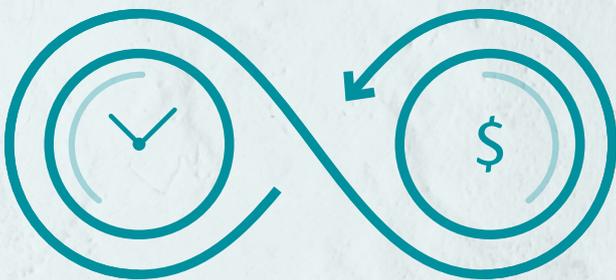

2018 study on the time and cost of doing business taxes incurred by NZ small businesses



Survey undertaken September - October 2018

CUSTOMER INSIGHT & EVALUATION

SUMMARY REPORT

Disclaimer

The views, opinions, findings, and conclusions expressed in this report do not necessarily reflect the views of Inland Revenue.

Inland Revenue has made every effort to ensure that the information contained in this report is reliable but does not guarantee its accuracy or completeness and does not accept any liability for any errors.

The information and opinions contained in this report are not intended to be used as a basis for commercial decisions and Inland Revenue accepts no liability for any decisions made in reliance on them.



Crown copyright ©.

This paper by Inland Revenue is licensed under a Creative Commons Attribution 3.0 New Zealand Licence. Please note that the Inland Revenue emblem and logo may not be used in any way which infringes any provision of the Flags, Emblems, and Names Protection Act 1981 or would infringe such provision if the relevant use occurred within New Zealand. Attribution should be in written form and not by reproduction of this emblem.

If you publish, distribute or otherwise disseminate this work to the public without adapting it, the following attribution to Inland Revenue should be used: "Source: Inland Revenue and licensed by Inland Revenue for re-use under the Creative Commons Attribution 3.0 New Zealand Licence."

If you adapt this work in any way or include it in a wider collection, and publish, distribute or otherwise disseminate that adaptation or collection to the public, the following style of attribution to Inland Revenue should be used: "This work is [based on/includes] Inland Revenue's research and evaluation activities which [is/are] licensed by Inland Revenue for re-use under the Creative Commons Attribution 3.0 New Zealand Licence."

ISBN 978-0-478-41848-4

Acknowledgements

Thank you to following:

1. Small business owners who did the online survey, for donating their time and offering candid opinions and views on what it's like doing business taxes in a small business.
2. Colmar Brunton Research Limited and Research First Limited, for assistance with testing the questionnaire, telephone follow-ups, and coding the free text answers.
3. Independent reviewers David Dundon-Smith and Ian Binnie, for advice on how to make this study low-impact for survey respondents and high-impact for data quality.
4. The Commissioner for Inland Revenue, Naomi Fergusson, for creating interest in the study with an introductory letter.
5. Members of the Customer Insight and Evaluation team at Inland Revenue (Simon Leong, Peter Bickers, Raymond Burr, Mark Takayesu, Ros Houghton, Luke Procter, and Andrew Robertson) for creating clarity and actionable insights from a large volume of data.

Contents

04
Summary

07
The time
and cost of
compliance

13
Perceptions
surrounding tax
compliance

06
The 2018
compliance
cost survey

11
Use of tax
intermediaries
and services

19
Appendix

Summary

The 2018 cost of compliance survey

During late 2018 Inland Revenue conducted an online survey of 6,003 small businesses to estimate the time and cost of complying with tax requirements. The survey provides an up-to-date snapshot and can be compared with previous surveys that have been carried out periodically since 2009.

Inland Revenue's Business Transformation

Inland Revenue is undergoing transformation. This is a multi-stage programme to modernise our tax system, streamline our processes and policies, upgrade our online services, and make it easier for customers to pay their tax and receive their entitlements. At the time of this survey two releases of the transformation had been implemented, and planning was well advanced for the third release in April 2019.

In analysing the responses for this survey, we have principally compared findings with the 2013 and 2016 waves. We took this approach because the 2013 wave was the most recent one carried out before our Business Transformation commenced. It therefore acts as a pre-transformation baseline.

Key survey findings

Findings show that while the time small businesses spend doing taxes has decreased since 2013, it has remained stable over the past two years.

- The median time businesses spent in-house on tax in 2018 was 27 hours, which is the same as reported in the 2016 survey and is 25% lower than the 36 hours a year reported in the 2013 survey.
- Business owners' views about the amount of time they spend doing their business taxes has also stayed consistent over the last two years¹ – just over half (55%) agreed they spend an acceptable amount of time on tax matters in 2018 (54% agreed 2016). Two thirds (66%) say Inland Revenue has not made a difference to the time and cost of complying over the last year.

With time spent on tax remaining consistent, overall costs have increased. This is due to inflationary increases in staff salaries and increases in external costs.

- The value of time has increased from \$56.47 an hour in 2016 to \$63.55 an hour in 2018.
- The median **internal** cost of doing business taxes in 2018 is \$1,780 a year; this is \$207 higher than reported in the 2016 survey, but \$296 lower than the \$2,076 reported in the 2013 survey.
- The median cost of using **external** advisers and software/online service providers for tax purposes in 2018² is \$1,323 a year; this is \$323 higher than reported in the 2016 survey, and \$206 higher than reported in the 2013 survey.
- Use of external advisers such as accountants and tax advisers is at the same level as 2016, but there's been a significant increase in uptake of online accounting services. Online services are now the most common method used for managing business accounts and processing staff wages.

Table 1: Comparison of annual median time and costs incurred doing business taxes (2013 to 2018)

	2013 n=1,148 Median	2016 n=4,028 Median	2018 n=6,003 Median
TOTAL TIME	36 hours	27 hours	27 hours
Internal cost	\$2,076	\$1,573	\$1,780
External cost	\$1,117	\$1,000	\$1,323
COMBINED COST	\$3,654	\$3,200	\$3,610

Base: All small businesses

Note: As these are medians, the total costs do not equal the sum of the internal and external components

¹ Not measured in the 2013 survey

² Excluding the cost of payroll services, which was measured in the 2018 survey but not the 2013 or 2016 surveys

Consistent with no change in time spent on tax, views about ease of doing taxes has not changed but findings suggest digital improvements are making compliance easier.

- Most small businesses (67%) feel meeting tax responsibilities has not changed in the last year, but a fifth feel it is easier mainly due to improvements to Inland Revenue's website and online services, and compatibility between their business software and Inland Revenue systems.
"Being able to file my GST returns straight from my accounting software. I think that might be largely Xero that implemented that, but I'm sure it was made possible by IRD further automating their systems."
- When asked to think specifically about the time and cost of complying, a small proportion of businesses (8%) say Inland Revenue has made things harder. Customers most commonly mentioned the need to deal with changes to regulations or processes.
"The PAYE return used to be simple. Now it is so complex I have to pay the accountant to do it."

For businesses, tax can be just one of several compliance areas. The effort involved in complying with tax is favourable when compared to some of the other regulatory regimes small businesses need to comply with.

- When asked about compliance in other areas, the majority of businesses believe it is taking more effort to comply than it did 12 months ago. An increase in effort over the last 12 months was reported by those complying with Food Safety (75%), Workplace Health and Safety (75%), Local Government (67%), and Transport Safety (62%) rules and regulations.
- In contrast, 24% of small business customers say their tax compliance effort has increased and 70% say it has **not changed** in the last 12 months.

The changes Inland Revenue is bringing to the tax system are significant, and it will take time for customers to adjust to changes, and for the benefits to embed and be fully realised. The findings from this survey suggest that the changes Inland Revenue has already made to its website and online services are being noticed by customers and are starting to make things easier. Furthermore, improving its customers digital experience appears to be in step with more businesses moving to digital enablers (software and online services that support their business operations).

Significant changes for employers came in April 2019 with the third release of the Business Transformation programme. A further tax compliance study in 2020 will continue the time-series evidence on how the Business Transformation programme is changing tax compliance for New Zealand small businesses.

The 2018 compliance cost survey

During late 2018 Inland Revenue conducted an online survey of 6,003 small businesses to estimate the time and cost of complying with tax requirements. The survey provides an up-to-date snapshot and can be compared with previous surveys carried out in 2013 and 2016.

The target population

Inland Revenue defines small businesses as entities with annual turnover up to \$30 million and fewer than 50 employees. At the time of the survey the size of this population was 399,815 entities.

The survey sample

A stratified random sample of 34,700 businesses was drawn from this population and invited to take part in the survey. After the removal of partial or incomplete responses, the survey achieved a final response rate of 17%. This is higher than in 2016 (14%)

Table 2 below provides a profile of the target population by annual turnover and employee size bands, and a profile of business that responded to the survey. As can be seen in the tables, the survey sample provides a close representation of the population.

Table 2: Comparison of annual turnover characteristics of survey sample and small business population

	SMALL BUSINESS POPULATION	SURVEY SAMPLE	
		Before weighting	After weighting
	399,815	n=6,003	n=6,003
Annual turnover	%	%	%
None	0.8	0.5	1.0
\$0 - \$100k	33.3	37.5	33.0
\$100k - \$1m	52.9	51.7	53.0
\$1m - \$30m	13.0	10.4	13.0
TOTAL	100.0	100.0	100.0
Number of employees			
None	59.3	62.7	59.0
1-5 employees	22.9	21.4	23.0
6-19 employees	13.6	12.5	14.0
20-49 employees	4.1	3.4	4.0
TOTAL	100.0	100.0	100.0

Other notes

1. The results presented in this report have a maximum margin of random sampling error of ± 3.1 percentage points at the 95% confidence level.
2. All survey data have been weighted to align it with the target population. Weighting adjusts for differences between the survey sample and the population on key variables.
3. Further details about the methodology are contained in the appendix.

The time and cost of compliance

The median time spent in-house on tax is consistent with 2016

As can be seen in table 3, in 2018 the median number of hours per year spent by small businesses doing their taxes is 27 – the same as it was in 2016 and lower than 2013.

Since 2013, the internal time spent by filers of each tax type has been tracking downward for all tax types except KiwiSaver³. Consistent with previous surveys, GST remains the most time-consuming tax.

Table 3: Median hours a year spent on business taxes (2013 to 2018)

	2013 n=1,206 Median	2016 n=4,028 Median	2018 n=6,003 Median
Goods and Services Tax (GST)	24	14	15
Income tax	12	6	6
Pay as You Earn (PAYE) via EMS	12	12	10
PAYE via payday filing ⁴	N/A	N/A	4
KiwiSaver	9	9	12
Fringe Benefit Tax (FBT) TOTAL	4	2	<1
TIME	36	27	27

Base: All small businesses

Note: As these are medians, the total hours do not equal the sum of the components

While 27 hours is the overall median, variation exists based on the size and the complexity of businesses. Further analysis of the 2018 survey findings illustrate that, as may be expected, larger and possibly more complex businesses spend more time in-house dealing with tax matters.

For example, businesses:

- with 20-49 employees spent 77 median annual hours in-house on tax
- with an annual turnover of between \$1 million and \$30 million spent 50 median annual hours in-house on tax
- that used a tax lawyer in the past 12 months spent 55 median annual hours in-house on tax.

³ The increase for KiwiSaver, and similar decrease for Employer Monthly Schedules (EMS), likely reflect an improvement made to the questionnaire in 2018. During cognitive testing we found that in previous surveys some business owners had reported time spent on KiwiSaver within the EMS section of the questionnaire rather than the KiwiSaver section. We clarified this for respondents in 2018 and also placed the KiwiSaver section before the EMS section.

⁴ Payday filing was not available until April 2018, and businesses could then file this way on a voluntary basis. This survey had responses from only 171 small businesses voluntarily using payday filing.

Recording information remains the most time-consuming compliance activity

Overall, recording information and calculating tax remain the most time-intensive tax activities (see table 4), with GST, Employer Monthly Schedules (EMS), and KiwiSaver being the most time-intensive tax types. Note that at this stage only a small proportion of customers had adopted payday filling, so the estimates in that column are less robust overall.

Table 4: Median hours a year spent on tax activities for each tax type in 2018

	GST filers n=5,898	Income tax filers n=5,226	EMS filers n=2,034	Payday filers n=171	KiwiSaver filers n=1,493	FBT filers n=541	ALL TAX TYPES n=6,003
	Median	Median	Median	Median	Median	Median	Median
Recording information	6.0	2.0	2.0	0.2	3.0	*	12.0
Calculating tax	3.0	0.1	3.0	0.5	2.0	*	6.0
Dealing with external tax advisers	0.2	1.0	*	*	*	*	2.0
Learning about new/ existing tax laws and rules	*	*	*	*	*	*	0.7
Dealing with Inland Revenue	*	*	*	*	*	*	*
Advice about tax	*	*	*	*	*	*	*
Other activity	*	*	*	*	*	*	*
TOTAL TIME	15.0	6.0	10.0	4.0	12.0	0.8	27.0

Base: Small businesses registered for each tax type

Note: As these are medians, the total hours do not equal the sum of the components. An * indicates an hourly value is too small to be reported to 1 decimal place or that more than half of customers registered for that tax type reported spending no in-house time on that tax activity (leaving a median of 0).

To allow comparison across years, the median values have been apportioned by the percentage of time respondents indicated. Table 5 shows that the apportioned annual hours of in-house time small businesses spent on tax activities also remains reasonably consistent with the 2016 survey. Small decreases in time spent recording information and calculating tax coincide with the increased use of software (see table 10: Methods used for managing business accounts (2016 to 2018)). The small increase in time dealing with external advisers and learning about laws and rules coincides with an ongoing increase of communications activity about upcoming changes since 2016⁵.

Table 5: Apportioned annual hours of in-house time SMEs spent on tax activities (2013 to 2018)

	2013 n=1,206 Median	2016 n=4,028 Median	2018 n=6,003 Median
Recording information	18.9	12.9	12.0
Calculating tax	7.2	6.1	5.7
Dealing with external tax advisers	2.0	1.3	1.8
Learning about new/existing tax laws and rules	0.9	0.9	1.1
Dealing with Inland Revenue	4.4	3.3	3.1
Advice about tax	2.4	2.2	2.5
Other activity	0.3	0.3	0.3
TOTAL TIME	36	27	27

Base: All small businesses

Note: As these are medians, the total hours do not equal the sum of the components.

⁵ For example, Inland Revenue notified businesses of potential upcoming changes in March 2018, voluntary payday filing was introduced in April 2018, and primary messaging of Release 3 changes commenced during October 2018.

Internal costs have increased since 2016

The financial value of the median annual in-house time spent on tax compliance is calculated by costing the hours of the various people associated with the business, and how much time is spent by each on meeting the business' tax obligations.

The following dollar amounts have been used to convert time spent into compliance costs for 2018:

- \$74.16 – owners/partners/directors/trustees (inflation-adjusted from the 2013 value of \$61.13)
- \$36.48 – paid employees (inflation-adjusted from the 2013 value of \$28.03)
- \$44.12 – unpaid family members or friends (inflation-adjusted from the 2013 value of \$38.69).

In addition to inflation, increases and decreases in the total internal costs for complying with tax requirements since 2016 can be influenced by:

1. Changes in the **amount of time** businesses spend on activities related to that tax type, and
2. Changes in the **proportion of time** different staff within an organisation spend on activities related to that tax type. For example, if more senior staff spent a greater proportion of time on a tax type this would increase their in-house cost for that tax type even when the number of hours spent on that activity remained unchanged.

Table 6 provides the hourly cost of time for each tax type after factoring in both inflation and the proportion of time spent on each tax type by different people associated with the business. All hourly costs have increased slightly by between \$0.81 and \$7.32, except PAYE which decreased by \$5.11 after factoring in the time spent on PAYE by different people associated with the business⁶.

Table 6: Median hourly in-house cost of time for each tax type (2013 to 2018)

	GST filers n=5,898 Median	Income tax filers n=5,226 Median	EMS filers n=2,034 Median	Payday filers n=171 Median	KiwiSaver filers n=1,493 Median	FBT filers n=541 Median	ALL TAX TYPES n=6,003 Median
2013	\$53.15	\$54.72	\$49.86	NA	\$41.15	\$44.58	\$52.40
2016	\$56.61	\$58.70	\$55.77	NA	\$54.94	\$50.08	\$56.47
2018	\$61.04	\$66.02	\$50.66	\$49.20	\$61.44	\$50.89	\$63.55

Base: All small businesses

Note: As these are medians, the total hours do not equal the sum of each tax type.

Table 7 shows the median hourly cost of in-house time spent by tax type. These costs are based on the values of the time of the different categories of personnel in each year, inflation adjusted for comparability across years. In each year, the median in-house costs for each tax-type are based on only those respondents who were registered for that particular tax type.

While still lower than the 2013 estimate, in 2018 there was an increase of an estimated \$207 in the total in-house cost of complying with tax requirements. The picture is more mixed when broken down by tax type. Increases in the estimated in-house cost of dealing with GST and KiwiSaver have been offset by small decreases in the estimated in-house costs of dealing with PAYE and FBT.

Table 7: Median annual cost of in-house time spent by tax type (2013 to 2018)

	GST filers n=5,898 Median	Income tax filers n=5,226 Median	EMS filers n=2,034 Median	Payday filers n=171 Median	KiwiSaver filers n=1,493 Median	FBT filers n=541 Median	ALL TAX TYPES n=6,003 Median
2013	\$1,223	\$734	\$505	NA	\$184	\$178	\$2,076
2016	\$848	\$318	\$706	NA	\$426	\$69	\$1,573
2018	\$964	\$388	\$593	\$233	\$667	\$47	\$1,780

Base: All small businesses

Note: As these are medians, the total hours do not equal the sum of each tax type.

⁶ In 2018 owner/directors accounted for 54% of PAYE hours, compared to 63% in 2016.

External costs have increased since 2016

This study considers using tax professionals – a tax agent, accountant, and/or tax lawyer – to help meet tax responsibilities as a cost external to the respondent's business. In 2018, 91% of businesses used a tax professional to help meet their tax responsibilities (see table 9 on the following page).

As can be seen in table 8 external costs are a significant component of the value of the overall (combined) compliance costs and are higher than the external costs reported in 2016 (up by \$380). The total combined compliance cost in 2018 is \$3,630, which is similar to the combined cost reported in 2013.

Table 8: Median annual costs incurred doing business taxes (2013 to 2018)

Cost	2013 n=1,146 Median	2016 n=4,028 Median	2018 n=6,003 Median
Internal cost	\$2,076	\$1,573	\$1,780
External cost	\$1,117	\$1,000	\$1,380
COMBINED COST	\$3,654	\$3,200	\$3,630

Base: All small businesses

Note: As these are medians, the total hours do not equal the sum of the internal and external components.

For the first time in 2018, the costs of using external tax advisers included payroll service providers for tax purposes. If we **exclude** payroll services providers from the 2018 cost calculations:

1. External median annual costs reduce by \$57 to \$1,323.
2. Combined median annual costs reduce by \$20 to \$3,610.

A like-for-like comparison of median annual costs with those reported in 2013 shows combined costs have reduced by \$44 a year, internal costs have decreased by \$298 a year, and external costs have increased by \$206 a year.



Use of tax intermediaries and services

This section discusses the use of external advisers and the use of software and online services to manage business accounts and process wages.

Most businesses use external advisors

We asked businesses which of a range of services they had used for tax purposes in the previous 12 months. As can be seen in table 9, nearly all businesses (92%) use some sort of external adviser, and this has not changed substantially since 2016.

With the introduction of payday filing for employers (voluntary in April 2018, compulsory in April 2019), we added payroll services for tax purposes to the list of external advisers in the 2018 survey. Only 10% of businesses use a payroll service for tax purposes. They are most commonly those with large workforces and multiple payroll-related tax responsibilities.

Table 9: External tax advisers used in the last 12 months (2016 to 2018)

	2016 n=4,028 %	2018 n=6,003 %
Accountant or bookkeeper	81	81
Tax agent or tax adviser	28	25
Tax lawyer	<1	<1
Payroll service	Not measured	10
None of the above	11	8

Base: All small businesses



There has been an increase in use of online accounting services

We then asked businesses how they a) manage their accounts, and b) process staff wages. As can be seen in table 9, since 2016 the use of online accounting systems has increased substantially and is now the most commonly used method for managing accounts. Use of paper-based systems has decreased dramatically over this time (down from 41% to 25%).

Table 10: Methods used for managing business accounts (2016 to 2018)

	2016 n=4,028 %	2018 n=6,003 %
Online system	31	39
In-house spreadsheets	29	29
Desktop software	33	27
Paper-based system	41	25
Other method	1	1
No system but keep records	6	8
Do not keep records	<1	<1
Do not know	1	1
None of the above	Not measured	<1

Base: All small businesses. Multiple responses were possible, so columns may not total to 100%

Table 11 below shows that in 2018 online systems are the most commonly used method for processing wages.

Table 11: Methods used to process staff wages in 2018

	Employers in 2018 n=3,057 %
Online system	26
Desktop software	20
In-house spreadsheets	18
Paper-based system	14
Payroll service	6
Other method	5
No system but keep records	8
Do not know	-
None of the above	12

Base: Small businesses with employees. Multiple responses were possible, so column may not total to 100%

Perceptions surrounding tax compliance

In addition to estimating the actual time and cost of complying with tax requirements, we also asked businesses for their views and opinions about complying with tax.

The goal of Inland Revenue’s Business Transformation programme is to make it easier and more efficient for business to meet their tax responsibilities. Time and effort are factors that contribute to customer ease and efficiency. Other factors could include the perceived complexity of the tax requirements and how confident customers feel that they’re doing the right thing. The 2018 survey included a range of questions to explore these factors.

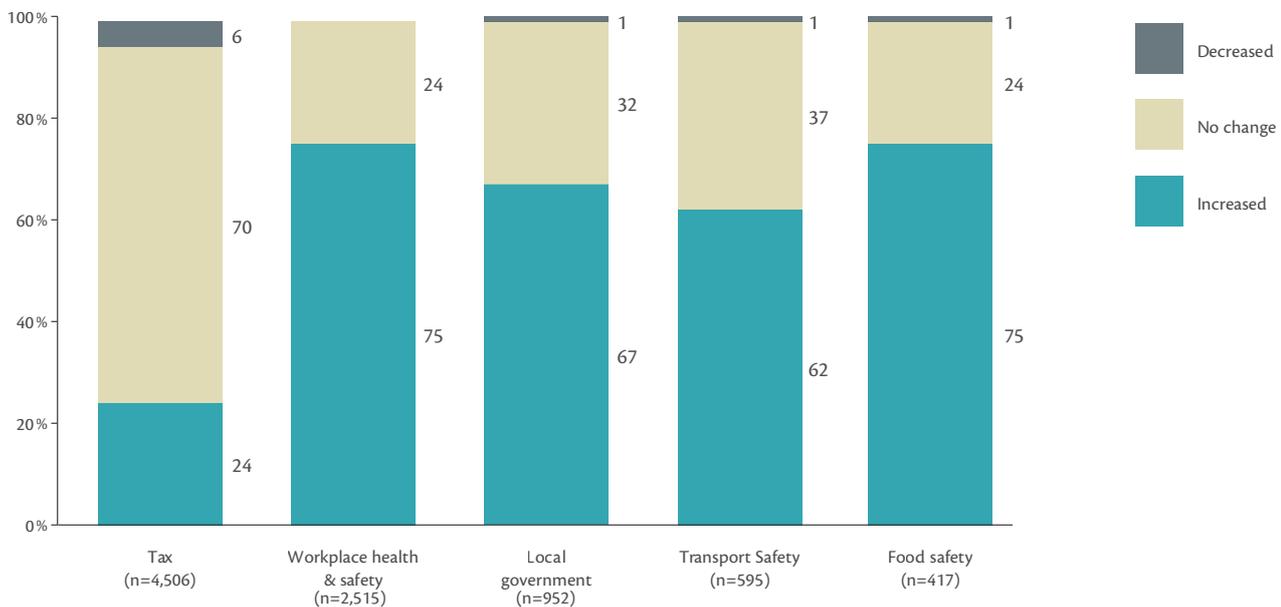
Tax compliance compares favourably to other regulatory regimes

For businesses, tax can be just one of several compliance areas. We wanted to understand how businesses view tax in relation to some of the other areas requiring time and effort for compliance.

We asked small businesses which of four regulatory regimes their business had complied with, and to tell us whether they felt the effort required to comply had increased, decreased or stayed the same over the previous 12 months. We also asked this question for tax.

As can be seen in figure 1, across most regulatory regimes, the majority of businesses believe it is taking more effort to comply than it did 12 months ago, and only a small minority believe it is taking less effort. Consistent with the results showing there has been no change in the time required to comply since 2016 (see table 3, page 7), when it comes to tax a majority of businesses (70%) believe there has been no change in effort over the previous 12 months..

Figure 1: Perceived change in compliance effort compared to 12 months ago across different regulatory regimes



Base: Small businesses complying with each regulatory regime in the previous 12 months, excluding unanswered.

Small businesses feel the time and effort to comply has not changed over the past year

Consistent with findings showing there has been no change in the time required to comply, the acceptability of time spent on tax is similar to the 2016 survey, and a majority of businesses feel Inland Revenue has not made it either easier or harder for them to comply. As can be seen in table 12, just over half (55%) of business owners agree that the time their business spends on tax matters is acceptable to them, and a minority (15%) disagree.

Table 12: Change in acceptability of time spent on tax matters (2016 to 2018)

Agreement rating	2016 n=3,148 %	2018 n=5,186 %
Agree	54	55
Neutral	32	30
Disagree	13	15

Base: All small businesses, excluding unanswered.

We asked businesses to think specifically about the time and cost of complying, and to tell us whether they felt Inland Revenue has made a difference to this over the previous 12 months. Table 13 shows a majority (66%) felt Inland Revenue has not made it either harder or easier.

Table 13: Perceived difference Inland Revenue is making to the time/cost of complying in 2018

	2018 n=4,719 %
Made it easier	26
Made it neither harder not easier	66
Made it harder	8

Base: All small businesses, excluding unanswered.



Our digital services and integration are making things easier

We asked business owners how Inland Revenue was making it harder or easier. Verbatim comments were then grouped into themes.

The key themes from the 1,227 who said Inland Revenue is making it easier, reflect improvements in customers' digital experiences:

- 57% mentioned improved Inland Revenue online services and myIR functionality
- 18% mentioned compatibility/integration of software with Inland Revenue systems/software allows online filing directly to Inland Revenue
- 17% mentioned Inland Revenue website/information/navigation/newsletters.

Below is a selection of verbatim responses from business owners who said Inland Revenue is making it easier.

"The myIR website is fairly user-friendly and the email notifications are a good addition."

"I've only been in business for 2 years, but I find the myIR online set-up very useful and easy to navigate, including the secure mail. The phone staff I've dealt with have been exceptional as well."

"Being able to file my GST returns straight from my accounting software. I think that might be largely Xero that implemented that, but I'm sure it was made possible by IRD further automating their systems."

"Easier access to info online and improvements to the business interface."

"GST site has some improvements which makes it easier. Good information on the website, also the workshops have been useful!"

Some customers are struggling to deal with changes

For the 377 customers who said Inland Revenue is making it harder, the key themes were the need to deal with changes to regulations or processes, followed by issues experienced with Inland Revenue's online services.

- 35% mentioned increased or changed regulations
- 21% mentioned navigation problems with Inland Revenue's website
- 18% mentioned Inland Revenue's website or online services not functioning well.

"Rules have become more complex, not simpler."

"The PAYE return used to be simple. Now it is so complex I have to pay the accountant to do it."

"Still find navigating the website difficult and frustrating"

"Number of issues with website - not closing down when logging off, parts of website not actually available when they should be, all the changes and finding where the new locations are."

"Online services changes have not gone particularly well in implementation and are now harder to complete, not easier and require a lot more follow up to ensure information has flowed from one area to another."

The changes may have added to the stress of complying, at least for the short term

The need to deal with change to regulations or process is one possible reason why customers report a higher sense of stress relating to compliance. While a majority (62%) say tax compliance is not stressful, this has decreased since 2016 (down from 70%).

Table 14: Reported overall stress levels (2016 to 2018)

	2016 n=3,148 %	2018 n=5,186 %
Not stressful	70	62
Moderately stressful	17	29
Stressful	2	9

Base: All small businesses, excluding unanswered.

Ease has not changed but digital improvements are making compliance easier

Ease of meeting tax responsibilities is another dimension of tax compliance. We asked small businesses whether meeting their business' tax responsibilities in general had become easier or harder over the previous 12 months.

Table 15 shows that views on the ease of meeting tax responsibilities have not really changed since 2016. The majority of business owners say it is the same as it was a year ago, and a fifth say it is getting easier.

Table 15: Change in effort required to meet tax responsibilities (2016 to 2018)

	2016 n=3,192 %	2018 n=4,791 %
Getting easier	20	20
About the same	68	67
Getting harder	12	13

Base: All small businesses, excluding unanswered.

Meeting tax responsibilities - what's making things easier?

We asked business owners what was making it easier or harder to meet their tax responsibilities. When it comes to making things easier, customers most commonly mention Inland Revenue's efforts to improve the digital experience:

- 27% mentioned improved Inland Revenue online services and myIR functionality
- 10% mentioned compatibility of their software with Inland Revenue's systems that allows direct online filing
- 8% mentioned improved information and navigation around Inland Revenue's website
- 13% mentioned improved skill or experience of their business at tax matters
- 13% mentioned using accounting software
- 7% mentioned using an accountant or bookkeeper.

"The IR online system has made everything so much easier - able to check for letters and keep up with what dates to meet for payment."

"The online systems are great. Both EMS and GST are really good. I have a small business so it that makes these systems super-efficient for me."

"myIR is getting better. It's still pretty clunky design-wise, but the range of activities we can do on it are pretty amazing compared to other countries. I love that it takes hardly any time to file GST."

"IRD technology improvements: Making the process easier and more convenient: eg filing GST returns direct from accounting software. Also, some Xero accounting software improvements/updates have helped make Xero slightly more functional & user-friendly."

"The IRD systems are getting better and better and more user-friendly. Also, when I have stuffed something up (such as paying PAYE and advising IRD of the wrong tax payer), your staff have been excellent and competent at fixing the problem and remitting the penalties (albeit that you have had the money, but in the wrong account)."

Meeting tax responsibilities - what's making things harder?

For the 13% of businesses who said it was getting harder, the most common theme was financial management and cash flow difficulties:

- 46% mentioned financial management or cashflow difficulties
- 25% mentioned increased or changed regulations
- 16% mentioned stress
- 13% mentioned taxes were too high
- 12% mentioned poor information and navigation on Inland Revenue's website.

"My business has grown, and I've had an increase in expenses. This has made cash flow tighter and I find it harder to put money aside for tax."

"The increasing adjustments to legislation to counter minor loopholes and capture every last tax dollar make compliance extremely complex for simple law abiding, tax paying entities."

"Finding money, spending time, understanding the requirement, completing the forms, all the process was so stressful for me."

"Provisional tax is double dipping on companies and making it very difficult for small business. Company tax is too high on small to medium business and is affecting our cashflow."

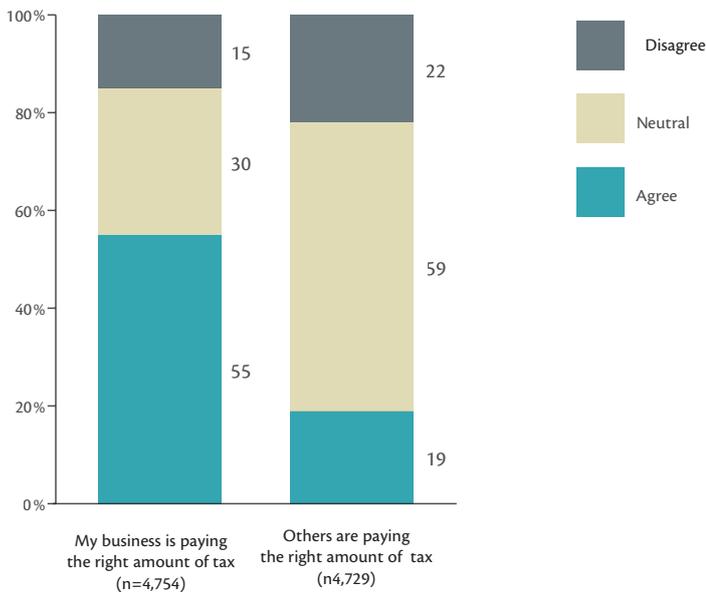
"Tax website not easy to follow. Presentation of information is sometimes difficult to understand. This can easily lead to misinterpretation and the facing of penalty interest."

We'll be tracking customers' confidence that they're paying the right amount of tax

Finally, to measure customers' confidence that they're doing the right thing when it comes to tax, we asked whether they felt they were paying the right amount of tax, and whether they felt other businesses were paying the right amount of tax. These questions were included for the first time in 2018, so this result provides a baseline for future measurement.

As can be seen in figure 3 over half of small businesses (55%) agree that their business is paying the right amount of tax, and 30% are neutral. It will be useful to track these measures over time, as we roll out and embed changes designed to make tax simpler and straightforward. This should give customers greater confidence that they, and others, are doing the right thing.

Figure 3: Agreement with statements about business taxes



Base: All small businesses, excluding unanswered.



Appendix

Survey methodology

Between 26 September and 23 October 2018 Inland Revenue conducted an online survey of New Zealand small businesses about doing their business taxes. The 2018 survey is the latest in a 2-yearly cycle of Inland Revenue investigations of the tax compliance experience of New Zealand small businesses.

Inland Revenue defines small businesses as entities with annual turnover up to \$30 million and fewer than 50 employees. At the time the survey was done in 2018 the size of this population was 399,815 entities.

The sample frame for the survey was entities that were actively trading, and that Inland Revenue had valid email and postal contact details for. "Active trading" was defined as having filed an Income Tax, GST, or EMS form with Inland Revenue between 1 April 2016 and 31 March 2017. Entities excluded from the sample frame were those selected for Inland Revenue surveys in the previous 6 months, not for profits and non-trading trusts, and "passive" individuals whose only income is from investments. At the time the survey was done, the total number of entities in the sample frame was 213,908 entities.

A stratified random sample was drawn from the sample frame. A total of 34,640 invitations to the online survey were successfully delivered to the random sample, and 6,003 valid responses were received – a response rate of 17%.

Comparison of the annual turnover and workforce size characteristics of non-responders, those who responded, and the small business population suggest the survey has not been unduly affected by non-response bias and indicates the sample is a good representation of small businesses in New Zealand.

The maximum margin of random sampling error associated with a sample of this size is ± 3.1 percentage points at the 95% confidence level. The topic of the survey is demanding on respondents' memory and mental calculation abilities, so estimation and measurement errors are likely to be present.