (e.g. those resulting from the recent financial recession), business practices (e.g. the use of third party agents) and circumstances can affect compliance costs, but more pertinently, it is believed that changes to tax laws and tax administrative processes can have the most significant impact on compliance costs.

Successive New Zealand governments have used tax policy and administration to ensure taxpayers meet their tax obligations, in addition to reducing and limiting the costs of compliance for taxpayers. However, it is a given that tax changes can operate in the opposite direction as well, by adding compliance costs.

Recent changes that may have affected tax compliance costs are detailed in Table 3.2 overleaf. This information has been provided for contextual purposes, as it is not possible to untangle the actual compliance cost effect of these different initiatives (i.e. there is insufficient data to attribute a causative effect of a particular policy/administrative change to any observed changes in the 2004, 2009 or 2013 survey results). It should also be noted that making a tax 'easier', does not necessarily equate with reducing compliance costs. That said, we would expect that some of the changes observed, particularly in relation to the reduction of hours spent on specific tax types, are likely in part as a result of some of the changes detailed in Table 3.2.

The survey was conducted in the latter part of 2013 and early 2014, roughly one year into New Zealand's economic recovery. However, there is some evidence of the impact of the Global Financial Crisis (GFC) on New Zealand businesses. This can be seen in the value SMEs place on their time in 2013, which has not increased compared with the 2009 survey. The GFC's impact can also be observed in the inflation factors which have been used to adjust the historic 2004 and 2009 micro data to 2013 dollar costs (based on historic economic performance data sourced from Statistics New Zealand, i.e. the Producers Price Index and the Consumers Price Index), as shown in Table 3.1.

Table 3.1: Inflation factors applied to historic data

	Inflation factor applied to 2004 data in 2009	Inflation factor applied to 2004 data in 2013	Inflation factor applied to 2009 data in 2013
Internal costs*			
Owners	18.3%	32.4%	8.2%
Employees	14.1%	25.7%	8.0%
Friends and family	14.1%	25.7%	8.0%
External costs*	19.2%	30.0%	5.6%

*Internal costs were inflated using relevant the Labour Cost Index (LCI) unadjusted information rates.

External costs were inflated based upon the weighted sum of the LCI (Professionals) and the Producers Price Index (PPI) output for Business Services. Specific details as to how the adjustments were arrived at can be found in the next section of the report.

Other than what appears to be an impact on the value of owners' time and inflation rates, as noted above, no data on the GFC's broader impact on businesses' practices was factored into the design of the 2009 and 2013 surveys. As such, the impacts and their flow-on effects of the GFC on tax compliance costs have not been taken into account in the approach to analysing the survey data. Neither have any attempts been made to explicitly or implicitly attribute any changes in tax compliance costs over time that are noted in this report as being due to the GFC. To do so without explicit evidence would be conjecture on our part.

Similarly, any impacts of the Christchurch earthquakes, and more recently the Seddon earthquakes, have not been taken into account in our analysis or reporting.

Table 3.2: Key tax policy and operational changes since October 2009 which impact compliance costs (cont.)

Other				
eGST and eAlerts	Improved electronic return filing mechanism	September 2012	GST	Decrease – all SME that are GST registered and filing electronically
IR10 simplification	Simplification of the form	April 2013	Business Income tax	Decrease – applies to self-employed businesses
Mixed-use asset regime	The mixed-use asset changes for boats, baches etc. The changes for the 13/14 income year only applied to accommodation (baches). Boats and planes came in in the 14/15 income year.	1 April 2013	Business Income tax	Increase - for companies with 5 or fewer employees that earn over \$4000 from a mixed-use asset

A host of tax cost compliance reduction policies were also implemented in 2009. These measures involved providing business concessions by raising thresholds such as the level of turnover earned at which firms need to account for trading stock and file PAYE, FBT, GST, register for GST and move from the payments basis to the invoice basis. They also enabled alignment of GST with provisional tax.

Section 4. Measures and methodology

The methodologies relating to the 2004, 2009 and 2013 surveys are reported in detail their respective reports. This section deals with the methodological issues relating to the comparison exercise covered specifically by this report.

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 and as table footnotes.

Measure of difference

The comparison between the 2004 and 2009 compliance costs and those measured in 2013 is based upon the trimmed mean compliance costs for each year's survey results, after taking into account the relevant inflation factors.

The trimming systematically removes the worst distortions that can result from a few extremely high values and provides results which are more useful for detecting meaningful changes over time than non-trimmed means. As with the 2004 and 2009 surveys, a flexible trimming process was undertaken that allowed for varying percentages of trimming of the data relating to each finding. Details of the trimming can be found in the 2013 SME Tax Compliance Cost report.

Trimmed means have been calculated for the following indicators.

- Number of hours spent on tax (used to calculate internal \$ compliance costs).
- Internal compliance costs relating to each tax (all businesses and only those businesses which file/pay a particular tax).
- External compliance costs relating to each tax (all businesses and only those businesses which file/pay a particular tax).
- Overall combined compliance costs (\$): internal compliance costs plus external compliance costs.

Combined means versus internal and external means

Trimmed means have been used to report the mean compliance costs incurred by businesses. On a business level, combined compliance costs are the sum total of all internal and external costs, as reported by that business and/or their tax agent. Because of flexible trimming undertaken in relation to each finding, and then the averaging of groups of businesses, the sums of individual costs will not necessarily match total costs as reported.

Depending upon its relative distance from other values in a particular cost variable's distribution, extreme costs for each variable have been excluded when calculating that variable's mean value. Therefore, because trimming is done for the internal, external, and combined costs independently, the combined trimmed cost may not necessarily be the sum of the reported trimmed internal and external costs. That is, none of the individual internal and external trimmed means, as reported, are meant to be additive in relation to any other reported mean result.

Psychological costs

Psychological costs, as represented by mean stress scores, based on a 7-point scale, use untrimmed means. This is due to there being minimum and maximum anchors in a 7-point scale, so no wild fluctuations are expected to occur.

In relation to stress in dealing with overall tax obligations, respondents were instructed to score their stress levels without taking into account any stress associated with finding the money to pay their overall tax obligations. For stress scores as they relate to individual taxes however, the respondents were asked to include any stress involved in “finding the money” to meet their tax obligations for that tax.

Significance testing

Statistical tests of significance of observed differences in trimmed means between the 2013/14 survey data and that of the 2004 benchmark and 2009 follow-up surveys have been conducted, using Taylor series linearization.⁵ Where a difference has been commented on in the narration, the reader may conclude that the difference as noted is “statistically significant”, unless otherwise noted. Similarly, the reader can assume that any observed differences in trimmed means between current and historic data which have not been commented upon, are not statistically significant.

Making 2004 and 2009 data comparable with 2013 data

Two aspects were taken into account in relation to ensuring the historic data would be comparable to the new survey data:

1. Ensuring that the sample of businesses was drawn by Inland Revenue using the same parameters as were used in 2004 and 2009.
2. Applying relevant inflation adjustments to the various internal and external cost variables in the 2004 and 2009 data.

The following procedures were used to adjust the 2004 and 2009 values to 2013 dollar values:

1. 2004 and 2009 internal cost adjustments. Both the 2004 and 2009 dollar values, as they relate to owners', employees', and friends' and families' times have been adjusted as follows:
 - a. For owners/directors/partners, an adjustment factor of 32.4 percent has been applied to the 2004 data and a factor of 8.2 percent has been applied to the 2009 data. The relevant inflation adjustments were based upon the unadjusted inflation rates for “Professionals” in the Labour Cost Index (LCI). The unadjusted rate was used as it breaks down the LCI into different occupation groups.⁶
 - b. For employees, as well as friends and family, an adjustment factor of 25.7 percent has been applied to the 2004 data and a factor of 8.0 percent has been applied to the 2009 data, based upon the unadjusted inflation rate for “Clerks” in the LCI.⁷
2. The 2004 and 2009 external costs data are adjusted by factors of 30.0 percent and 5.6 percent, respectively. This is based upon the relevant weighted sums of the LCI (Professionals) and the Producers Price Index (PPI) output for “Business Services”.⁸

⁵ When the design of a sample is stratified, as is the case for the SME Tax Compliance Surveys, the Taylor series linearization method combines stratum variance estimates to compute the overall variance estimate. When there are clusters (PSUs) in the sample design, the Taylor series method estimates variance from the variance among those PSUs.

⁶ The LCI for Professionals in the December 2013 quarter was 1082, with June 2009 Quarter=1,000 being the current base upon which the LCI is based. Back dating the December 2009 Quarter LCI of 1,000 to December 2004 values results in a 2004 index base of 817 (1082-817)/817=32.4 percent, hence the 32.4 percent inflation factor).

⁷ The LCI for Clerks in the December 2013 quarter was 1080, with June 2009 Quarter=1,000 being the current base upon which the LCI is based. Back dating the December 2009 Quarter LCI of 1,000 to December 2004 values results in a 2004 Index base of 859 (1080-859)/859=25.7 percent, hence the 25.7 percent inflation factor).

⁸ As advised by Statistics New Zealand, businesses classified as “Business Services” under ANZSIC99 were regrouped into other different categories under ANSIC 2006. For the purposes of back indexing the 2004 data and deriving the PPI component of the external costs adjustment factor, the back-dated PPI indexes for the following groups were used to derive an average inflation factor: CC41 Printing, FF Wholesale Trade, JJ Information Media and Telecommunications, MN Professional and Administrative Services, and RS21 Other Services.

THE PPI was originally included as a component of the external costs inflation factor, as SMEs and/or their tax advisors were asked about the dollar amounts they spent for the different tax types. It has been assumed that the dollar amounts charged also included production costs.

Definition of SME

The definition of a SME includes lower and upper thresholds, which change over time. The lower thresholds exclude extremely small businesses while the upper one excludes businesses too large to qualify as a SME. As was done in 2009, these have been adjusted to avoid siphoning a proportion of unsuitably small enterprises in 2013, and on the other hand, to include the larger businesses that would have also qualified in 2004. The 2004, 2009 and 2013 thresholds are displayed in Table 4.1 below.

Table 4.1: Changes in thresholds of SME definition

SME threshold	2004	2009	2013
Criteria for lower threshold:			
Turnover	\$20,000	\$25,000	\$30,000
PAYE deductions	\$3,000	\$4,000	\$4,500
Criteria for upper threshold:			
Turnover	\$10 million	\$12.5 million	\$13.5 million
PAYE deductions	50 employees	50 employees	50 employees

Value of time

When converting internal hours to dollars values, in order to keep the methodology comparable to that used in 2004 and 2009, a combination of Statistics New Zealand data (the Quarterly Employment Survey: December 2013 quarter) and respondent data from the SME Tax Compliance Survey was used. Table 4.2 provides details as to the hourly rates that have been applied to time to convert 2004, 2009 and 2013 hours into dollars.

Table 4.2: Value of time; 2004 and 2009, 2004 and 2009 inflation adjusted and 2013

Personnel	2004 unadjusted value	2009 unadjusted value	2004 inflation adjusted value	2009 inflation adjusted value	2013	Source
Owners	\$43.99	\$61.12	\$58.26	\$66.13	\$61.13	SME Tax Compliance Cost Survey respondents
Paid employees	\$20.31	\$25.39	\$25.54	\$27.42	\$28.03	Statistics New Zealand QES
Unpaid family/friends	\$25.70	\$33.31	\$32.31	\$35.97	\$38.69	SME Tax Compliance Cost Survey respondents

Glossary

Small and medium businesses (SMEs) – As was done in 2004 and 2009, the definition for SME is based on a combination of turnover and employee numbers. Business size categories are based on employee numbers, which is consistent with the bands as set by Statistics New Zealand to ensure international comparability.⁹

Business size categories as used in this report are as follows:

- Nil – no employees excluding the business owner
- Micro – 1-to-5 employees excluding the business owner
- Small – 6 to 9 employees excluding the business owner
- Medium – 20 plus employees excluding the business owner.

For ease of reading, notations of Nil, Micro, Small and Medium-sized businesses are used to refer to SMEs based on business size. Note that the report uses the terms “SMEs” and “businesses” interchangeably – all meaning SMEs included in the study population.

Combined compliance: compliance cost = (internal time + external advisor costs) + psychological costs – (cash flow benefits + tax deductibility).

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

External advisor costs: the dollar value paid by businesses to tax agents and/or external tax advisors. Throughout this report external costs are referred to interchangeably as tax agent and/or third party advisor costs.

Psychological costs: Qualitatively measured as self-reported stress, using a 7-point stress level scale where 1=not at all stressful, 4=moderately stressful and 7=extremely stressful.

Owner: The term “Owner” has been used throughout this report as shorthand for owner/partner/director/trustee.

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

Section 5. Changes in tax compliance costs – 2004 to 2013

SME profiles for 2004, 2009 and 2013

An examination of the profiles of 2004, 2009 and 2013 SMEs found that a larger proportion of SMEs in 2013 do not have any employees (64 percent, compared with 57 percent in 2009 and 56 percent in 2004). More SMEs in 2013 report having been in operation for more than 10 years (51 percent), when compared with 2009 (38 percent), however, this proportion is in line with the 2004 survey findings.

Overall combined compliance costs

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

Overall compliance costs have not changed significantly over the five years since the 2009 study (\$5,861 in 2013 compared with \$5,962 in 2009). However, they have decreased overall since 2004 by 11.7 percent, from \$6,640 in inflation adjusted dollars. There have also been a number of increases and decreases – with the changes by no means being proportional across the different types of cost incurred, size of business and/or type of tax paid. Some of the most significant changes are summarised here and in Table 5.1:

- *Overall combined.* Average combined tax compliance costs have not changed significantly since 2009 (a 1.7 percent decrease, or reduction of \$101 per year per SME). However, they have decreased by 11.7 percent, or \$779 per year per SME, since 2004.
- *Source of costs 2009 versus 2013.* Despite the lack of significant change in overall combined internal/external costs since 2009, the 2013 survey suggests that there has been some shifting of costs from internal to external sources since 2009. While internal costs decreased by 12.6 percent since 2009 (a decrease of \$543), external costs increased by \$332, a 22.0 percent increase since 2009.
- *Source of costs 2004 versus 2013.* While there are no significant differences between 2004 and 2013 external costs (a decrease of only 1.1 percent or \$21), internal costs have decreased significantly, however – down 17.0 percent when comparing those reported in 2004 (a decrease of \$774 per SME on average).

Table 5.1: Overall change in internal and external costs since 2004 and 2009

	2004 to 2013		2009 to 2013	
Internal	-\$774	-17.0%	-\$543	-12.6%
External	-\$21	-1.1%	\$332	22.0%

¹⁰ It is important to stress that this chapter records the average compliance costs for all taxes for all SMEs in New Zealand even though they many not pay all taxes. In subsequent chapters, the actual costs discussed are restricted to those SMEs who have the tax obligation in question.

To understand in more detail the overall change in compliance costs, components that contribute to and influence the direction of change are listed below. In relation to this, note that although these components are highlighted individually, they do not affect the overall costs independently of each other, i.e. they overlap to some extent.

Components that contribute to a decrease in compliance costs

- Internal costs have trended downward since the 2004 benchmark from \$4,552 in 2004 to \$4,321 in 2009. Based on the 2013/14 survey results, mean internal costs decreased a further 12.6 percent to \$3,778 between 2009 and 2013 – a total decrease of 17.0 percent since 2004 (in 2013 dollars). However, due to the relevant margins of error associated with the 2009 and 2013 results, the observed 12.6 percent decrease should be treated as indicative only.
- *Personnel time* spent by owners in particular is down significantly since 2004 (20.8 percent), as well as that spent by employees (down 18.3 percent since 2004). There has also been a decrease in the number of hours reported for unpaid friends and family. However, as those hours do not contribute significantly to overall internal costs, the decrease in unpaid friends and family hours has not contributed significantly to the overall decrease.
- *Shifting of costs*. There has been a shifting of costs from internal components (i.e. owners and staff time) to external tax advisors and/or external payroll providers, since 2009, however the ratios of internal and external costs as a proportion of combined costs in 2013, are similar to those observed in 2004.

Components that contribute to an increase in compliance costs

- *Personnel salary and wages*. While the mean hourly dollar value for owners is less than that reported in 2009, overall hourly dollar values for owners, employees and unpaid friends and family are up significantly when compared to inflation-adjusted 2004 hourly values.

For example, the inflation-adjusted hourly rate for owners (whose time is the greatest contributor to overall internal compliance costs) in 2013 is \$61.13, compared with \$58.26 in 2004 (an overall change of 8.6 percent); while the mean hourly value of employees' time has risen from \$25.54 in 2004 to \$28.03 in 2013 (an overall increase of 12.0 percent).

- *External compliance costs* associated with income tax and GST. When compared with the inflation-adjusted external tax costs reported in 2009, external costs in 2013 (\$1,842) are significantly higher (up 22.0 percent from \$1,510 in 2009). This increase in overall external costs between 2009 and 2013 for all businesses (regardless of whether they pay/file a particular tax) is driven primarily by the significant increase in income tax and GST-related external costs (up 20.8 percent and 51.4 percent respectively).

Table 5.2: Summary of changes in mean annual compliance costs for all SME business, 2004 to 2013

Personnel	2004	2009	2013	\$ change since 2004	\$ change since 2009	% change since 2004	% change since 2009
Overall combined	\$6,640	\$5,962	\$5,861	-\$779	-\$101	-11.7%	-1.7%
Internal	\$4,552	\$4,321	\$3,778	-\$774	-\$543	-17.0%	-12.6%
External	\$1,863	\$1,510	\$1,842	-\$21	\$332	-1.1%	22.0%
Number of employees							
Nil	\$5,083	\$4,435	\$4,534	-\$549	\$99	-10.8%	2.2%
Micro (1-5)	\$7,924	\$7,188	\$7,378	-\$546	\$190	-6.9%	2.6%
Small (6-19)	\$10,096	\$10,191	\$9,922	-\$174	-\$269	-1.7%	-2.6%
Medium (20+)	\$11,687	\$10,120	\$12,512	\$825	\$2,392	7.1%	23.6%
Turnover							
Less than \$40,000	\$6,036	\$4,003	\$3,619	-\$2,417	-\$384	-40.0%	-9.6%
\$40,000 to less than \$100,000	\$4,962	\$4,913	\$4,135	-\$827	-\$778	-16.7%	-15.8%
\$100,000 to less than \$250,000	\$6,673	\$6,337	\$5,793	-\$880	-\$544	-13.2%	-8.6%
\$250,000 to less than \$500,000	\$7,745	\$6,719	\$6,476	-\$1,269	-\$243	-16.4%	-3.6%
\$500,000 to less than 1.3 million	\$9,206	\$8,226	\$8,657	-\$549	\$431	-6.0%	5.2%
\$1.3 million to less than \$5 million	\$10,016	\$9,116	\$11,160	\$1,144	\$2,044	11.4%	22.4%
\$5 million and over	\$12,938	\$9,593	\$11,449	-\$1,489	\$1,856	-11.5%	19.3%

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

Internal compliance costs and hours spent on taxes

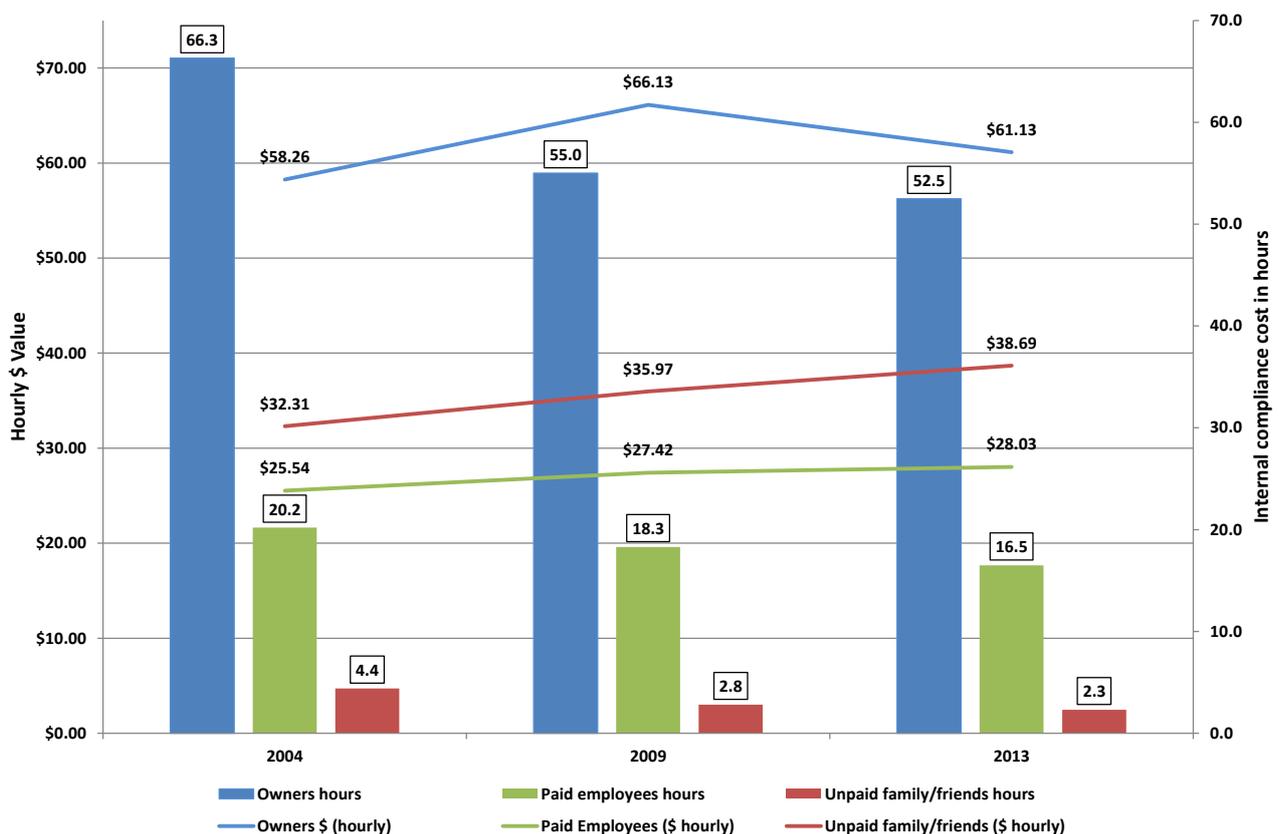
As noted above, internal costs have trended downward since the 2004 benchmark from \$4,552 in 2004 to \$4,321 in 2009. Based on the 2013/14 survey results, mean internal costs decreased a further 12.6 percent to \$3,778 between 2009 and 2013 – a total decrease of 17.0 percent since 2004 (in 2013 dollars).

Changes in internal compliance costs since 2004 have been driven by a number of factors, some of which have decreased while others have increased. There has been a downward trend in the number of internal hours spent per annum, with the most marked decrease being hours spent by owners between 2004 and 2009 (down from 66.3 to 55.0 hours). While the average (trimmed) number of hours in 2013 (52.5 hours) is not down significantly from 2009, it is still significantly lower than that reported by owners in 2004.

Smaller decreases in reported numbers of hours can also be observed among both employees and unpaid friends and family since 2004 (Figure 5.1 below and Tables 5.3a and 5.3b overleaf). However, the observed variances in the hours reported for employees and unpaid friends/family reported in 2009 versus 2013 are not statistically significant.

In contrast, there has been a general increase in the hourly dollar value for owners, employees and unpaid family and friends over time, even after adjusting for inflation (Figure 5.1, see also Table 4.2 in previous section). For example, the value per hour of unpaid family and friends has increased from \$32.31 in 2004 to \$35.97 in 2009 and to \$38.69 in 2013, a 19.7 percent increase overall since 2004. The value of employees' time has risen from \$25.54 per hour in 2004 to \$28.03 in 2013, a 9.7 percent increase overall.¹¹

Figure 5.1: Changes in total compliance hours spent and changes in \$ values of those hours – 2004 to 2013



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

Note: 2004 and 2009 dollar values have been recalibrated to 2013 values to take into account changes in inflation.

¹¹ Sources for \$ value of employees' time are sourced from Statistics New Zealand's Quarterly Employment Survey. The values of time for unpaid family and friends, as well as that of owners, are based upon survey data.

The value that owners attach to an hour of their time has been more volatile, with a marked increase of 13.5 percent from \$58.26 in 2004 to \$66.13 in 2009, but dropping downward by 7.6 percent in 2013 to \$61.13. However, the mean hourly value for owners' time in 2013 is still up 4.9 percent overall from that reported in 2004. In relation to this point, it is interesting to note that in 2009, New Zealand was just one year into the global recession. However, whether or not the downward adjustment in self-reported value of times by owners can be solely attributed to the GFC or some other factor cannot be known for certain from the survey data.

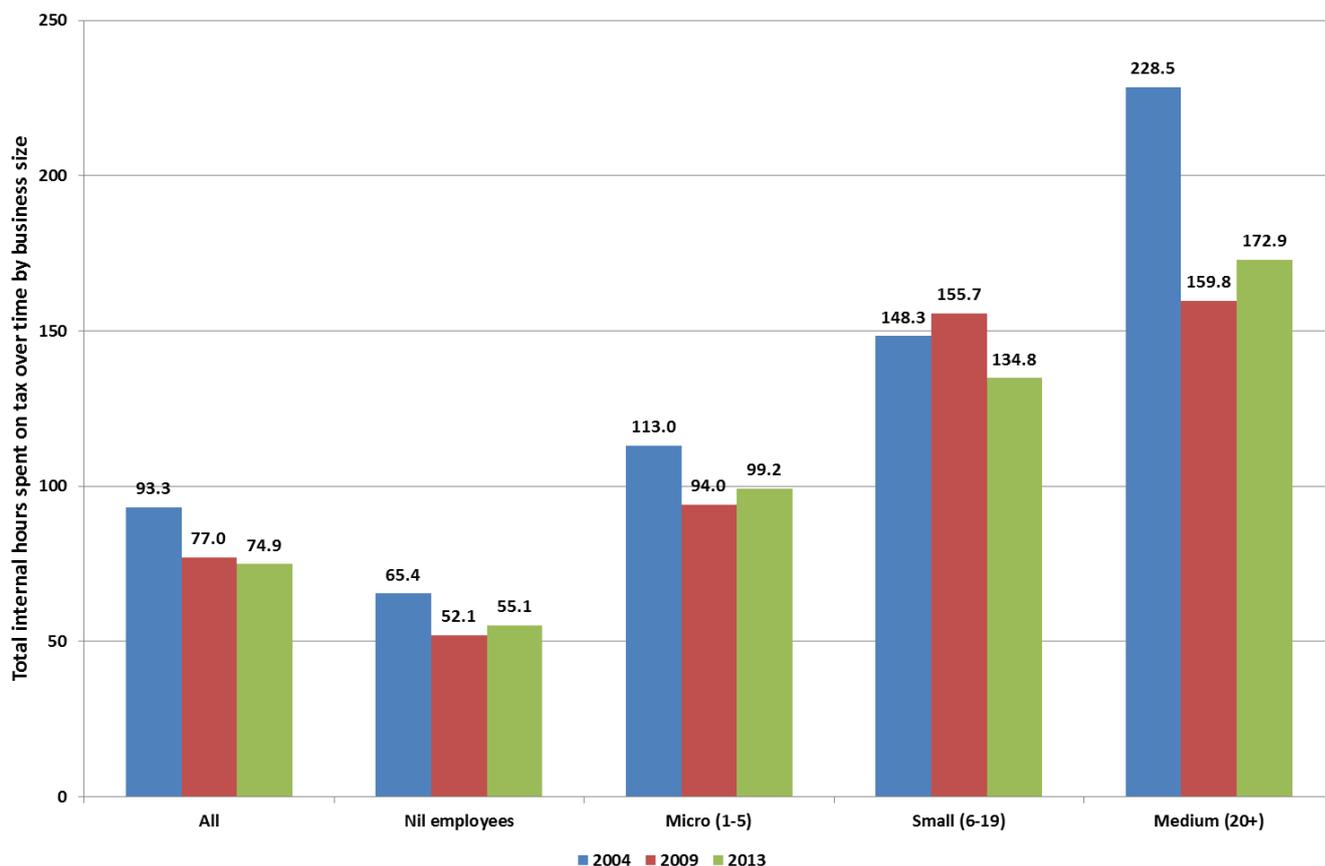
Changes in hours spent by business size

When viewed by all SMEs, the total hours spent on tax compliance activities between 2004 and 2009 decreased significantly from 93.3 hours in 2004 to 77.0 hours in 2009 (a 17.4 percent decrease overall).

There is a relationship, however, between the size of the business and the mean number of hours spent internally on tax compliance activities. As observed in the 2004 and 2009 surveys, larger businesses tend to spend more hours internally on tax-related activities. Figure 5.2 below illustrates the changes in mean total hours spent on tax per annum by businesses between 2004 and 2013, broken down by business size.

Notably, the total number of hours reported in 2009 versus 2013 is relatively unchanged (a decrease of only 2.1 hours from 77.0 to 74.9 hours, which is not statistically significant). This indicates that while the total hours spent on tax compliance by SMEs declined significantly between 2004 and 2009, they have not changed significantly between 2009 and 2013.

Figure 5.2: Changes in total compliance hours spent by business size – 2004 to 2013



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

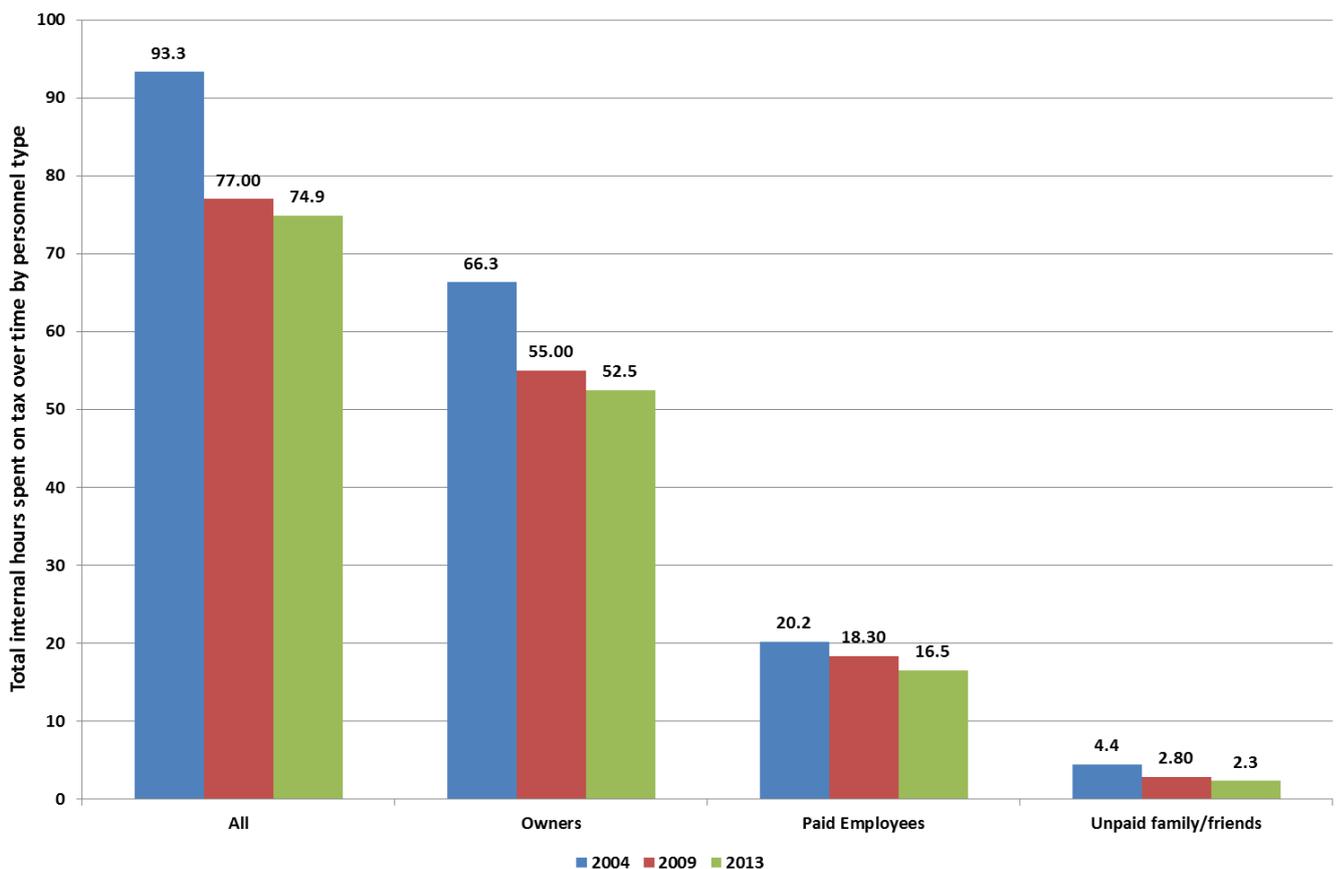
Changes in hours spent by personnel

As evidenced previously in Figure 5.1, owners' time comprises the bulk of hours spent internally by SMEs on tax (roughly 70 percent in 2013, or 52.5 hours per annum on average), compared with relatively fewer hours spent by others (16.5 hours by SME employees, and just 2.3 hours among unpaid friends and family).

When compared with the hours reported in the 2004 benchmark survey, however, total hours spent by SMEs have decreased significantly from an average of 93.3 in 2004 to 74.9 hours in 2013, an overall decrease of 19.7 percent (Figure 5.3 and Table 5.3b). This change has been driven primarily by the decrease in hours spent on tax by owners. In 2013 the average (trimmed mean) hours spent by owners was 52.5, compared with 66.3 hours in 2004, down by 20.8 percent. However, it should be noted that the bulk of this decrease occurred between 2004 and 2009 (total hours reported in 2009 by SMEs was 77.0 on average).

When the hours spent on tax by different personnel in 2009 are compared with those reported in 2013, significance testing shows that none of the observed decreases are statistically significant. This suggests that there has not been a meaningful saving in the number of hours expended by SMEs over the last five years.

Figure 5.3: Changes in total compliance hours spent by business size – 2004 to 2013



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

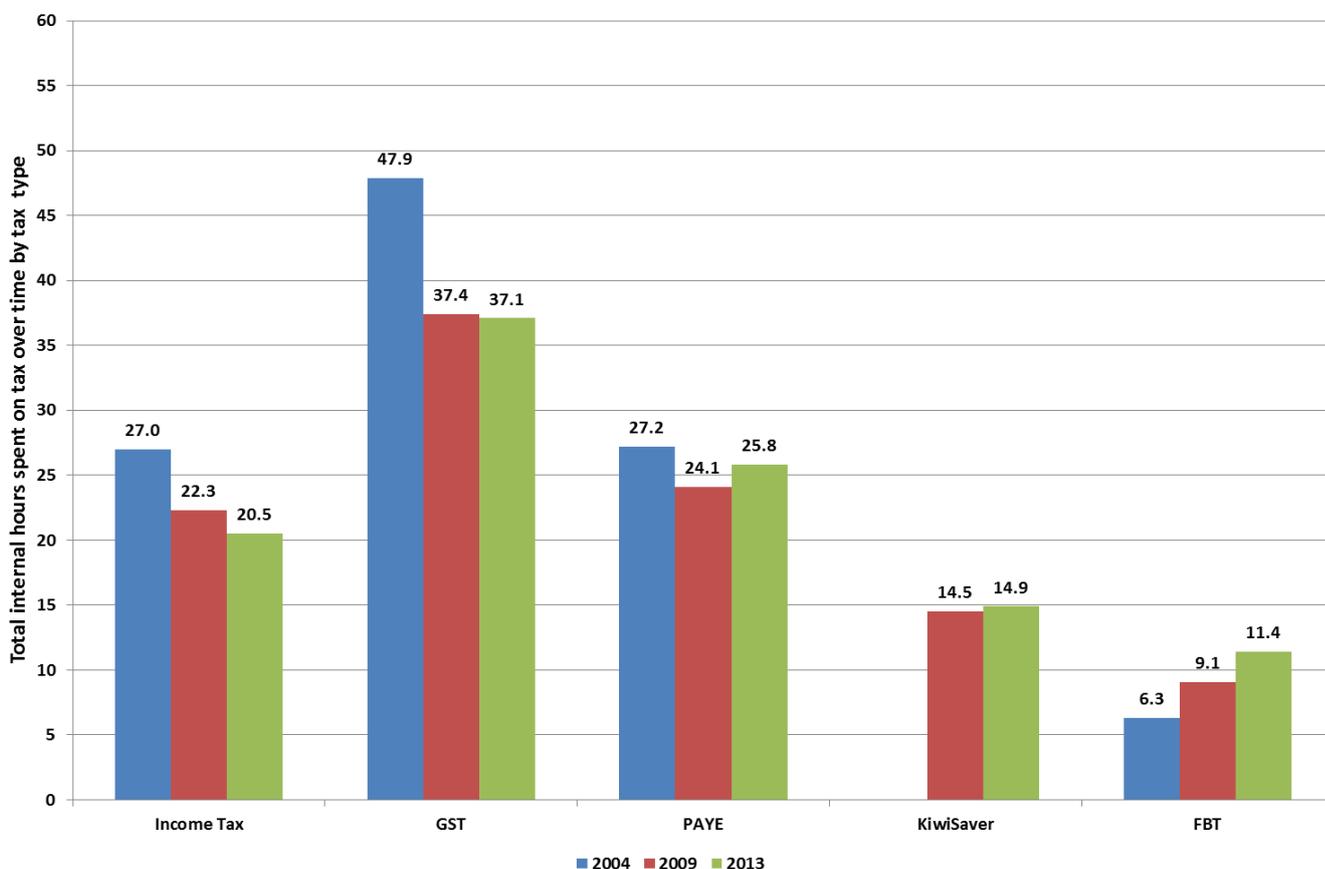
Changes in hours by tax type

Compared with 2009, there have been no significant changes in the number hours spent on different taxes (reductions or increases), overall or by personnel type (Figure 5.4 and Table 5.4a).

However, when compared with the number of hours SMEs spent dealing with different taxes in 2004:

- In 2013, all SMEs spend 24.1 percent less time internally dealing with income tax (20.5 hours on average, compared with 27.0 in 2004). This change can be attributed mostly to the significant decrease in the number of hours owners report spending in relation to the tax (16.3 hours on average, compared with 23.3 hours in 2004, a 30.0 percent decrease).
- In 2013, SMEs also spend less time internally dealing with GST (37.1 hours on average, compared with 47.9 hours in 2004, a decrease of 22.5 percent). This change can be attributed mostly to changes in both the number of hours being spent by owners in relation to GST (down 21.6 percent from 35.7 hours on average in 2004 to 28 hours in 2013), as well as the hours spent by their employees (down 35.0 percent from 10.3 hours in 2004 on average to 6.7 hours in 2013).

Figure 5.4: Changes in total compliance hours spent by business size – tax type



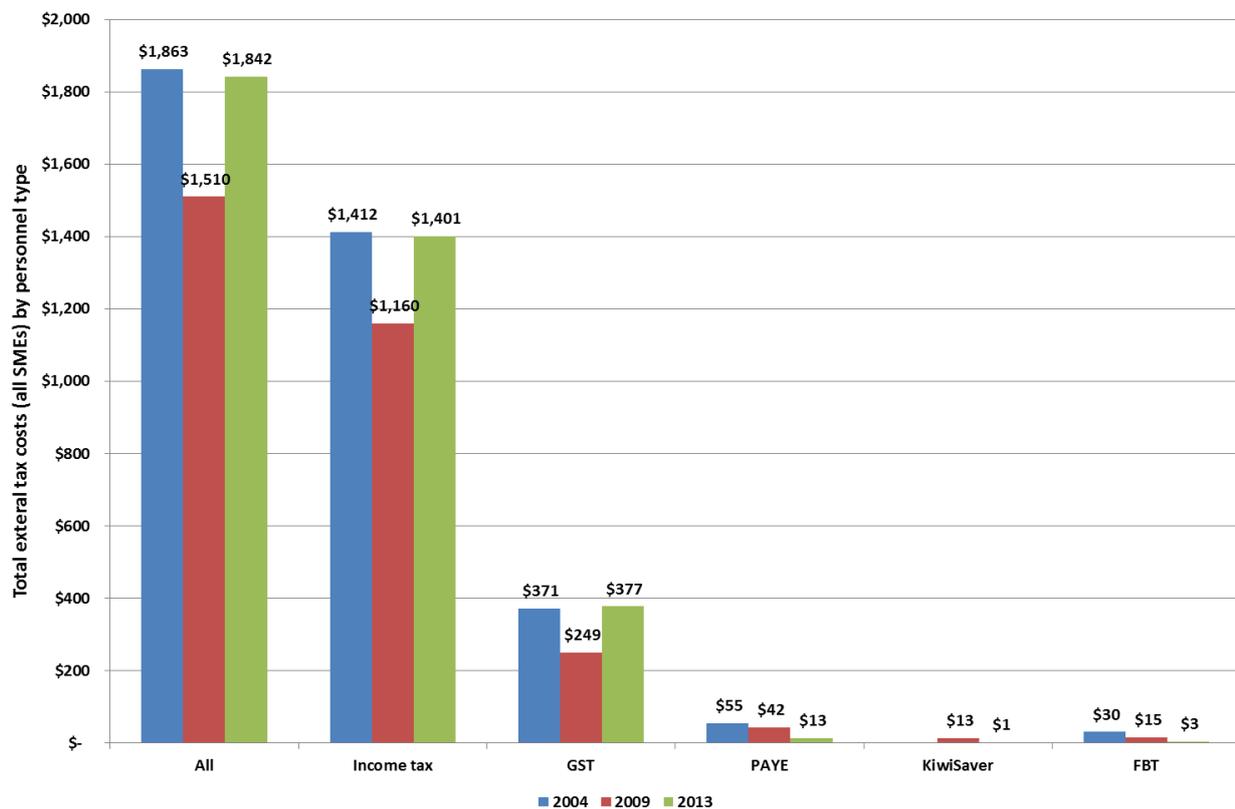
All respondents, regardless of whether they pay/file a particular tax type (excluding outliers).

External compliance costs

Overall, external costs, i.e. the cost of external tax advisors, are unchanged since 2004 after adjusting the 2004 costs to 2013 dollars. This is despite the introduction of KiwiSaver since 2004. On average, SMEs paid \$1,842 in external tax compliance costs in 2013. What this means is that the significant reductions in relation to external costs, as observed between 2004 and 2009 have not been maintained over the last five years. For example, when compared with the inflation-adjusted external tax costs reported in 2009, external costs in 2013 (\$1,842) are significantly higher (up 22.0 percent from \$1,510 in 2009). This increase in overall external costs between 2009 and 2013 for all businesses (regardless of whether they pay/file a particular tax) is driven by the significant increases income tax and GST-related external costs (up 20.8 percent and 51.4 percent respectively).

Due to the relatively smaller sub-sample sizes, there were no statistically significant differences in relation to external costs between 2004 and 2013 when viewed by business size. Therefore, please note that any variances by year and business size in Tables 5.5a and 5.5b should be treated as indicative only and interpreted with caution.

Figure 5.5: Changes in external costs by tax type



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

Overall mean stress score

The mean overall stress score associated with meeting all Inland Revenue requirements (ignoring finding the money) in 2013 has decreased significantly from 3.4 in 2004 to 3.0 in 2013 (Table 5.6). However, when compared with 2009 reported stress levels, the observed decrease from 3.2 is not statistically significant.

The proportions of all businesses that rated meeting Inland Revenue requirements as highly stressful (16 percent) is also down significantly from 2004 (24 percent), with significantly more businesses also reporting low stress (63 percent in 2013, compared with 50 percent in 2004) (Table 5.7).

The reported mean overall stress levels for businesses with no employees in 2013 (2.9) is significantly lower than that reported by similar sized businesses in 2004 (3.3). Businesses with 1-to-5 employees also reported lower mean stress levels in 2013 (3.3, down from 3.6). While the results also suggest that small and medium businesses reported lower stress levels as well, the observed differences in Tables 5.6 and 5.7 are not statistically significant, due to the small sample sizes for those two size groups.

There are no significant differences between reported stress levels in 2013 and those reported in 2009.

Table 5.3a: Change in hours (mean) 2009 to 2013 by personnel, by number of employees

Personnel	Nil employees				Micro (1-5)				Small (6-19)				Medium (20+)				All			
	2009	2013	Change		2009	2013	Change		2009	2013	Change		2009	2013	Change		2009	2013	Change	
			hrs	%			hrs	%			hrs	%			hrs	%			hrs	%
Owners, partners, directors	44.8 (514)	45.5 (362)	0.70	1.6%	66.9 (568)	64.9 (379)	-2.0	-3.0%	70.7 (319)	71.4 (256)	0.7	1.0%	38.8 (199)	42.8 (186)	4.0	10.3%	55.0 (1650)	52.5 (1184)	-2.5	-4.5%
Employees	NA	N/A	NA	N/A	21.6 (586)	28.5 (372)	6.9	31.9%	77.6 (330)	68.2 (248)	-9.4	-12.1%	179.7 (209)	167.5 (183)	-12.2	-6.8%	18.3 (1702)	16.5 (1164)	-1.8	-9.8%
Unpaid family, friends	2.2 (529)	1.4 (369)	-0.8	-36.4%	4.0 (595)	4.8 (381)	0.8	20.0%	3.8 (339)	0.7 (262)	-3.1	-81.6%	0.0 (213)	3.9 (190)	3.9	100%	2.8 (1727)	2.3 (1203)	-0.5	-17.9%
Overall	52.1 (502)	55.1 (357)	3.0	5.8%	94.0 (584)	99.2 (378)	5.2	5.5%	155.7 (329)	134.8 (250)	-20.9	-13.4%	159.8 (195)	172.9 (176)	13.1	8.2%	77.0 (1661)	74.9 (1162)	-2.1	-2.7%

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

Table 5.3b: Change in hours (mean) 2004 to 2013 by personnel, by number of employees

Personnel	Nil employees				Micro (1-5)				Small (6-19)				Medium (20+)				All			
	2004	2013	Change		2004	2013	Change		2004	2013	Change		2004	2013	Change		2004	2013	Change	
			hrs	%			hrs	%			hrs	%			hrs	%			hrs	%
Owners, partners, directors	56.5 (516)	45.5 (362)	-11.0	-19.5%	78.1 (771)	64.9 (379)	-13.2	-16.9%	87.9 (274)	71.4 (256)	-16.5	-18.8%	62.9 (110)	42.8 (186)	-20.1	-32.0%	66.3 (1671)	52.5 (1184)	-13.8	-20.8%
Employees	NA	NA	NA	NA	26.5 (782)	28.5 (372)	2.0	7.5%	62.4 (288)	68.2 (248)	5.8	9.3%	151.9 (115)	167.5 (183)	15.6	10.3%	20.2 (1719)	16.5 (1164)	-3.7	-18.3%
Unpaid family, friends	4.5 (537)	1.4 (369)	-3.1	-68.9%	4.8 (790)	4.8 (381)	0.0	0.0%	4.0 (292)	0.7 (262)	-3.3	-82.5%	0.7* (119)	3.9 (190)	3.2	457.1%	4.4 (1738)	2.3 (1203)	-2.1	-47.7%
Overall	65.4 (499)	55.1 (357)	-10.3	-15.7%	113.0 (772)	99.2 (378)	-13.8	-12.2%	148.3 (282)	134.8 (250)	-13.5	-9.1%	228.5 (111)	172.9 (176)	-55.6	-24.3%	93.3 (1664)	74.9 (1162)	-18.4	-19.7%

Base: All respondents who 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. Those non-zero hours were incurred for PAYE.

Table 5.4a: Change in hours (mean) 2009 to 2013 by personnel, by tax type

Personnel	Income tax				GST				PAYE				KiwiSaver				FBT			
	2009	2013	Change		2009	2013	Change		2009	2013	Change		2009	2013	Change		2009	2013	Change	
			hrs	%			hrs	%			hrs	%			hrs	%			hrs	%
Owners, partners, directors	18.0 (1625)	16.3 (1122)	-1.7	-9.4%	29.1 (1532)	28.0 (1076)	-1.1	-3.8%	13.4 (1163)	14.8 (830)	1.4	10.4%	7.5 (796)	7.7 (573)	0.2	2.7%	4.4 (424)	4.3 (285)	-0.1	-2.3%
Employees	3.9 (1660)	2.9 (1124)	-1.0	-25.6%	7.2 (1556)	6.7 (1079)	-0.5	-6.9%	7.6 (1184)	9.8 (825)	2.2	28.9%	5.3 (787)	6.7 (568)	1.4	26.4%	3.6 (422)	4.2 (282)	0.6	16.7%
Unpaid family, friends	0.4 (1663)	0.8 (1144)	0.4	100%	1.6 (1592)	1.2 (1112)	-0.4	-25.0%	0.8 (1211)	1.4 (837)	0.6	75.0%	0.4 (815)	0.0 (569)	-0.4	-100.0%	0.0 (429)	0.1 (291)	0.1	100%
Overall	22.3 (1591)	20.5 (1071)	-1.8	-8.1%	37.4 (1552)	37.1 (1053)	-0.3	-0.8%	24.1 (1157)	25.8 (805)	1.7	7.1%	14.5 (770)	14.9 (553)	0.4	2.8%	9.1 (429)	11.4 (268)	2.3	25.3%

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

Table 5.4b: Change in hours (mean) 2004 to 2013 by personnel, by tax type

Personnel	Income tax				GST				PAYE				KiwiSaver				FBT			
	2004	2013	Change		2004	2013	Change		2004	2013	Change		2004	2013	Change		2004	2013	Change	
			hrs	%			hrs	%			hrs	%			hrs	%			hrs	%
Owners, partners, directors	23.3 (1653)	16.3 (1122)	-7.0	-30.0%	35.7 (1581)	28.0 (1076)	-7.7	-21.6%	16.4 (1267)	14.8 (830)	-1.6	-9.8%	NA	7.7 (573)	NA	NA	3.0 (625)	4.3 (285)	1.3	43.3%
Employees	3.6 (1661)	2.9 (1124)	-0.7	-19.4%	10.3 (1641)	6.7 (1079)	-3.6	-35.0%	8.6 (1264)	9.8 (825)	1.2	14.0%	NA	6.7 (568)	NA	NA	2.3 (628)	4.2 (282)	1.9	82.6%
Unpaid family, friends	1.0 (1684)	0.8 (1144)	-0.2	-20.0%	2.3 (1654)	1.2 (1112)	-1.1	-47.8%	0.7 (1287)	1.4 (837)	0.7	100.0%	NA	0.0 (569)	NA	NA	0.1 (641)	0.1 (291)	0.0	0.0%
Overall	27.0 (1596)	20.5 (1071)	-6.5	-24.1%	47.9 (1589)	37.1 (1053)	-10.8	-22.5%	27.2 (1246)	25.8 (805)	-1.4	-5.1%	NA	14.9 (553)	NA	NA	6.3 (628)	11.4 (268)	5.1	81.0%

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

Table 5.5a: Change in mean (trimmed) external compliance costs 2009 to 2013 by number of employees and tax type

Tax type	Nil employees				Micro (1-5)				Small (6-19)				Medium (20+)				All			
	2009		2013		Change		Change		2009		2013		Change		2009		2013		Change	
			\$	%			\$	%					\$	%			\$	%		
Income Tax	\$933 (515)	\$1,090 (363)	\$157	16.8%	\$1,341 (588)	\$1,727 (379)	\$386	28.8%	\$1,901 (325)	\$2,349 (257)	\$448	23.6%	\$2,469 (192)	\$3,667 (179)	\$1,198	48.5%	\$1,160 (1669)	\$1,401 (1179)	\$241	20.8%
GST	\$168 (525)	\$293 (362)	\$125	74.4%	\$332 (585)	\$469 (380)	\$137	41.3%	\$497 (335)	\$665 (257)	\$168	33.8%	\$334 (209)	\$843 (175)	\$509	152.4%	\$249 (1704)	\$377 (1175)	\$128	51.4%
PAYE	NA	NA	NA	NA	\$89 (589)	\$28 (374)	-\$61	-68.5%	\$86 (335)	\$37 (256)	-\$49	-57.0%	\$121 (210)	\$55 (179)	-\$66	-54.5%	\$42 (1713)	\$13 (1177)	-\$29	-69.0%
KiwiSaver (incl. ESCT)	NA	NA	NA	NA	\$18 (594)	\$1 (383)	-\$17	-94.4%	\$43 (340)	\$2 (258)	-\$41	-95.3%	\$55 (212)	\$6 (185)	-\$49	-89.1%	\$13 (1726)	\$1 (1196)	-\$12	-92.3%
FBT	\$6 (529)	\$0 (369)	-\$6	-100.0%	\$18 (592)	\$4 (378)	-\$14	-77.8%	\$58 (339)	\$14 (260)	-\$44	-75.9%	\$81 (212)	\$50 (187)	-\$31	-38.3%	\$15 (1723)	\$3 (1195)	-\$12	-80.0%
All	\$1,134 (512)	\$1,413 (362)	\$279	24.6%	\$1,829 (588)	\$2,268 (381)	\$439	24.0%	\$2,603 (330)	\$3,225 (258)	\$622	23.9%	\$3,449 (196)	\$4,956 (178)	\$1,507	43.7%	\$1,510 (1675)	\$1,842 (1180)	\$332	22.0%

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

Table 5.5b: Change in mean (trimmed) external compliance costs 2004 to 2013 by number of employees and tax type

Tax type	Nil employees				Micro (1-5)				Small (6-19)				Medium (20+)				All			
	2004	2013	Change		2004	2013	Change		2004	2013	Change		2004	2013	Change		2004	2013	Change	
			\$	%			\$	%			\$	%			\$	%				
Income Tax	\$1,131 (524)	\$1,090 (363)	-\$41	-3.6%	\$1,698 (767)	\$1,727 (379)	\$29	1.7%	\$1,930 (279)	\$2,349 (257)	\$419	21.7%	\$2,213 (104)	\$3,667 (179)	\$1,454	65.7%	\$1,412 (1674)	\$1,401 (1179)	-\$11	-0.8%
GST	\$272 (534)	\$293 (362)	\$21	7.7%	\$458 (779)	\$469 (380)	\$11	2.4%	\$608 (287)	\$665 (257)	\$57	9.4%	\$642 (114)	\$843 (175)	\$201	31.3%	\$371 (1714)	\$377 (1175)	\$6	1.6%
PAYE	N/A	N/A	N/A	N/A	\$97 (785)	\$28 (374)	-\$69	-71.1%	\$176 (289)	\$37 (256)	-\$139	-79.0%	\$109 (118)	\$55 (179)	-\$54	-49.5%	\$55 (1,733)	\$13 (1177)	-\$42	-76.4%
FBT	\$11 (537)	\$0 (369)	-\$11	-100%	\$44 (789)	\$4 (378)	-\$40	-90.9%	\$67 (291)	\$14 (260)	-\$53	-79.1%	\$130 (116)	\$50 (187)	-\$80	-61.5%	\$30 (1733)	\$3 (1195)	-\$27	-90.0%
All	\$1383 (525)	\$1,413 (362)	\$30	2.2%	\$2,289 (768)	\$2,268 (381)	-\$21	-0.9%	\$2,848 (283)	\$3,225 (258)	\$377	13.2%	\$3,578 (109)	\$4,956 (178)	\$1,378	38.5%	\$1,863 (1685)	\$1,842 (1180)	-\$21	-1.1%

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

Note: All costs in 2013 also include KiwiSaver costs.

Table 5.6: Change in mean stress in meeting IRD overall requirements (ignoring finding the money), 2004 to 2013

Level of Stress	Nil employees			Micro (1-5)			Small (6-19)			Medium (20+)			All		
	2004	2009	2013	2004	2009	2013	2004	2009	2013	2004	2009	2013	2004	2009	2013
Mean	3.3	3.0	2.9	3.6	3.4	3.3	3.5	3.2	3.1	3.5	3.3	2.8	3.4	3.2	3.0
	(508)	(496)	(354)	(777)	(581)	(371)	(282)	(333)	(255)	(118)	(207)	(185)	(1685)	(1664)	(1165)

Base: All respondents regardless of whether they pay/file a particular tax type (excluding missing information and 'don't know' responses).

Table 5.7: Change in stress proportions in meeting IRD overall requirements (ignoring finding the money), 2004 to 2013

Level of Stress	Nil employees			Micro (1-5)			Small (6-19)			Medium (20+)			All		
	2004	2009	2013	2004	2009	2013	2004	2009	2013	2004	2009	2013	2004	2009	2013
High (%)	23%	16%	14%	25%	23%	22%	26%	19%	20%	25%	24%	13%	24%	19%	16%
Moderate (%)	26%	21%	19%	29%	23%	25%	24%	25%	21%	19%	21%	18%	26%	22%	21%
Low (%)	52%	64%	67%	46%	53%	53%	49%	56%	59%	56%	55%	69%	50%	59%	63%
Total	100% (508)	100% (496)	100% (354)	100% (777)	100% (581)	100% (371)	100% (282)	100% (333)	100% (255)	100% (118)	100% (207)	100% (185)	100% (1685)	100% (1664)	100% (1165)

Base: All respondents regardless of whether they pay/file a particular tax type (excluding missing information and 'don't know' responses).

Note. Totals may not sum to 100% due to rounding.

Section 6. Income tax

SMEs that pay income tax

Ninety-six percent of businesses in the survey reported paying income tax in 2013, which is comparable to 97 percent in 2004 and 95 percent in 2009. Of those businesses that reported paying income tax, 79 percent also had external income tax compliance costs.¹² This is comparable with the 72 percent reported in 2004 and up from 68 percent in 2009.

In 2013, significantly more SMEs that pay income tax report having no employees (65 percent, compared with 56 percent in both 2004 and 2009). SMEs that pay income tax in 2013 are also more likely to report having been in business for more than 10 years than was the case in 2009 (50 percent, compared with 39 percent of income tax-liable SMEs in 2009). However, the 2013 result is in line with the 2004 study (47 percent).

The number of income tax-liable SMEs paying FBT has declined significantly to nine percent in 2013 (compared with 12 percent in 2009 and 25 percent in 2004). Fewer income tax-liable SMEs also reported paying GST (87 percent, down from 93 percent in 2009 and 94 percent in 2004).

Key findings – Income tax

From 2004 to 2013, changes in average compliance costs associated with income tax filers/payers include:

- An overall increase of 9.8 percent in combined internal/external costs since 2009 (\$2,881 in 2013, compared with \$2,624 in 2009). However, income tax-liable SMEs' overall income tax compliance costs in 2013 are still lower than those reported in 2004 (\$3,106 after adjusting 2004 costs to 2013 dollars).
- The trimmed mean average for all internal hours spent on income tax in 2013 (20.5 hours) is in line with those spent by SMEs in 2009 (22.3 hours), but down significantly from that reported in 2004 (27.0 hours).
- Relatedly, owners' hours in 2013 (16.3 hours) are in line with those incurred in 2009 (18.0 hours), but still down significantly from 2004 (23.3 hours).
- While total internal compliance costs in dollars appear to have decreased by \$229 (17.0 percent) since 2009, the result is not statistically significant due to the margins of error associated with the 2009 and 2013 trimmed mean costs. As such, the decrease should be viewed as indicative only. However, 2013 internal costs (\$1,116) are down significantly when compared with 2004; a decrease of \$384 (26.6 percent) from \$1,520.
- While external compliance costs appear to have increased by 7.4 percent (\$101 on average) since 2009, the increase is not statistically significant. However, compared to 2004, 2013 external costs (\$1,469 on average for businesses who pay/file income tax) are still 10.2 percent lower than those reported by income tax-liable businesses in 2004 (\$1,636).

¹² Technically, all of the respondents sampled for the survey should be dealing with income tax. However, some of these businesses did not tick the income tax box in Q1 in the survey, nor attribute any time to dealing with income tax, as well as there being no external cost data for income tax as reported by the business or their tax agent. Another reason why a business might feel they have not dealt with income tax could be that they have only paid provisional tax and did not consider this to be income tax at the time of the survey.

Changes related to business size and turnover

- Compared with the 2009 survey results, there were no statistically significant differences in internal or external income-tax related costs when viewed by business size, as measured by the number of employees, or business turnover band.
- However, in 2013 micro businesses' income tax-related costs (\$1,079) are down significantly by \$450 on average (a decrease of 29.4 percent) when compared with those reported by micro businesses in 2004 (\$1,529 after adjusting for 2004 costs to 2013 dollars).
- When compared with 2004 (Table 6.2b), businesses with a turnover of less \$40,000 per annum in 2013 reported significantly lower internal costs and total costs. Internal costs are down by \$872 (a 52.3 percent decrease) and total costs are down by \$1,555 (a 46.1 percent decrease).
- In 2013, businesses with an annual turnover of between \$100k and \$250k reported paying significantly lower income tax-related external costs (\$1,264, compared with \$1,651 in 2004, a decrease of \$387 or 23.4 percent).

Changes in level of stress – Provisional tax

- While there are no statistically significant differences in relation to the average level of stress associated with meeting provisional tax requirements (including finding the money), when compared with 2009 (see Table 6.3), reported stress levels in 2013 (3.2 on average on a scale of 1 to 7) are significantly lower than those reported in 2004 (3.9).
- When viewed by business size (as measured by number of employees), average reported stress levels are down significantly for businesses with no employees (3.1 compared with 3.7 in 2004), micro businesses (3.6 compared with 4.1 in 2004) and medium-sized businesses (3.1 compared with 4.1 in 2004).
- Relatedly, the proportion of businesses reporting a high level of stress associated with meeting provisional tax requirements in 2013, 24 percent, is down significantly from 39 percent in 2004, while the proportion of businesses reporting low levels of stress has increased to 58 percent, compared with 43 percent in 2004.
- In 2013, businesses with no employees were significantly less likely to report high levels of stress (20 percent, compared with 35 percent in 2004), as were micro businesses (33 percent, compared with 42 percent in 2004) and medium-sized businesses (18 percent, compared with 47 percent in 2004).
- Relatedly, businesses with no employees were significantly more likely in 2013 to report low levels of stress (62 percent, compared with 47 percent in 2004), as were micro businesses (49 percent, compared with 37 percent in 2004) and medium-sized businesses (63 percent, compared with 37 percent in 2004).

Table 6.1a: Change in mean (trimmed) income tax compliance costs 2009 to 2013 by number of employees – SMEs with income tax requirements

	Nil employees				Micro (1-5)				Small (6-19)				Medium (20+)				All					
	2009		2013		Change		Change		2009		2013		Change		Change		2009		2013		Change	
			\$	%			\$	%			\$	%			\$	%			\$	%		
Internal	\$1,234 (496)	\$1,089 (343)	-\$145	-11.8%	\$1,416 (558)	\$1,079 (349)	-\$337	-23.8%	\$1,563 (315)	\$1,374 (236)	-\$189	-12.1%	\$1,642 (198)	\$1,529 (175)	-\$113	-6.9%	\$1,345 (1616)	\$1,116 (1104)	-\$229	-17.0%		
External	\$1,113 (441)	\$1,136 (348)	\$23	2.1%	\$1,557 (515)	\$1,831 (358)	\$274	17.6%	\$2,312 (263)	\$2,506 (241)	\$194	8.4%	\$2,723 (170)	\$3,817 (171)	\$1,094	40.2%	\$1,368 (1433)	\$1,469 (1119)	\$101	7.4%		
Combined	\$2,226 (488)	\$2,552 (334)	\$326	14.6%	\$2,907 (556)	\$3,157 (344)	\$250	8.6%	\$3,780 (304)	\$4,061 (234)	\$281	7.4%	\$4,636 (191)	\$5,714 (162)	\$1,078	23.3%	\$2,624 (1588)	\$2,881 (1075)	\$257	9.8%		

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

Table 6.1b: Change in mean (trimmed) income tax compliance costs 2004 to 2013 by number of employees – SMEs with income tax requirements

	Nil employees				Micro (1-5)				Small (6-19)				Medium (20+)				All					
	2004		2013		Change		Change		2004		2013		Change		Change		2004		2013		Change	
			\$	%			\$	%			\$	%			\$	%			\$	%		
Internal	\$1,442 (509)	\$1,089 (343)	-\$353	-24.5%	\$1,529 (752)	\$1,079 (349)	-\$450	-29.4%	\$1,642 (272)	\$1,374 (236)	-\$268	-16.3%	\$2,457 (116)	\$1,529 (175)	-\$928	-37.8%	\$1,520 (1649)	\$1,116 (1104)	-\$404	-26.6%		
External	\$1,279 (456)	\$1,136 (348)	-\$143	-11.2%	\$1,992 (658)	\$1,831 (358)	-\$161	-8.1%	\$2,452 (214)	\$2,506 (241)	\$54	2.2%	\$2,864 (86)	\$3,817 (171)	\$953	33.3%	\$1,636 (1414)	\$1,469 (1119)	-\$167	-10.2%		
Combined	\$2,664 (502)	\$2,552 (334)	-\$112	-4.2%	\$3,388 (739)	\$3,157 (344)	-\$231	-6.8%	\$4,176 (261)	\$4,061 (234)	-\$115	-2.7%	\$5,481 (105)	\$5,714 (162)	\$233	4.3%	\$3,106 (1607)	\$2,881 (1075)	-\$225	-7.2%		

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

Table 6.2a: Change in mean (trimmed) income tax compliance costs 2009 to 2013 by turnover – SMEs with income tax requirements

	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
Internal							
2009	\$1,197 (195)	\$1,294 (271)	\$1,461 (268)	\$1,464 (197)	\$1,334 (262)	\$1,576 (232)	\$1,070 (181)
2013	\$796 (107)	\$1091 (166)	\$1022 (178)	\$1319 (127)	\$1575 (160)	\$1382 (88)	\$1137 (276)
\$ Change	-\$401	-\$203	-\$439	-\$145	\$241	-\$194	\$67
% Change	-33.5%	-15.7%	-30.0%	-9.9%	18.1%	-12.3%	6.3%
External							
2009	\$798 (171)	\$1,047 (240)	\$1,469 (248)	\$1,477 (176)	\$2,071 (221)	\$2,286 (221)	\$3,055 (145)
2013	\$942 (108)	\$819 (172)	\$1264 (182)	\$1686 (128)	\$2653 (159)	\$3137 (92)	\$3543 (275)
\$ Change	\$144	-\$228	-\$205	\$209	\$582	\$851	\$488
% Change	18.0%	-21.8%	-14.0%	14.2%	28.1%	37.2%	16.0%
Combined							
2009	\$2,012 (186)	\$2,259 (269)	\$2,740 (273)	\$2,723 (196)	\$3,225 (259)	\$4,206 (229)	\$4,178 (167)
2013	\$1,816 (102)	\$2,237 (163)	\$2,532 (174)	\$3,335 (127)	\$4,306 (156)	\$4,932 (88)	\$5,292 (262)
\$ Change	-\$196	-\$22	-\$208	\$612	\$1,081	\$726	\$1,114
% Change	-9.7%	-1.0%	-7.6%	22.5%	33.5%	17.3%	26.7%

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

Table 6.2b: Change in mean (trimmed) income tax compliance costs 2004 to 2013 by turnover – SMEs with income tax requirements

	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
Internal							
2004	\$1,668 (109)	\$1,417 (262)	\$1,357 (365)	\$1,361 (268)	\$1,771 (263)	\$1,742 (243)	\$1,608 (56)
2013	\$796 (107)	\$1,091 (166)	\$1,022 (178)	\$1,319 (127)	\$1,575 (160)	\$1,382 (88)	\$1,137 (276)
\$ Change	-\$872	-\$326	-\$335	-\$42	-\$196	-\$360	-\$471
% Change	-52.3%	-23.0%	-24.7%	-3.1%	-11.1%	-20.7%	-29.3%
External							
2004	\$1,158 (99)	\$1,102 (224)	\$1,651 (330)	\$2,099 (231)	\$2,543 (214)	\$2,763 (198)	\$4,046 (40)
2013	\$942 (108)	\$819 (172)	\$1,264 (182)	\$1,686 (128)	\$2,653 (159)	\$3,137 (92)	\$3,543 (275)
\$ Change	-\$216	-\$283	-\$387	-\$413	\$110	\$374	-\$503
% Change	-18.7%	-25.7%	-23.4%	-19.7%	4.3%	13.5%	-12.4%
Combined							
2004	\$3,371 (105)	\$2,294 (255)	\$2,882 (361)	\$3,334 (266)	\$4,068 (252)	\$4,307 (235)	\$6,983 (50)
2013	\$1,816 (102)	\$2,237 (163)	\$2,532 (174)	\$3,335 (127)	\$4,306 (156)	\$4,932 (88)	\$5,292 (262)
\$ Change	-\$1,555	-\$57	-\$350	\$1	\$238	\$625	-\$1,691
% Change	-46.1%	-2.5%	-12.1%	0.0%	5.9%	14.5%	-24.2%

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 2013

	Nil employees			Micro (1-5)			Small (6-19)			Medium (20+)			All		
Level of Stress	2004	2009	2013	2004	2009	2013	2004	2009	2013	2004	2009	2013	2004	2009	2013
Mean	3.7	3.3	3.1	4.1	3.6	3.6	4.1	3.8	3.6	4.1	3.6	3.1	3.9	3.5	3.2
	(438)	(411)	(289)	(680)	(466)	(307)	(247)	(279)	(205)	(108)	(183)	(161)	(1473)	(1384)	(775)

Base: All respondents who file/pay income tax (excluding missing information and 'don't know' responses).

Table 6.4: Change in stress proportions associated with provisional tax (including finding the money), 2004 to 2013

	Nil employees			Micro (1-5)			Small (6-19)			Medium (20+)			All		
Level of Stress	2004	2009	2013	2004	2009	2013	2004	2009	2013	2004	2009	2013	2004	2009	2013
High (%)	35%	23%	20%	42%	33%	33%	46%	34%	32%	47%	34%	18%	39%	28%	24%
Moderate (%)	18%	23%	18%	21%	18%	19%	15%	27%	18%	16%	17%	19%	18%	21%	18%
Low (%)	47%	54%	62%	37%	49%	49%	39%	39%	51%	37%	49%	63%	43%	50%	58%
Total	100% (438)	100% (411)	100% (289)	100% (680)	100% (466)	100% (307)	100% (247)	100% (279)	100% (205)	100% (108)	100% (183)	100% (161)	100% (1473)	100% (1384)	100% (775)

Base: All respondents who file/pay income tax (excluding missing information and 'don't know' responses).

Note: Totals may not sum to 100% due to rounding.

Section 7. GST

SMEs that pay GST

Eighty-seven percent of businesses in the survey reported paying GST in 2013, which is down from 93 percent of SMEs in 2009 and 94 percent in 2004.

In 2013, SMEs that pay GST are more likely to report having no employees (60 percent), than was the case in the earlier tax compliance studies (54 percent in 2004 and 53 percent in 2009). SMEs that pay GST in 2013 are also less likely to report having between one and five employees (29 percent, compared with 34 percent in 2004 and 35 percent in 2009).

SMEs that pay GST in 2013 are also more likely to report having been in business for more than 10 years than in 2009 (50 percent, compared with 38 percent of income tax-liable SMEs in 2009, see Table E.1 in Appendix E). In 2013, GST-liable SMEs are also more likely to report having been in business for between one and two years (18 percent, up from 10 percent in 2009 and 12 percent in 2004).

Related to the increase in GST-liable SMEs who do not have any employees, in 2013 fewer SMEs paying GST also reported paying PAYE (45 percent, compared with 52 percent in 2009 and 56 percent in 2004).

While the number of GST-liable SMEs paying FBT (10 percent) has not changed significantly since 2009, it is down considerably from 26 percent in 2004.

Significantly more GST-liable SMEs also reported paying GST-related external advisor costs in 2013 (46 percent), when compared with the previous tax compliance studies (37 percent in 2009 and 40 percent in 2004).

Key findings – GST

From 2004 to 2013, changes in average compliance costs associated with GST filers/payers include:

- A significant increase in GST-related external costs since 2009 (reported as being \$437 on average in 2013, which is a 44.2 percent increase from \$303 in 2009).
- A significant decrease in GST-related internal costs since 2004 (reported as being \$2,027 on average in 2013, compared with \$2,407 in 2004, a 15.8 percent decrease).
- Hours spent on GST by all SMEs in 2013 (37.1 on average) are unchanged from 2009; however, they are down by 22.5 percent from 47.9 hours 2004.
- As with previous years, external GST-related costs are small relative to internal costs; and when compared with the external costs associated with meeting income tax-related obligations.

Changes related to business size and turnover

- SMEs with no employees and medium-sized SMEs reported significantly higher external costs (\$367 and \$844, respectively), when compared with those reported by similar SMEs in 2009 (\$217 and \$376, respectively).
- In 2013, medium-sized SMEs reported significantly lower internal costs for GST (\$2,277, compared with \$3,948 in 2004; a 42.3 percent decrease).

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- SMEs with turnovers of less than \$40,000 reported significantly higher external costs for GST (\$362) when compared with those reported in 2009 (\$162), however 2013 external GST costs are in line with those reported by similar SMEs in 2004.
 - SMEs with turnovers of \$5 million or more reported significantly higher external costs for GST (\$797) when compared with those reported in 2009 (\$397), however 2013 external GST costs are in line with those reported by SMEs with turnovers of \$5 million or more in 2004.
 - SMEs with turnovers of between \$500k and \$1.3 million reported significantly lower internal costs for GST (\$2,229) when compared with those reported by SMEs with turnovers of \$500k and \$1.3 million in 2004 (\$3,152, a 29.3 percent decrease).

Changes in level of stress – GST

- While there are no statistically significant differences in relation to the average level of stress associated with meeting GST requirements (including finding the money), when compared with 2009 (see Table 7.3), reported stress levels in 2013 (3.3 on average on a scale of 1 to 7) are lower than those reported in 2004 (3.8).
- Relatedly, the proportion of SMEs reporting high levels of stress in 2013 (24 percent) is significantly lower when compared with those reported in 2004 (35 percent), while more SMEs in 2013 report having low stress levels (56 percent, compared with 43 percent in 2004).
- SMEs with no employees reported significantly lower GST-related stress in 2013 (an average score of 3.1, compared with 3.7 in 2004), as well as micro-businesses (3.6, compared with 4.0 in 2004).
- Relatedly, the proportion of SMEs with no employees reporting high stress costs in relation to GST (18 percent) is down significantly from 2004 (33 percent), while the proportion reporting low stress (61 percent) is up significantly from 46 percent in 2004.
- Medium-sized SMEs were also significantly less likely to report high levels of stress related to GST in 2013 (18 percent, compared with 40 percent of medium-sized SMEs in 2004).

Table 7.1a: Change in mean (trimmed) GST compliance costs 2009 to 2013 by number of employees – SMEs with GST requirements

	Nil employees				Micro (1-5)				Small (6-19)				Medium (20+)				All					
	2009		2013		Change		Change		2009		2013		Change		Change		2009		2013		Change	
			\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Internal	\$1,974 (401)	\$1,835 (277)	-\$139	-7.0%	\$2,252 (569)	\$2,258 (362)	\$6	0.3%	\$2,768 (320)	\$2,481 (250)	-\$287	-10.4%	\$2,709 (200)	\$2,277 (177)	-\$432	-15.9%	\$2,183 (1541)	\$2,027 (1067)	-\$156	-7.1%		
External	\$217 (356)	\$367 (281)	\$150	69.1%	\$373 (523)	\$479 (372)	\$106	28.4%	\$591 (279)	\$669 (256)	\$78	13.2%	\$376 (186)	\$844 (174)	\$468	124.5%	\$303 (1390)	\$437 (1084)	\$134	44.2%		
Combined	\$2,279 (400)	\$2,264 (267)	-\$15	-0.7%	\$2,633 (573)	\$2,863 (361)	\$230	8.7%	\$3,294 (320)	\$3,227 (245)	-\$67	-2.0%	\$3,075 (202)	\$3,405 (174)	\$330	10.7%	\$2,526 (1546)	\$2,555 (1048)	\$29	1.1%		

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

Table 7.1b: Change in mean (trimmed) GST compliance costs 2004 to 2013 by number of employees – SMEs with GST requirements

	Nil employees				Micro (1-5)				Small (6-19)				Medium (20+)				All					
	2004		2013		Change		Change		2004		2013		Change		Change		2004		2013		Change	
			\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Internal	\$2,074 (436)	\$1,835 (277)	-\$239	-11.5%	\$2,701 (756)	\$2,258 (362)	-\$443	-16.4%	\$2,681 (274)	\$2,481 (250)	-\$200	-7.5%	\$3,948 (113)	\$2,277 (177)	-\$1,671	-42.3%	\$2,407 (1579)	\$2,027 (1067)	-\$380	-15.8%		
External	\$331 (412)	\$367 (281)	\$36	10.9%	\$526 (686)	\$479 (372)	-\$47	-8.9%	\$737 (229)	\$669 (256)	-\$68	-9.2%	\$811 (97)	\$844 (174)	\$33	4.1%	\$443 (1424)	\$437 (1084)	-\$6	-1.4%		
Combined	\$2,392 (442)	\$2,264 (267)	-\$128	-5.4%	\$3,233 (758)	\$2,863 (361)	-\$370	-11.4%	\$3,432 (276)	\$3,227 (245)	-\$205	-6.0%	\$4,734 (111)	\$3,405 (174)	-\$1,329	-28.1%	\$2,849 (1587)	\$2,555 (1048)	-\$294	-10.3%		

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

Table 7.2a: Change in mean (trimmed) GST compliance costs 2009 to 2013 by turnover – SMEs with GST requirements

	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	
Internal	2009	\$1,759 (140)	\$2,206 (247)	\$2,349 (264)	\$2,032 (209)	\$2,441 (265)	\$2,493 (238)	\$2,397 (163)
	2013	\$1,536 (76)	\$1,778 (148)	\$2,034 (174)	\$2,465 (129)	\$2,229 (164)	\$2,592 (96)	\$2,415 (280)
	\$ Change	-\$223	-\$428	-\$315	\$433	-\$212	\$99	\$18
	% Change	-12.7%	-19.4%	-13.4%	21.3%	-8.7%	4.0%	0.8%
External	2009	\$162 (126)	\$209 (222)	\$378 (240)	\$311 (185)	\$478 (225)	\$518 (228)	\$397 (163)
	2013	\$362 (76)	\$252 (152)	\$336 (181)	\$491 (129)	\$702 (164)	\$955 (102)	\$797 (280)
	\$ Change	\$200	\$43	-\$42	\$180	\$224	\$437	\$400
	% Change	123.5%	20.6%	-11.1%	57.9%	46.9%	84.4%	100.8%
Combined	2009	\$2,061 (140)	\$2,398 (247)	\$2,732 (265)	\$2,295 (210)	\$3,104 (265)	\$3,033 (240)	\$2,733 (178)
	2013	\$1,978 (74)	\$2,152 (142)	\$2,445 (174)	\$2,850 (126)	\$3,012 (163)	\$4,020 (96)	\$3,407 (273)
	\$ Change	-\$83	-\$246	-\$287	\$555	-\$92	\$987	\$674
	% Change	-4.0%	-10.3%	-10.5%	24.2%	-3.0%	32.5%	24.7%

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

Table 7.2b: Change in mean (trimmed) GST compliance costs 2004 to 2013 by turnover – SMEs with GST requirements

	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	
Internal	2004	\$2,003 (107)	\$2,067 (268)	\$2,531 (374)	\$2,358 (265)	\$3,152 (268)	\$3,104 (233)	\$2,320 (56)
	2013	\$1,536 (76)	\$1,778 (148)	\$2,034 (174)	\$2,465 (129)	\$2,229 (164)	\$2,592 (96)	\$2,415 (280)
	\$ Change	-\$467	-\$289	-\$497	\$107	-\$923	-\$512	\$95
	% Change	-23.3%	-14.0%	-19.6%	4.5%	-29.3%	-16.5%	4.1%
External	2004	\$336 (106)	\$261 (242)	\$427 (345)	\$588 (245)	\$690 (223)	\$711 (203)	\$1,090 (51)
	2013	\$362 (76)	\$252 (152)	\$336 (181)	\$491 (129)	\$702 (164)	\$955 (102)	\$797 (280)
	\$ Change	\$26	-\$9	-\$91	-\$97	\$12	\$244	-\$293
	% Change	7.7%	-3.4%	-21.3%	-16.5%	1.7%	34.3%	-26.9%
Combined	2004	\$2,306 (108)	\$2,312 (267)	\$3,004 (374)	\$2,888 (272)	\$3,702 (269)	\$3,948 (233)	\$3,225 (54)
	2013	\$1,978 (74)	\$2,152 (142)	\$2,445 (174)	\$2,850 (126)	\$3,012 (163)	\$4,020 (96)	\$3,407 (273)
	\$ Change	-\$328	-\$160	-\$559	-\$38	-\$690	\$72	\$182
	% Change	-14.2%	-6.9%	-18.6%	-1.3%	-18.6%	1.8%	5.6%

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 2013

	Nil employees			Micro (1-5)			Small (6-19)			Medium (20+)			All		
Level of Stress	2004	2009	2013	2004	2009	2013	2004	2009	2013	2004	2009	2013	2004	2009	2013
Mean	3.7	3.1	3.1	4.0	3.7	3.6	4.0	3.8	3.7	3.8	3.7	3.2	3.8	3.4	3.3
	(447)	(393)	(280)	(777)	(581)	(365)	(282)	(337)	(250)	(119)	(206)	(183)	(1625)	(1564)	(1078)

Base: All respondents who file/pay GST (excluding missing information and 'don't know' responses).

Table 7.4: Change in stress proportions associated with GST (including finding the money), 2004 to 2013

	Nil employees			Micro (1-5)			Small (6-19)			Medium (20+)			All		
Level of Stress	2004	2009	2013	2004	2009	2013	2004	2009	2013	2004	2009	2013	2004	2009	2013
High (%)	33%	20%	18%	33%	31%	32%	42%	32%	37%	40%	33%	18%	35%	26%	24%
Moderate (%)	22%	19%	21%	24%	21%	22%	20%	22%	13%	15%	18%	21%	22%	20%	21%
Low (%)	46%	61%	61%	38%	48%	46%	38%	46%	51%	46%	49%	61%	43%	54%	56%
Total	100% (447)	100% (393)	100% (280)	100% (777)	100% (581)	100% (365)	100% (282)	100% (337)	100% (250)	100% (119)	100% (206)	100% (183)	100% (1625)	100% (1564)	100% (1078)

Base: All respondents who file/pay GST (excluding missing information and 'don't know' responses).

Note: Totals may not sum to 100% due to rounding.

Section 8. PAYE

SMEs that pay PAYE

Reflecting the increase in this year's survey of SMEs who do not employ any staff, fewer SMEs in 2013 reported they file/pay PAYE (40 percent of responding businesses, which is down significantly from 49 percent in 2009 and 53 percent in 2004).

However, other than PAYE-liable SMEs being more likely to have been in operation for 10 years or more (53 percent, compared with 42 percent in 2009 and 47 percent in 2004), there are no significant differences in their demographic characteristics when compared with SMEs that responded to the two previous surveys.

The hours expended by all SMEs on PAYE (26 hours per year on average) have not changed significantly since 2009 or 2004 (Tables 5.4a and 5.4b).

The proportion of SMEs with employees repaying student loans has increased significantly, however, with 33.4 percent of PAYE filers/payers reporting that they employee staff paying back student loans (compared with 25.1 percent in 2009 and 17.1 percent in 2004) (see table F.2a).

The proportion of SMEs with employees who have child support obligations in 2013 (11.0 percent) is similar to that found by the 2004 and 2009 surveys (Table F.2b).

The proportion of SMEs utilising external payroll services has increased from 6.9 percent in 2004 and 8.0 percent in 2009 to 13.7 percent in 2013 (Table F.2c).

Key findings – PAYE

From 2004 to 2013, the main changes in average compliance costs associated with PAYE for PAYE filers/payers:

- Total PAYE compliance costs (\$1,256) remain relatively unchanged from those reported in 2009 (\$1,324 after adjusting 2009 costs to 2013 dollars) and 2004 (\$1,308).
- However, external costs, which comprise a relatively small proportion of PAYE-related compliance costs, have dropped significantly from \$115 in 2004 and \$97 in 2009, to just \$29 on average in 2013, a decrease of 74.8 percent since the 2004 survey.

Changes related to business size and turnover

- Micro SMEs' external PAYE compliance costs have dropped significantly from \$100 in 2009 and \$111 in 2004 to just \$31 on average in 2013, a 72.1 percent reduction since 2004.
- Small employers' external PAYE compliance costs have also dropped significantly from \$102 in 2009 and \$199 in 2004 to \$38 on average, an 80.9 percent reduction since 2004.
- Since 2009, PAYE-liable SMEs with turnovers of between \$100k and \$250k have seen external compliance costs in relation to PAYE decrease by 76.0 percent from \$96 on average to \$23 in 2013. SMEs with turnovers of between \$250k and \$500k also experienced a significant decrease in external PAYE compliance costs from \$118 in 2009 to \$25 on average in 2013, a 78.8 percent reduction.

Compared with the findings of the 2004 benchmark survey, the following significant changes in PAYE-related compliance costs have occurred:

- SMEs with turnovers of less than \$40,000 experienced a 70.6 percent reduction in total PAYE-related compliance costs, from \$1,404 in 2004 to \$413 in 2013. This has been driven primarily by a reduction in reported internal costs from \$1,230 on average to \$322 in 2013, a 73.8 percent reduction.
- While total PAYE-related compliance costs have not reduced significantly for SMEs with turnovers greater than \$40,000, external costs have decreased significantly since 2004 for SMEs with turnovers of between \$40,000 and \$100k (down 66.7 percent), \$100k to \$250k (76.0 percent), \$250k to \$500k (82.0 percent), \$500k to \$1.3 million (74.8 percent), and SMEs with turnovers of between \$1.3 million and \$5 million (72.7 percent).

Changes in level of stress – PAYE

In 2013, the average stress levels associated with PAYE compliance costs (including finding the money) among PAYE filers and payers was 3.1 on a scale of 1 to 7, which is unchanged from levels reported by SMEs in 2004 and 2009.

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

Student Loans

As was found in previous years' surveys, on average SMEs with staff paying back student loans spend significantly more hours dealing with PAYE per year (42 hours), than do SMEs with no staff paying back student loans (22 hours on average). As such, in 2013 SMEs with staff paying back student loans reported significantly higher PAYE-related compliance costs (\$1,802), than did SMEs who do not have staff paying back student loans (\$1,195).

Child Support

Also reflecting the findings of previous years' surveys, SMEs with staff paying child support spend significantly more hours on average per year dealing with their PAYE compliance obligations (43 hours on average, compared with 27 hours as reported by SMEs with no staff that are paying child support).

In terms of combined compliance costs, as was found in relation to student loans, the PAYE-related dollar cost associated with SMEs with staff having child support obligations is roughly twice that of those SMEs who do not have any staff with child support obligations (\$1,902 versus \$964 respectively).

External Payroll

In 2013, the average payment to external payroll services for such SMEs was \$1,053, which is in line with the average payment in 2009 (after adjusting 2009 costs to 2013 dollars). However, the total external payroll costs paid by SMEs are significantly lower than those reported in 2004 (\$2,648 after adjusting 2004 costs to 2013 dollars).

While one might expect that total internal hours spent on PAYE by SMEs using an external payroll service would be lower than that reported by SMEs not using such services, the survey data suggests that SMEs using such services actually spend more hours to comply with their PAYE obligations (34 hours on average, compared with 27 hours on average among SMEs not using an external payroll service). While this observed difference in hours is indicative only, due to the relatively smaller sub-sample of SMEs using an external payroll service, the discrepancy between those that use external payroll services and those that do not was also seen in the hours reported in both the 2004 and 2009 surveys.

Table 8.1a: Change in mean (trimmed) PAYE compliance costs 2009 to 2013 by number of employees – SMEs with PAYE requirements

	Nil employees				Micro (1-5)				Small (6-19)				Medium (20+)				All			
	2009		2013		2009		2013		2009		2013		2009		2013		2009		2013	
			Change				Change				Change				Change				Change	
Internal	NA	NA	NA	NA	\$1,191 (582)	\$1,241 (345)	\$50	4.2%	\$2,006 (328)	\$1,798 (254)	-\$208	-10.4%	\$1,965 (208)	\$1,731 (184)	-\$234	-11.9%	\$1,234 (1172)	\$1,099 (843)	-\$135	-10.9%
External	NA	NA	NA	NA	\$100 (531)	\$31 (348)	-\$69	-69.0%	\$102 (280)	\$38 (252)	-\$64	-62.7%	\$131 (190)	\$55 (178)	-\$76	-58.0%	\$97 (1060)	\$29 (838)	-\$68	-70.1%
Combined	NA	NA	NA	NA	\$1,261 (581)	\$1,357 (328)	\$96	7.6%	\$2,127 (329)	\$1,965 (245)	-\$162	-7.6%	\$1,996 (206)	\$1,940 (182)	-\$56	-2.8%	\$1,324 (1167)	\$1,256 (803)	-\$68	-5.1%

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

Table 8.1b: Change in mean (trimmed) PAYE compliance costs 2004 to 2013 by number of employees – SMEs with PAYE requirements

	Nil employees				Micro (1-5)				Small (6-19)				Medium (20+)				All			
	2004		2013		2004		2013		2004		2013		2004		2013		2004		2013	
			Change				Change				Change				Change				Change	
Internal	NA	NA	NA	NA	\$1,185 (777)	\$1,241 (345)	\$56	4.7%	\$1,890 (283)	\$1,798 (254)	-\$92	-4.9%	\$1,670 (110)	\$1,731 (184)	\$61	3.7%	\$1,217 (1244)	\$1,099 (843)	-\$118	-9.7%
External	NA	NA	NA	NA	\$111 (695)	\$31 (348)	-\$80	-72.1%	\$199 (230)	\$38 (252)	-\$161	-80.9%	\$124 (100)	\$55 (178)	-\$69	-55.6%	\$115 (1103)	\$29 (838)	-\$86	-74.8%
Combined	NA	NA	NA	NA	\$1,283 (774)	\$1,357 (328)	\$74	5.8%	\$2,012 (277)	\$1,965 (245)	-\$47	-2.3%	\$1,732 (110)	\$1,940 (182)	\$208	12.0%	\$1,308 (1235)	\$1,256 (803)	-\$52	-4.0%

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

Table 8.2a: Change in mean (trimmed) PAYE compliance costs 2009 to 2013 by turnover – SMEs with PAYE requirements

	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
Internal							
2009	\$812 (43)	\$777 (105)	\$1,145 (163)	\$1,458 (183)	\$1,489 (246)	\$1,719 (248)	\$1,394 (182)
2013	\$322 (33)	\$579 (55)	\$1,181 (116)	\$1,010 (103)	\$1,299 (155)	\$1,892 (94)	\$1,396 (286)
\$ Change	-\$490	-\$198	\$36	-\$448	-\$190	\$173	\$2
% Change	-60.3%	-25.5%	3.1%	-30.7%	-12.8%	10.1%	0.1%
External							
2009	\$73 (40)	\$51 (102)	\$96 (150)	\$118 (163)	\$120 (209)	\$161 (228)	\$60 (166)
2013	\$15 (32)	\$19 (59)	\$23 (115)	\$25 (104)	\$39 (150)	\$41 (93)	\$45 (284)
\$ Change	-\$58	-\$32	-\$73	-\$93	-\$81	-\$120	-\$15
% Change	-79.5%	-62.7%	-76.0%	-78.8%	-67.5%	-74.5%	-25.0%
Combined							
2009	\$885 (43)	\$826 (105)	\$1,202 (159)	\$1,563 (183)	\$1,604 (245)	\$1,896 (248)	\$1,477 (182)
2013	\$413 (29)	\$660 (50)	\$1,361 (108)	\$1,120 (97)	\$1,477 (147)	\$2,021 (92)	\$1,567 (279)
\$ Change	-\$472	-\$166	\$159	-\$443	-\$127	\$125	\$90
% Change	-53.3%	-20.1%	13.2%	-28.3%	-7.9%	6.6%	6.1%

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

Table 8.2b: Change in mean (trimmed) PAYE compliance costs 2004 to 2013 by turnover – SMEs with PAYE requirements

	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	
Internal	2004	\$1,230 (43)	\$685 (136)	\$1,164 (273)	\$1,229 (237)	\$1,575 (251)	\$1,597 (232)	\$1,277 (57)
	2013	\$322 (33)	\$579 (55)	\$1,181 (116)	\$1,010 (103)	\$1,299 (155)	\$1,892 (94)	\$1,396 (286)
	\$ Change	-\$908	-\$106	\$17	-\$219	-\$276	\$295	\$119
	% Change	-73.8%	-15.5%	1.5%	-17.8%	-17.5%	18.5%	9.3%
External	2004	\$118 (41)	\$57 (126)	\$96 (255)	\$139 (211)	\$155 (209)	\$150 (197)	\$215 (52)
	2013	\$15 (32)	\$19 (59)	\$23 (115)	\$25 (104)	\$39 (150)	\$41 (93)	\$45 (284)
	\$ Change	-\$103	-\$38	-\$73	-\$114	-\$116	-\$109	-\$170
	% Change	-87.3%	-66.7%	-76.0%	-82.0%	-74.8%	-72.7%	-79.1%
Combined	2004	\$1,404 (42)	\$742 (135)	\$1,225 (272)	\$1,364 (237)	\$1,674 (248)	\$1,673 (229)	\$1,428 (58)
	2013	\$413 (29)	\$660 (50)	\$1,361 (108)	\$1,120 (97)	\$1,477 (147)	\$2,021 (92)	\$1,567 (279)
	\$ Change	-\$991	-\$82	\$136	-\$244	-\$197	\$348	\$139
	% Change	-70.6%	-11.1%	11.1%	-17.9%	-11.8%	20.8%	9.7%

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 2013

Level of Stress	Nil employees			Micro (1-5)			Small (6-19)			Medium (20+)			All		
	2004	2009	2013	2004	2009	2013	2004	2009	2013	2004	2009	2013	2004	2009	2013
Mean	NA	NA	NA	3.2	3.1	3.1	3.4	3.3	3.3	3.2	3.3	2.7	3.2	3.1	3.1
	NA	NA	NA	(769)	(556)	(334)	(282)	(337)	(246)	(118)	(207)	(181)	(1207)	(1115)	(761)

Base: All respondents who file/pay PAYE (excluding missing information and 'don't know' responses).

Table 8.4: Change in stress proportions associated with PAYE (including finding the money), 2004 to 2013

Level of Stress	Nil employees			Micro (1-5)			Small (6-19)			Medium (20+)			All		
	2004	2009	2013	2004	2009	2013	2004	2009	2013	2004	2009	2013	2004	2009	2013
High (%)	NA	NA	NA	19%	22%	18%	26%	24%	26%	22%	25%	13%	21%	22%	18%
Moderate (%)	NA	NA	NA	20%	16%	20%	19%	20%	14%	15%	20%	13%	20%	17%	18%
Low (%)	NA	NA	NA	61%	63%	63%	55%	57%	60%	63%	55%	74%	59%	61%	64%
Total	NA	NA	NA	100% (769)	100% (556)	100% (334)	100% (282)	100% (337)	100% (246)	100% (118)	100% (207)	100% (181)	100% (1207)	100% (1115)	100% (761)

Base: All respondents who file/pay PAYE (excluding missing information and 'don't know' responses).

Note: Totals may not sum to 100% due to rounding.

Section 9. FBT

SMEs that pay FBT

Fewer than nine percent of businesses (8.7 percent) in the survey reported filing or paying FBT in 2013; and 42 percent of these also incurred external FBT costs. This compares with 24 percent of SMEs in 2004, 29 percent of which had external FBT costs. The comparable figures for SMEs incurring external FBT related costs in 2009 were 12 percent and 46 percent, respectively.

When viewed by business size (as measured by number of employees), unlike GST, Income tax and PAYE, for which the proportions of different-sized businesses filing/paying each tax were similar to the overall proportions of businesses completing the survey, the profile of FBT-liable businesses is significantly different. Whereas businesses with no employees comprise 64 percent of all businesses surveyed, just 21 percent of such businesses reported filing or paying FBT.

Similarly, medium sized businesses with 20 plus employees comprise just two percent of all businesses surveyed (similar to that seen in previous years), however 12 percent of such businesses reported filing/paying FBT in 2013.

Key findings – FBT

- The costs associated with FBT have decreased significantly from both 2009 and 2004. In 2013 the total compliance cost associated with FBT was \$219 on average (trimmed means), among FBT-liable businesses, compared with \$461 in 2009 (a 52.5 percent reduction) and \$354 in 2004 (a 38.1 percent reduction).
- Despite businesses reporting similar numbers of hours dealing with FBT in 2013 compared with 2009 and 2004 (see Tables 5.4a and 5.4b, which detail the results for all SMEs), businesses that pay/file FBT reported lower internal costs in 2013 (\$197 on average, compared with \$245 in 2004 and \$346 in 2009).
- External FBT-related costs are also down significantly; reported as being just \$19 on average, compared with \$100 in 2009 and \$134 in 2004.

Changes by business size

When compared with 2009, overall FBT-related costs for businesses with no employees have reduced by 77 percent, while external costs associated with FBT for those businesses have reduced by 96 percent. Micro businesses also reported an 85 percent decrease in external costs.¹³ While the large reductions in FBT-related costs for such businesses likely reflects policy implemented in the past to change minimum FBT thresholds for the smallest businesses, they may also reflect a reduction in the practice of providing employees with taxable fringe benefits, due cost-cutting measures in response to the Global Financial Crisis.

When compared with 2004, businesses with no employees reported significantly reduced overall and external FBT-related costs (reductions of roughly 66 percent and 95 percent respectively). External FBT-related costs are also down for micro and small businesses, when compared with 2004 (90 percent and 73 percent, respectively).

¹³ Due to relatively small sub-samples of Nil, Micro and Small businesses with FBT compliance costs, figures have been rounded.

Changes by turnover

When compared with 2009, the following significant reductions in FBT compliance costs have occurred:

- External costs – businesses with turnovers in the range of \$40k to \$100k reported a 93 percent reduction, \$100k to \$250k (88 percent reduction), \$250k to \$500k (88 percent reduction), \$500k to \$1.3 million (80 percent reduction), and \$1.3 to \$5 million (a reduction of 75 percent).
- Total costs – businesses with turnovers of less than \$40k reported an 82 percent reduction on average, \$100k to \$250k (70 percent reduction), \$250k to \$500k (81 percent reduction).

When compared with 2004, the following significant reductions in FBT-related compliance costs have occurred in relation to:

- Internal costs – businesses with turnovers of between \$100k and \$250k in 2013 reported 77 percent lower costs.
- External costs – businesses with turnovers of between: \$40k to \$100k reported a 96 percent reduction, \$100k to \$250k (91 percent reduction), \$250k to \$500k (93 percent reduction), \$500k to \$1.3 million (79 percent reduction), \$1.3 to \$5 million (82 percent), \$5 million and over (a reduction of 82 percent).
- Total costs – businesses with turnovers of between \$100k and \$250k reported 80 percent lower total costs in relation to FBT.

Changes in level of stress – FBT

Reported stress levels associated with FBT (including finding the money) in 2013 were 2.7 on average on a scale of one to seven. Seventy-three percent reported low stress, nine percent moderate stress, and 18 percent reported high levels of stress associated with FBT.

With the exception that medium-sized businesses were significantly less likely to report high levels of stress in 2013 (seven percent, compared with 22 percent in 2004 and 29 percent in 2009), there have been no statistically significant changes in reported FBT-related stress levels.

Table 9.1a: Change in mean (trimmed) FBT compliance costs 2009 to 2013 by number of employees – SMEs with FBT requirements

	Nil employees				Micro (1-5)				Small (6-19)				Medium (20+)				All					
	2009		2013		Change		Change		2009		2013		Change		Change		2009		2013		Change	
			\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Internal	\$213 (22)	\$67 (43)	-\$146	-68.5%	\$331 (119)	\$204 (108)	-\$127	-38.4%	\$433 (138)	\$454 (103)	\$21	4.8%	\$587 (137)	\$513 (123)	-\$74	-12.6%	\$346 (421)	\$197 (377)	-\$149	-43.1%		
External	\$104 (21)	\$4 (43)	-\$100	-96.2%	\$101 (108)	\$15 (107)	-\$86	-85.1%	\$94 (124)	\$46 (103)	-\$48	-51.1%	\$164 (125)	\$90 (123)	-\$74	-45.1%	\$100 (384)	\$19 (376)	-\$81	-81.0%		
Combined	\$311 (22)	\$71 (43)	-\$240	-77.2%	\$465 (117)	\$225 (105)	-\$240	-51.6%	\$531 (136)	\$495 (103)	-\$36	-6.8%	\$698 (136)	\$636 (120)	-\$62	-8.9%	\$461 (415)	\$219 (371)	-\$242	-52.5%		

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

Table 9.1b: Change in mean (trimmed) FBT compliance costs 2004 to 2013 by number of employees – SMEs with FBT requirements

	Nil employees				Micro (1-5)				Small (6-19)				Medium (20+)				All					
	2004		2013		Change		Change		2004		2013		Change		Change		2004		2013		Change	
			\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
Internal	\$139 (92)	\$67 (43)	-\$72	-51.8%	\$246 (283)	\$204 (108)	-\$42	-17.1%	\$324 (165)	\$454 (103)	\$130	40.1%	\$519 (84)	\$513 (123)	-\$6	-1.2%	\$245 (624)	\$197 (377)	-\$48	-19.6%		
External	\$78 (81)	\$4 (43)	-\$74	-94.9%	\$145 (263)	\$15 (107)	-\$130	-89.7%	\$168 (131)	\$46 (103)	-\$122	-72.6%	\$262 (70)	\$90 (123)	-\$172	-65.6%	\$134 (545)	\$19 (376)	-\$115	-85.8%		
Combined	\$208 (92)	\$71 (43)	-\$137	-65.9%	\$358 (284)	\$225 (105)	-\$133	-37.2%	\$490 (164)	\$495 (103)	\$5	1.0%	\$678 (82)	\$636 (120)	-\$42	-6.2%	\$354 (622)	\$219 (371)	-\$135	-38.1%		

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

Table 9.2a: Change in mean (trimmed) FBT compliance costs 2009 to 2013 by turnover – SMEs with FBT requirements

	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
Internal							
2009	\$419 (14)	\$188 (10)	\$167 (34)	\$592 (35)	\$364 (73)	\$292 (114)	\$564 (141)
2013	\$86 (17)	\$106 (18)	\$63 (39)	\$136 (36)	\$229 (46)	\$395 (35)	\$547 (186)
\$ Change	-\$333	-\$82	-\$104	-\$456	-\$135	\$103	-\$17
% Change	-79.5%	-43.6%	-62.3%	-77.0%	-37.1%	35.3%	-3.0%
External							
2009	\$70 (12)	\$73 (12)	\$80 (33)	\$66 (29)	\$132 (68)	\$120 (104)	\$154 (126)
2013	\$3 (17)	\$5 (19)	\$10 (38)	\$8 (37)	\$26 (44)	\$30 (36)	\$66 (185)
\$ Change	-\$67	-\$68	-\$70	-\$58	-\$106	-\$90	-\$88
% Change	-95.7%	-93.2%	-87.5%	-87.9%	-80.3%	-75.0%	-57.1%
Combined							
2009	\$489 (14)	\$313 (9)	\$243 (34)	\$767 (35)	\$500 (72)	\$416 (112)	\$663 (139)
2013	\$89 (17)	\$111 (18)	\$74 (39)	\$148 (35)	\$262 (45)	\$435 (33)	\$624 (184)
\$ Change	-\$400	-\$202	-\$169	-\$619	-\$238	\$19	-\$39
% Change	-81.8%	-64.5%	-69.5%	-80.7%	-47.6%	4.6%	-5.9%

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

Table 9.2b: Change in mean (trimmed) FBT compliance costs 2004 to 2013 by turnover – SMEs with FBT requirements

	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	
Internal	2004	\$57 (23)	\$167 (60)	\$270 (111)	\$168 (86)	\$337 (128)	\$322 (160)	\$578 (50)
	2013	\$86 (17)	\$106 (18)	\$63 (39)	\$136 (36)	\$229 (46)	\$395 (35)	\$547 (186)
	\$ Change	\$29	-\$61	-\$207	-\$32	-\$108	\$73	-\$31
	% Change	50.9%	-36.5%	-76.7%	-19.0%	-32.0%	22.7%	-5.4%
External	2004	\$145 (23)	\$128 (55)	\$106 (102)	\$110 (79)	\$123 (103)	\$162 (132)	\$366 (46)
	2013	\$3 (17)	\$5 (19)	\$10 (38)	\$8 (37)	\$26 (44)	\$30 (36)	\$66 (185)
	\$ Change	-\$142	-\$123	-\$96	-\$102	-\$97	-\$132	-\$300
	% Change	-97.9%	-96.1%	-90.6%	-92.7%	-78.9%	-81.5%	-82.0%
Combined	2004	\$132 (22)	\$286 (60)	\$369 (112)	\$263 (87)	\$426 (126)	\$441 (159)	\$843 (50)
	2013	\$89 (17)	\$111 (18)	\$74 (39)	\$148 (35)	\$262 (45)	\$435 (33)	\$624 (184)
	\$ Change	-\$43	-\$175	-\$295	-\$115	-\$164	-\$6	-\$219
	% Change	-32.6%	-61.2%	-79.9%	-43.7%	-38.5%	-1.4%	-26.0%

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 2013

Level of Stress	Nil employees			Micro (1-5)			Small (6-19)			Medium (20+)			All		
	2004	2009	2013	2004	2009	2013	2004	2009	2013	2004	2009	2013	2004	2009	2013
Mean	2.1	2.8	2.4	2.4	2.8	3.0	2.9	2.5	2.8	2.8	3.5	2.6	2.5	2.8	2.7
	(46)	(16)	(7)	(193)	(95)	(54)	(135)	(128)	(80)	(76)	(134)	(1109)	(405)	(375)	(250)

Base: All respondents who file/pay FBT (excluding missing information and 'don't know' responses).

Table 9.4: Change in stress proportions associated with FBT (including finding the money), 2004 to 2013

Level of Stress	Nil employees			Micro (1-5)			Small (6-19)			Medium (20+)			All		
	2004	2009	2013	2004	2009	2013	2004	2009	2013	2004	2009	2013	2004	2009	2013
High (%)	10%	7%	14%	14%	14%	26%	21%	10%	26%	22%	29%	7%	15%	13%	18%
Moderate (%)	8%	23%	0%	8%	19%	7%	13%	13%	7%	10%	15%	22%	9%	19%	9%
Low (%)	82%	69%	73%	77%	67%	66%	65%	75%	66%	68%	56%	72%	75%	68%	73%
Total	100% (46)	100% (16)	100% (7)	100% (193)	100% (64)	100% (54)	100% (135)	100% (88)	100% (54)	100% (76)	100% (85)	100% (80)	100% (450)	100% (375)	100% (250)

Base: All respondents who file/pay FBT (excluding missing information and 'don't know' responses).

Note: Totals may not sum to 100% due to rounding.

Section 10. KiwiSaver

SMEs that pay KiwiSaver

Twenty-one percent of businesses in the survey reported paying KiwiSaver in 2013; 20 percent of whom incurred external KiwiSaver-related costs. In comparison, 24 percent of SMEs reported paying KiwiSaver in 2009, and of those 68 percent reported having external costs associated with KiwiSaver.

When viewed by their demographic profiles, businesses with one-to-five employees are less likely to have any KiwiSaver-related compliance costs (58 percent, compared with 76 percent of business with six-to-nineteen employees and 88 percent of businesses with 20 or more employees). Businesses with larger turnovers are also more likely to have KiwiSaver-related costs. For example, 57 percent of businesses with turnovers of between \$500k and \$1.3 million reported having KiwiSaver-related costs, compared with just five percent of those with turnovers of between \$40k and \$100k and 17 percent of those with turnovers of between \$100k and \$250k.

Key findings – KiwiSaver

On average, the total number of hours spent by all businesses on KiwiSaver compliance (Tables 5.4 a and 5.4b) was 14.9 in 2013, which is in line with the 14.5 hours reported in the 2009 survey. However, costs associated with KiwiSaver, particular external costs, are down significantly in 2013, when compared with the 2009 survey results:

- Internal costs in 2013 – reported as being \$459 on average, compared with \$714 in 2009 (a 35.7 percent reduction); the decrease being a reflection of the decreased dollar value that owners attached to their time in 2013 when compared with the 2009 survey results.
- External costs in 2014 – reported as being just \$2 on average, compared with \$49 in 2009 (a 96.0 percent reduction).
- Total KiwiSaver costs in 2013 – reported as being \$468 on average, compared with \$761 in 2009 (a 38.5 percent reduction overall).

Changes by business size and turnover

When viewed by business size, micro, small and medium businesses, all reported significant decreases in external costs, with reductions of those costs ranging from 95.6 percent among micro businesses, to 89.1 percent among medium-sized businesses. However, these reductions should be viewed in the context that, on average, external costs represented only six percent of total KiwiSaver-related compliance costs in 2009.

When viewed by business turnover, businesses with turnovers of between \$40k and \$100k reported the greatest reduction in KiwiSaver costs, 65.3 percent.

Changes in level of stress – KiwiSaver

Reported stress levels associated with KiwiSaver (including finding the money) in 2013 were 3.1 on average, on a scale of one to seven. Sixty-five percent reported low stress, 15 percent moderate stress, while 20 percent reported high levels of stress associated with KiwiSaver. These results are in line with those reported by businesses in the 2009 survey. With the exception that businesses with 20 plus employees reported lower stress levels in 2013 (2.6 compared with 3.6 in 2009), there were no significant differences in mean stress levels when viewed by business size. Relatedly, in 2013, fewer medium businesses reported high levels of stress associated with KiwiSaver (10 percent, compared with 37 percent in 2009), while more reported low levels of stress (80 percent, compared with 51 percent in 2009).

Table 10.1: Change in mean (trimmed) KiwiSaver compliance costs 2009 to 2013 by number of employees – SMEs who deal with KiwiSaver

	Nil employees				Micro (1-5)				Small (6-19)				Medium (20+)				All			
	2009		2013		2009		2013		2009		2013		2009		2013		2009		2013	
			Change				Change				Change				Change				Change	
	2009	2013	\$	%	2009	2013	\$	%	2009	2013	\$	%	2009	2013	\$	%	2009	2013	\$	%
Internal	NA	NA	NA	NA	\$626 (303)	\$538 (221)	-\$88	-14.1%	\$752 (281)	\$657 (209)	-\$95	-12.6%	\$719 (194)	\$623 (163)	-\$96	-13.4%	\$714 (791)	\$459 (633)	-\$255	-35.7%
External	NA	NA	NA	NA	\$45 (283)	\$2 (230)	-\$43	-95.6%	\$63 (241)	\$3 (209)	-\$60	-95.2%	\$64 (184)	\$7 (163)	-\$57	-89.1%	\$49 (720)	\$2 (642)	-\$47	-95.9%
Combined	NA	NA	NA	NA	\$673 (300)	\$551 (217)	-\$122	-18.1%	\$802 (283)	\$676 (206)	-\$126	-15.7%	\$777 (194)	\$637 (160)	-\$140	-18.0%	\$761 (790)	\$468 (623)	-\$293	-38.5%

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

Table 10.2: Change in mean (trimmed) KiwiSaver compliance costs 2009 to 2013 by turnover – SMEs who deal with KiwiSaver

	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
Internal							
2009	---	\$772	\$701	\$791	\$639	\$642	\$563
	(17)	(33)	(71)	(108)	(177)	(212)	(173)
2013	\$85	\$266	\$488	\$371	\$589	\$557	\$666
	(23)	(25)	(71)	(73)	(127)	(69)	(244)
\$ Change	---	-\$506	-\$213	-\$420	-\$50	-\$85	\$103
% Change	---	-65.5%	-30.4%	-53.1%	-7.8%	-13.2%	18.3%
External							
2009	---	\$13	\$42	\$24	\$63	\$89	\$60
	(12)	(30)	(74)	(92)	(154)	(197)	(161)
2013	\$0	\$0	\$2	\$1	\$2	\$2	\$5
	(23)	(27)	(73)	(76)	(127)	(71)	(244)
\$ Change	---	\$13	-\$40	-\$23	-\$61	-\$87	-\$55
% Change	---	100.0%	-95.2%	-95.8%	-96.8%	-97.8%	-91.7%
Combined							
2009	---	\$800	\$743	\$811	\$702	\$724	\$612
	(17)	(32)	(71)	(108)	(175)	(213)	(174)
2013	\$85	\$278	\$493	\$378	\$599	\$581	\$674
	(23)	(23)	(71)	(72)	(126)	(66)	(241)
\$ Change	---	-\$522	-\$250	-\$433	-\$103	-\$143	\$62
% Change	---	-65.3%	-33.6%	-53.4%	-14.7%	-19.8%	10.1%

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 2013

Level of Stress	Nil employees		Micro (1-5)		Small (6-19)		Medium (20+)		All	
	2009	2013	2009	2013	2009	2013	2009	2013	2009	2013
Mean	NA	NA	3.1	3.2	3.1	3.2	3.6	2.6	3.1	3.1
	NA	NA	(289)	(186)	(285)	(199)	(194)	(159)	(769)	(544)

Base: All respondents who deal with KiwiSaver (excluding missing information and 'don't know' responses).

Table 10.4: Change in stress proportions associated with KiwiSaver (including finding the money), 2004 to 2013

Level of Stress	Nil employees		Micro (1-5)		Small (6-19)		Medium (20+)		All	
	2009	2013	2009	2013	2009	2013	2009	2013	2009	2013
High (%)	NA	NA	21%	20%	24%	25%	37%	10%	22%	20%
Moderate (%)	NA	NA	17%	18%	15%	13%	12%	10%	16%	15%
Low (%)	NA	NA	63%	61%	61%	62%	51%	80%	62%	65%
Total	NA	NA	100% (289)	100% (186)	100% (285)	100% (199)	100% (194)	100% (159)	100% (769)	100% (544)

Base: All respondents who deal with KiwiSaver (excluding missing information and 'don't know' responses).

Note: Totals may not sum to 100 % due to rounding.

Section 11. Conclusion

Changes in compliance costs for SMEs

Overall compliance costs do not appear to have changed significantly over the five years since the 2009 study (\$5,861 in 2013 compared with \$5,962 in 2009). However, they have decreased overall since 2004 by 11.7 percent from \$6,640, (a reduction of \$779 on average). The decrease since 2004 has been by no means proportional across the different types of cost incurred (i.e. internal versus external), size of business and/or tax type. So in order to fully answer the query, have compliance costs reduced since 2004 and/or 2009 and if so, which aspects, we must return to the equation by which those costs have been assessed for the purposes of this study:

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

As discussed in earlier sections of the report, the main component of compliance costs for SMEs is the internal hours spent on tax, with owners contributing the most to those hours.

Hours and hourly costs

Overall internal costs have trended downward since the 2004 benchmark from \$4,552 in 2004 to \$4,321 in 2009. Based on the 2013/14 survey results, mean internal costs decreased a further 12.6 percent to \$3,778 between 2009 and 2013 – a total decrease of 17.0 percent since 2004 (in 2013 dollars).

Changes in internal compliance costs since 2004 have been driven by a number of factors, some of which have decreased while others have increased. There has been a downward trend in the number of internal hours spent per annum, with the most marked decrease being hours spent by owners in between 2004 and 2009 (down from 66.3 to 55.0 hours). In contrast, there has been a general increase in the hourly dollar value for owners, employees and unpaid family and friends over time, even after adjusting for inflation. For example, the value of employees' time has risen from \$25.54 per hour in 2004 to \$28.03 in 2013, a 9.7 percent increase overall.

When viewed by tax type, among all SMEs dealing with GST takes the most time (37.1 hours per year on average), followed by PAYE-related time (25.8 hours per year) and time spent dealing with Income tax (20.5 hours per year).

Despite the significant reduction in time spent dealing with tax since 2004, the 2013 survey highlights on average, all SMEs are spending a similar number of hours in meeting their tax obligations as they were in 2009.

External costs

The 2013 survey suggests that there has been some shifting of costs from internal to external sources since 2009, external costs having increased by \$332 on average, a 22.0 percent increase since 2009. Despite this apparent shifting of costs, since 2009, overall external costs for all SMEs in 2013 (\$1,842 on average) are relatively unchanged when compared with the 2004 benchmark study (\$1,863 after adjusting 2004 values to 2013 dollars).

Stress

The mean overall stress score (measured on a scale of 1 to 7) associated with meeting all Inland Revenue requirements (ignoring finding the money) in 2013 has decreased significantly from 3.4 in 2004 to 3.0 in 2013. Relatedly, the proportions of all businesses that rated meeting Inland Revenue requirements as highly stressful (16 percent) as defined by a rating of "5" or higher., is also down significantly from 2004 (24 percent), with significantly more businesses also reporting low stress (63 percent in 2013, compared with 50 percent in 2004).

However, there are no significant differences between reported stress levels in 2013 and those reported in 2009.

Impact of business size

Looking purely at changes in costs since 2004, businesses with no employees had the greatest reduction in mean compliance costs (10.8 percent average). However this is likely to be a function of such businesses not having any costs associated with dealing with PAYE (or KiwiSaver, though KiwiSaver was not a factor for SMEs in 2004). In contrast, small businesses (i.e. those with six to 19 employees, besides the owner, have experienced only a 2.7 percent reduction in mean compliance costs since 2004, whereas micro businesses reported a 6.9 percent reduction in compliance costs overall, and medium sized businesses with 20 plus employees reported an increase in costs of 7.1 percent.

In relation to the increase in costs for medium businesses, this has been driven by a significant increase in external costs, (up 38.5 percent since 2004), as such businesses are still spending significantly less time internally dealing with tax compliance than they were in 2004 (resulting in a decrease of 24.3 percent in hours spent, and a decrease of 16.2 percent in terms of the value of time spent).

Changes by tax type

As noted above, at the individual tax type level, the results are not as clear cut. For example, there has been a decrease in overall combined internal/external costs associated with Income tax among SMEs since 2004, with Income tax-liable SMEs spending \$257 less on average per year in 2013 than they did in 2004. Similar savings have also been made in relation to GST (down \$294 on average, when compared with 2004).

In contrast, the costs associated with PAYE have not reduced as much as those associated with Income tax or GST. In 2013, PAYE-liable SMEs reported spending \$52 less dealing with PAYE-related tax costs than they did in 2004 (a reduction of just 4.0 percent).

Total costs in relation to FBT have decreased significantly since 2004 (down 38.1 percent) and 2009 (down 52.5 percent); and while this is likely a function of changes made in relation to FBT thresholds, it could also be attributed in part to fewer SMEs providing their employees with FBT-liable fringe benefits as a result of cost-cutting measures they have implemented to deal with the impact of the Global Financial Crisis.

In 2009, KiwiSaver-liable SMEs reported spending \$761 on average to meet their KiwiSaver-associated compliance costs. In 2013, the average dollar costs spent by SMEs, in relation to KiwiSaver, was \$459, a reduction of \$293 (38.5 percent), with most of those savings being associated with internal time (a reduction of \$255 on average). This suggests that the 'bedding' down period for KiwiSaver has now passed.

Final remarks

Overall, while the dollar and stress related costs associated with tax compliance have decreased since 2004, most of those 'gains' appear to have occurred between 2004 and 2009, with there being fewer significant changes in reported costs between 2009 and 2013.

As noted at the beginning of this report, while successive New Zealand governments have used tax policy and administration to ensure taxpayers meet their tax obligations, in addition to reducing and limiting the costs of compliance for taxpayers (e.g. changes in relation to FBT), tax changes can operate in the opposite direction as well, by also adding compliance costs (e.g. the introduction of KiwiSaver).

Changes in the economy (e.g. those resulting from the recent financial recession), business practices (e.g. the use of third party agents) and circumstances can also affect compliance costs. However, the degree to which the Global Financial Crisis has impacted on New Zealand businesses' practices, and what if any flow on effects those changes have had on SMEs compliance costs, were outside of the scope of this particular study.

Therefore, further investigations as to the impact of the GFC on SMEs business practices, and in particular tax-related compliance costs, may be merited.

Appendices

A: Summary of mean combined tax compliance costs 2013

Table A.1a Summary of mean annual compliance costs by business size (number of employees), 2013

		Nil	Micro (1-5)	Small (6-19)	Medium (20+)	All
GST	Internal	\$1,460 (358)	\$2,207 (370)	\$2,465 (251)	\$2,275 (178)	\$1,746 (1158)
	External	\$293 (362)	\$469 (380)	\$665 (257)	\$843 (175)	\$377 (1175)
	Combined	\$1,788 (348)	\$2,799 (369)	\$3,207 (246)	\$3,403 (175)	\$2,194 (1139)
Income tax	Internal	\$1,045 (358)	\$1,016 (370)	\$1,287 (252)	\$1,469 (183)	\$1,064 (1164)
	External	\$1,090 (363)	\$1,727 (379)	\$2,349 (257)	\$3,667 (179)	\$1,401 (1179)
	Combined	\$2,445 (349)	\$2,971 (365)	\$3,803 (250)	\$5,474 (170)	\$2,743 (1135)
PAYE	Internal	NA	\$1,139 (371)	\$1,770 (258)	\$1,730 (185)	\$478 (1182)
	External	NA	\$28 (374)	\$37 (256)	\$55 (179)	\$13 (1177)
	Combined	NA	\$1,240 (354)	\$1,933 (249)	\$1,939 (183)	\$519 (1142)
KiwiSaver	Internal	NA	\$295 (374)	\$533 (258)	\$541 (185)	\$132 (1187)
	External	NA	\$1 (383)	\$2 (258)	\$6 (185)	\$1 (1196)
	Combined	NA	\$300 (370)	\$546 (255)	\$553 (182)	\$134 (1177)
FBT	Internal	\$8 (369)	\$53 (379)	\$139 (260)	\$286 (187)	\$35 (1196)
	External	\$0 (369)	\$4 (378)	\$14 (260)	\$50 (187)	\$3 (1195)
	Combined	\$8 (369)	\$57 (376)	\$153 (260)	\$351 (184)	\$39 (1190)
All tax types	Internal	\$2868 (352)	\$4989 (376)	\$6512 (252)	\$6579 (179)	\$3778 (1160)
	External	\$1413 (362)	\$2268 (381)	\$3225 (258)	\$4956 (178)	\$1842 (1180)
	Combined	\$4534 (347)	\$7378 (377)	\$9922 (251)	\$12512 (179)	\$5861 (1155)

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

B: Changes since 2009 and possible compliance cost implications

Table B.1: Key tax policy and operational changes since October 2009 which impact compliance costs

Policy	Description	When effective	Tax affected	Indicative impact on compliance cost
Taxation Act 2011				
Streamlining of different entity types	Removal of LAQCs and introduction of flow through companies (LTC)	1 April 2011	Business Income tax	Increase – removal of LAQC : all SMEs LTC: for SMEs that are registered companies with Nil-5 shareholders
Company and personal tax rate cuts	Decreasing the company tax rate below 33% now means most companies must deduct RWT from dividends.	1 April 2011	Business and personal Income tax	Increase – for companies that pay out dividends (not PIEs)
Taxation Act 2012				
Record-keeping rules; cloud storage	Less burdensome record keeping rules	2 November 2012		Decrease – simpler record keeping rules for all firms
KiwiSaver changes	Introduction of ESCT/removal of the ESCT exemption (initial cost, will abate over time)	1 April 2012	KiwiSaver	Increase – for SME's with employees
Other				
eGST and eAlerts	Simplification of website and processes for e-filing GST	September 2012	GST	Decrease – all SMEs that are GST registered
IR10 simplification	Simplification of the form	April 2013	Business Income tax	Decrease – applies to self-employed businesses
Mixed-use asset regime	The mixed-use asset changes for boats, baches etc.	1 April 2013	Business Income tax	Increase - for companies with 5 or fewer employees that earn over \$4000 from a mixed-use asset
Financial reporting accounting and minimum tax requirements	Changes to financial reporting accounting (MBIE) and IR minimum tax requirements	1 April 2014	Business Income tax	Decrease - the combined impact of these changes is that SMEs with turnover between \$2 and \$30 million will have to compile less onerous tax accounts (initially mitigated by some firms having to use new rules)

C: Profiles of SMEs 2013 vs 2004 and 2009 – All SMEs

Table C.1: Summary of SME profile by key variables: 2004, 2009 and 2013

SME demographics	2004	2009	2013
	%	%	%
Number of employees			
Nil	56	57	64
Micro (1-5)	32	33	26
Small (6-19)	8	9	8
Medium (20+)	3	2	2
Total	100	100	100
Tax Type			
Income tax	97	95	96
GST	94	93	87
PAYE	53	49	40
KiwiSaver	N/A	24	21
FBT	24	12	9
Tax type combination			
Income tax only	5	7	12
Income Tax, GST	35	50	45
Income Tax, GST, PAYE	33	21	15
Income Tax, GST, PAYE, FBT	24	2	3
Income Tax, GST, PAYE, KiwiSaver	---	16	14
Income Tax, GST, PAYE KiwiSaver, FBT	---	7	6
Length of time in business			
Less than six months	0	1	0
Six months < 1 year	2	2	2
1 – 2 years	11	10	8
3 – 5 years	20	27	18
6 – 10 years	18	21	22
> 10 years	46	38	51
missing	1	1	0
Total	100	100	100
Use a tax advisor:			
Regardless of tax type	83	80	80
SME population	400,884	444,699	434,796

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

Note: Totals may not sum to 100 % due to rounding.

D: Profiles of SMEs 2013 vs 2004 and 2009 – Income tax

Table D.1: Summary of SME profile by key variables: 2004, 2009 and 2013

SME demographics – Income tax	2004	2009	2013
	%	%	%
Number of employees			
Nil	56	56	65
Micro (1-5)	32	33	26
Small (6-19)	8	9	7
Medium (20+)	3	2	2
Total	100	100	100
Tax Type			
Income tax	100	100	100
GST	94	93	87
PAYE	53	49	40
KiwiSaver	N/A	25	21
FBT	25	12	9
Tax type combination			
Income tax only	6	7	13
Income Tax, GST	36	42	47
Income Tax, GST, PAYE	33	22	16
Income Tax, GST, PAYE, FBT	19	2	3
Income Tax, GST, PAYE, KiwiSaver	---	18	14
Income Tax, GST, PAYE KiwiSaver, FBT	---	7	6
Length of time in business			
Less than six months	0	1	0
Six months < 1 year	2	2	1
1 – 2 years	11	10	7
3 – 5 years	20	27	18
6 – 10 years	18	21	22
> 10 years	47	39	50
missing	1	1	0
Total	100	100	100
Use a tax advisor for:			
Income tax	72	68	79
SME population	389,634	423,859	413,956

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

Note: Totals may not sum to 100 % due to rounding.

E: Profiles of SMEs 2013 vs 2004 and 2009 – GST

Table E.1: Summary of SME profile by key variables: 2004, 2009 and 2013

SME demographics – GST	2004	2009	2013
	%	%	%
Number of employees			
Nil	54	53	60
Micro (1-5)	34	35	29
Small (6-19)	9	9	9
Medium (20+)	3	2	2
Total	100	100	100
Tax Type			
Income tax	97	95	96
GST	100	100	100
PAYE	56	52	45
KiwiSaver	N/A	26	24
FBT	26	12	10
Tax type combination			
Income tax only	0	0	0
Income Tax, GST	37	43	51
Income Tax, GST, PAYE	34	22	17
Income Tax, GST, PAYE, FBT	20	2	3
Income Tax, GST, PAYE, KiwiSaver	---	18	16
Income Tax, GST, PAYE KiwiSaver, FBT	---	7	7
Length of time in business			
Less than six months	0	1	0
Six months < 1 year	3	2	2
1 – 2 years	12	10	18
3 – 5 years	20	27	17
6 – 10 years	18	21	23
> 10 years	46	38	50
missing	1	1	1
Total	100	100	100
Use a tax advisor for:			
GST	40	37	46
SME population	378,577	413,440	376,631

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

Note: Totals may not sum to 100 % due to rounding.

F: Profiles of SMEs 2013 vs 2004 and 2009 – PAYE

Table F.1: Summary of SME profile by key variables: 2004, 2009 and 2013

SME demographics – PAYE	2004	2009	2013
	%	%	%
Number of employees			
Micro (1-5)	61	72	71
Small (6-19)	16	19	23
Medium (20+)	3	6	6
Unknown	17	4	0
Total	100	100	100
Tax Type			
Income tax	97	99	95
GST	100	99	99
PAYE	100	100	100
KiwiSaver	N/A	49	60
FBT	36	20	20
Tax type combination			
Income tax only	0	0	0
Income Tax, GST	0	0	0
Income Tax, GST, PAYE	61	42	38
Income Tax, GST, PAYE, FBT	36	5	7
Income Tax, GST, PAYE, KiwiSaver	---	34	35
Income Tax, GST, PAYE KiwiSaver, FBT	---	14	15
Length of time in business			
Less than six months	0	2	0
Six months < 1 year	2	1	1
1 – 2 years	10	10	7
3 – 5 years	20	24	16
6 – 10 years	18	20	20
> 10 years	47	42	53
missing	1	1	0
Total	100	100	100
Use a tax advisor for:			
PAYE	23	21	30
SME population	212,250	215,752	170,084

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

Note: Totals may not sum to 100 % due to rounding.

Student Loans (PAYE)

Table F.2a Summary of employer student loan obligations: 2004, 2009 and 2013

Student Loans (PAYE)	2004	2009	2013
% who employ staff paying student loans	17.1% (1290)	25.1% (1212)	33.4% (822)
Hours spent on PAYE (mean) SMEs who employee staff paying student loans	44 hours	41 hours	42 hrs
Hours spent on PAYE (mean) SMEs who DO NOT employee staff paying student loans	24 hours	18 hours	22 hrs
Mean combined PAYE compliance costs SMEs who employee staff paying student loans	\$1,834	\$1,985	\$1,802
Mean combined PAYE compliance costs SMEs who DO NOT employee staff paying student loans	\$1,200	\$1,101	\$1,195
Overall mean combined PAYE compliance costs (For comparison)	\$1,308	\$1,324	\$1,256

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

Child Support (PAYE)

Table F.2b Summary of employer Child Support obligations: 2004, 2009 and 2013

Student Loans (PAYE)	2004	2009	2013
% who employ staff paying child support	9.2% (1290)	10.7% (1212)	11.0% (822)
Hours spent on PAYE (mean) SMEs who employee staff paying child support	52 hours	44 hours	43 hrs
Hours spent on PAYE (mean) SMEs who DO NOT employee staff paying child support	25 hours	22 hours	27 hrs
Mean combined PAYE compliance costs SMEs who employee staff paying child support	\$2,123	\$2,197	\$1,902
Mean combined PAYE compliance costs SMEs who DO NOT employee staff paying child support	\$1,227	\$1,229	\$964
Overall mean combined PAYE compliance costs (For comparison)	\$1,308	\$1,324	\$1,256

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

External Payroll

Table F.2c Summary of SMEs using external payroll services: 2004, 2009 and 2013

Student Loans (PAYE)	2004	2009	2013
% of SMEs using external payroll services	6.9% (1290)	8.0% (1212)	13.7% (836)
Mean cost of external payroll services (NOT INCLUDED in compliance cost calculations)	\$2,648.48	\$1,086	\$1,052.92
Hours spent on PAYE (mean) SMEs use external payroll services	34 hrs	27 hrs	34 hrs
Hours spent on PAYE (mean) SMEs who DO NOT use external payroll services	27 hrs	24 hrs	27 hrs

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

G: Profiles of SMEs 2013 vs 2004 and 2009 – FBT

Table G.1: Summary of SME profile by key variables: 2004, 2009 and 2013

SME demographics – FBT	2004	2009	2013
	%	%	%
Number of employees			
Nil	33 (32,003)	24 (11,554)	21 (7,745)
Micro (1-5)	44 (42,809)	44 (21,306)	47 (17,622)
Small (6-19)	15 (14,669)	23 (11,053)	20 (7,682)
Medium (20+)	8 (8,188)	9 (4,447)	12 (4,511)
Total	100	100	100
Tax Type			
Income tax	99	100	99
GST	100	100	100
PAYE	79	83	88
KiwiSaver	N/A	60	69
FBT	100	100	100
Tax type combination			
Income tax only	0	0	0
Income Tax, GST	0	0	0
Income Tax, GST, PAYE	0	0	0
Income Tax, GST, PAYE, FBT	78	22	18
Income Tax, GST, PAYE, KiwiSaver	---	0	0
Income Tax, GST, PAYE KiwiSaver, FBT	---	60	69
Length of time in business			
Less than six months	1	0	0
Six months < 1 year	3	2	1
1 – 2 years	12	6	4
3 – 5 years	20	21	15
6 – 10 years	18	25	25
> 10 years	48	46	56
missing	1	0	0
Total	100	100	100
Use a tax advisor:			
FBT	29	46	42
SME population	97,669	51,440	37,561

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

Figures in brackets in "Numbers of employees" section of table are weighted population counts, e.g. (32,003)

Note: Totals may not sum to 100 % due to rounding.

H: Profiles of SMEs 2013 vs 2004 and 2009 – KiwiSaver

Table H.1: Summary of SME profile by key variables: 2009 and 2013

SME demographics – KiwiSaver	2009	2013
	%	%
Number of employees		
Micro (1-5)	57	62
Small (6-19)	28	29
Medium (20+)	8	9
Unknown	6	0
Total	100	100
Tax Type		
Income tax	98	97
GST	100	99
PAYE	100	100
KiwiSaver	100	100
FBT	29	28
Tax type combination		
Income tax only	0	0
Income Tax, GST	0	0
Income Tax, GST, PAYE	0	0
Income Tax, GST, PAYE, FBT	0	0
Income Tax, GST, PAYE, KiwiSaver	69	65
Income Tax, GST, PAYE KiwiSaver, FBT	29	28
Length of time in business		
Less than six months	1	0
Six months < 1 year	1	1
1 – 2 years	11	8
3 – 5 years	15	19
6 – 10 years	19	20
> 10 years	43	50
Total	100	100
Use a tax advisor for :		
KiwiSaver	68	20
SME population	106,153	170,804

Base all respondents who file/pay KiwiSaver (excluding missing information, unless indicated).

Note: Totals may not sum to 100 % due to rounding.

I: Summary of median combined tax compliance costs 2013

Table A.1a Summary of median annual compliance costs by business size (number of employees), 2013

		Nil	Micro (1-5)	Small (6-19)	Medium (20+)	All
GST	Internal	\$734 (369)	\$1467 (384)	\$1467 (262)	\$1467 (190)	\$1039 (1206)
	External	\$130 (369)	\$291 (384)	\$440 (262)	\$448 (190)	\$170 (1206)
	Combined	\$1100 (369)	\$2022 (384)	\$2323 (262)	\$2469 (190)	\$1467 (1206)
Income tax	Internal	\$734 (369)	\$550 (384)	\$734 (262)	\$841 (190)	\$673 (1206)
	External	\$736 (369)	\$1285 (384)	\$1729 (262)	\$2454 (190)	\$838 (1206)
	Combined	\$1546 (369)	\$2201 (384)	\$2683 (262)	\$4291 (190)	\$1791 (1206)
PAYE	Internal	\$0 (369)	\$589 (384)	\$1177 (262)	\$1177 (190)	\$0 (1206)
	External	\$0 (369)	\$13 (384)	\$21 (262)	\$22 (190)	\$0 (1206)
	Combined	\$0 (369)	\$630 (384)	\$1196 (262)	\$1235 (190)	\$0 (1206)
KiwiSaver	Internal	NA	\$0 (384)	\$336 (262)	\$336 (190)	\$0 (1206)
	External	NA	\$0 (384)	\$0 (262)	\$0 (190)	\$0 (1206)
	Combined	NA	\$0 (384)	\$340 (262)	\$336 (190)	\$0 (1206)
FBT	Internal	NA	\$0 (384)	\$0 (262)	\$28 (190)	\$0 (1206)
	External	NA	\$0 (384)	\$0 (262)	\$0 (190)	\$0 (1206)
	Combined	NA	\$0 (384)	\$0 (262)	\$39 (190)	\$0 (1206)
All tax types	Internal	\$1670 (369)	\$3308 (384)	\$4401 (262)	\$5833 (190)	\$2201 (1206)
	External	\$972 (369)	\$1750 (384)	\$2500 (262)	\$3504 (190)	\$1150 (1206)
	Combined	\$2955 (366)	\$5623 (381)	\$8069 (261)	\$10440 (189)	\$3834 (1198)

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

Source: 2013 SEM Compliance Cost report Table 14.9