



Inland Revenue  
Te Tari Taake

# SME tax compliance costs 2013

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## Evaluation report 1

June 2014

# SME tax compliance costs 2013

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## Guide to reading this report

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This section of the report is aimed at providing a background to the fundamental concepts relating to the survey research and its design. It is intended to aid the understanding and readability of the report.

The SME tax compliance costs research has been designed to produce a vast array of compliance cost-related information; including an overall combined tax compliance cost for all SMEs, which includes both their internal and external costs of compliance, as well as the internal costs relating to individual tax types.

### Structure of report

The executive summary introduces readers to the overall combined tax compliance cost for all SMEs, and then highlights the key results for those SMEs who file/pay particular tax types. Chapters 2 and 3 are intended to provide the reader with more detailed information regarding the background, objectives and methodology used for this survey. Chapter 4 provides a profile of the responding businesses that participated in the survey.

Chapters 5 through 12 examine the internal time spent by those SMEs who file/pay particular tax types, followed by the external costs associated with those taxes.

Chapter 13 details the overall combined tax compliance costs across all SMEs, regardless of whether they file/pay particular tax types.

Chapter 14 looks at the psychological costs associated with meeting tax compliance obligations, and Chapter 15 details SMEs' current and preferred methods for filing and paying different tax types.

## Technical decisions

1. All means presented in this report have been trimmed, unless otherwise specified. This is consistent with the approach taken in the 2004 baseline survey, as well as the 2009 evaluation.

Systematic trimming of means “smooths” distortions in the data that can arise from a few extremely high values, and better allows for detecting changes over time than would be possible with non-trimmed means. The removal of extremely high values using a systematic approach is justified, based on the premise that the policy focus on combined compliance costs should exclude rare events which affect relatively few firms’ individual compliance costs.

2. Reported cell means are not additive by design; that is, the means reported in the “All SMEs” columns in tables have not been calculated as the sum of trimmed means for individual cells in that table.

Therefore, ‘total’ means as reported should be relied upon rather than the summing of individual means in a particular table.

3. Most percentages in this report do not add to 100 percent. This is mainly due to rounding or the fact that multiple responses were possible for some questions.
4. Values in tables based upon fewer than 20 enterprises have been suppressed, to avoid conclusions being drawn based on small cell sizes.
5. All values reported in the tables are weighted; however, the associated sample base sizes are reported unweighted. This has been done so that the reader can understand exactly how many respondents a particular result is based on.
6. As was the case in 2004 and 2009, Fringe Benefit Tax (FBT) nil businesses have been excluded from the analysis of FBT costs, as such businesses skew the average compliance costs for those businesses that are affected by FBT.
7. As was the case in 2009, the costs associated with the administration of KiwiSaver by businesses have been included in this study as a separate “tax” type from PAYE, through which the scheme is administered.

## Glossary

### Small and medium enterprises (SMEs)

Generally SMEs are active businesses with fewer than 50 staff and/or with an annual turnover of less than \$13.5 million.

Note that the report uses SME, businesses and enterprises interchangeable throughout the report – all meaning SMEs included in the survey population (see Sample design, page 16).

### “All SMEs”

Distinction is made between cost figures for all SMEs 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.

### 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).

### Psychological costs

Self-reported stress, as measured in terms of a 7-point stress level scale (See Appendix H: Multi-tax questionnaire Q21-Q26).

## Section 1. Executive summary

### Evaluation purpose

This report details the results of the *SME tax compliance survey 2013*. It records the annualised tax compliance costs for New Zealand small and medium enterprises in 2013.<sup>1</sup>

#### Policy context

Simplification of tax administration and making it easier for SMEs to meet their tax obligations has been a key focus of Inland Revenue for a number of years, and is in line with Government's Result 9<sup>2</sup> target:

*Cut the cost of dealing with government by 25% by reducing effort required to work with agencies by 2017.*

Evaluations and studies, such as that reported on here, are required to assist Inland Revenue and the Government to monitor the impact of past and present legislative initiatives aimed at reducing business compliance costs. They also feed into the consideration of the impact of any proposed initiatives to reduce tax compliance costs.

#### Evaluation objectives

The overarching objective of this survey 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. The specific information objectives of the survey and evaluation are to:

- Measure SMEs' tax compliance costs in 2013.
- Measure the change in SMEs' tax compliance costs since 2004 and 2009. More specifically:
  - By how much and in what direction have tax compliance costs changed?
  - Which elements of tax compliance costs have changed?
  - Which particular groups of taxpayers are affected?
  - What impact have the tax compliance cost changes had in the SME population overall?
  - To what extent can the changes be attributed to specific interventions?
- Evaluate the effectiveness of the GST and provisional tax alignment on making tax compliance easier for businesses.

This report specifically addresses the first bullet point above, and provides a starting point for considering the others.

Supplementary to this report, a second report (*Changes in SME tax compliance costs 2004 to 2013*) addresses the second bullet point.

<sup>1</sup> Note the definition of SMEs used in this report may differ from others. Please refer to the glossary at the beginning of this report, and to the section on sampling design in Chapter 3.

<sup>2</sup> New Zealand businesses have a one-stop online shop for all government advice and support they need to run and grow their business.

## Evaluation methodology

To ensure comparability between the 2004 and 2009 surveys and the 2013 survey, the same fundamental methodology has been used.

The population of interest is New Zealand SMEs (defined as small and medium businesses, based on their number of employees and annual turnover) and sole traders. A disproportionate stratified random sample of 7,900 SMEs, reflecting different levels of turnover, employee numbers and tax type was drawn by Inland Revenue.

A mail-out survey of SMEs was conducted in November 2013 as well as a booster mail-out in January 2014. Responding businesses were also provided with the option of completing the survey online. A total of 1,206 completed questionnaires were used in the analysis. This data was linked to key Inland Revenue-extracted data about respondents, which was used for weighting purposes so that the results may be extrapolated to the entire population of interest.

### Tax compliance cost definition

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

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

Information is also presented in relation to who within the business spent time on tax compliance activities (owner/partner/trustee/director, paid employee, unpaid family member or friend), as well as the level of stress involved in completing these activities.

### Value of time analysis

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

- \$61.13 (owners/partners/directors/trustees)
- \$28.03 (paid employees)
- \$38.69 (unpaid family members or friends).

## Key findings

### Overall combined tax compliance costs

- The mean *combined* (internal + external tax advisor) tax compliance cost for all SMEs, regardless of size, is \$5,861 per year. This compares with a median cost for all SMEs of \$3,834.
- Mean combined compliance costs increase as the size of the business increases (as determined by the number of employees) – ranging from \$4,534 for businesses with nil employees through to \$12,512 for businesses with 20 or more employees (Figure 1.1).
- Mean internal costs are \$3,778 and mean external costs are \$1,842; 64 percent and 31 percent of the mean combined cost respectively. The comparative medians are \$2,201 and \$1,150.
- As is the case with combined compliance costs, mean *internal* costs increase with business size (as determined by number of employees), from \$2,868 for businesses with nil employees through to \$6,512 for those with six to 19 employees. There is a levelling effect, however, evidenced by the mean internal cost of \$6,579 for businesses with 20 or more employees. This general pattern holds true for most individual tax types, with the exception of income tax, for which internal costs continue to increase for businesses with 20 or more employees.
- Mean *external* costs also increase with business size, from \$1,413 for those with nil employees through to \$4,956 for those with 20 or more employees. There is no levelling effect for external costs.



- There is an inverse relationship between annual business turnover and overall compliance costs as a percentage of that turnover. The compliance cost percentage declines from 11.6 percent for businesses with a turnover of less than \$40,000 to less than one percent for those with a turnover of \$1.3 million and over (Figure 1.2).

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

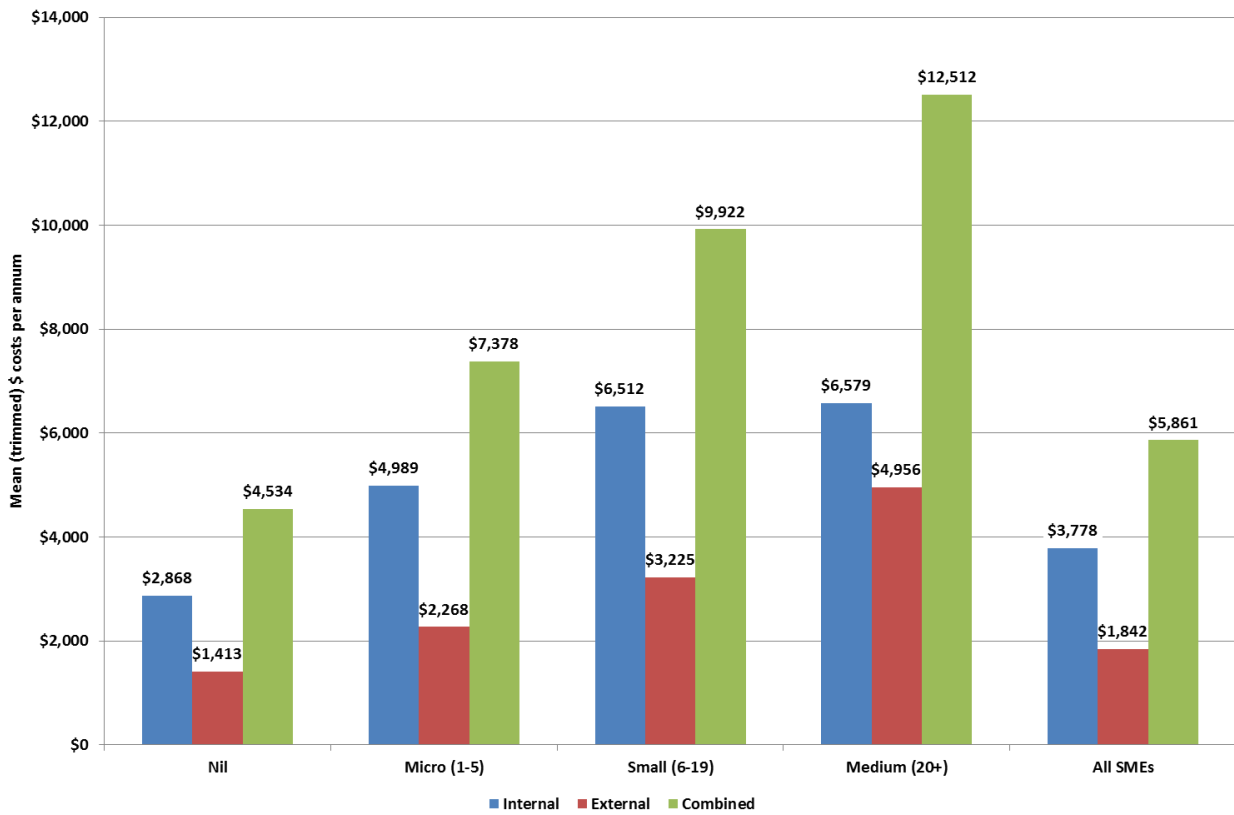
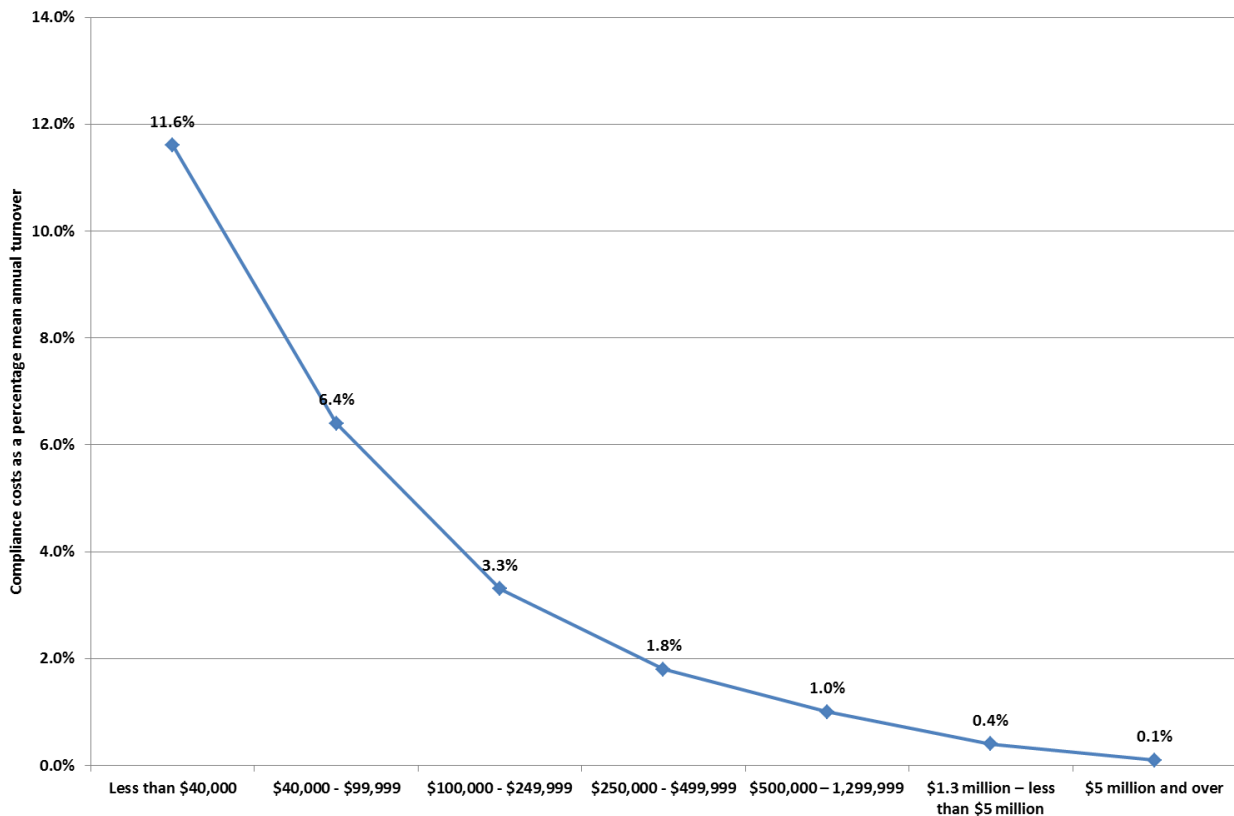


Figure 1.2 Overall tax compliance costs as a percentage of annual business turnover



### Internal compliance costs

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

- The mean number of internal hours spent on tax compliance is 74.9 hours, which equates to \$3,778 per year. The respective median cost is \$2,201.
- The amount of time spent relates strongly to business size, ranging from 55.1 hours for SMEs with nil employees to 172.9 hours for SMEs with 20 or more employees.
- GST requires the greatest time commitment (31.9 hours on average for all SMEs), followed by income tax (19.5 hours), PAYE (9.9 hours), KiwiSaver (3 hours) and FBT (0.9 hours).
- Across all tax types, 'recording information' is the activity which requires the greatest number of hours on average.

### Time spent on tax activities by different personnel

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

- Owners, partners, directors and/or trustees spend on average 52.5 hours a year on tax compliance, considerably higher than the average for paid employees (16.5 hours) and unpaid family and friends (2.3 hours).
- Larger business are more reliant on paid employees: in businesses with 20 or more employees paid employees spend an average of 167.5 hours per year on tax activities, while in micro businesses (1-5 employees), 28.5 hours are spent by paid employees on average.

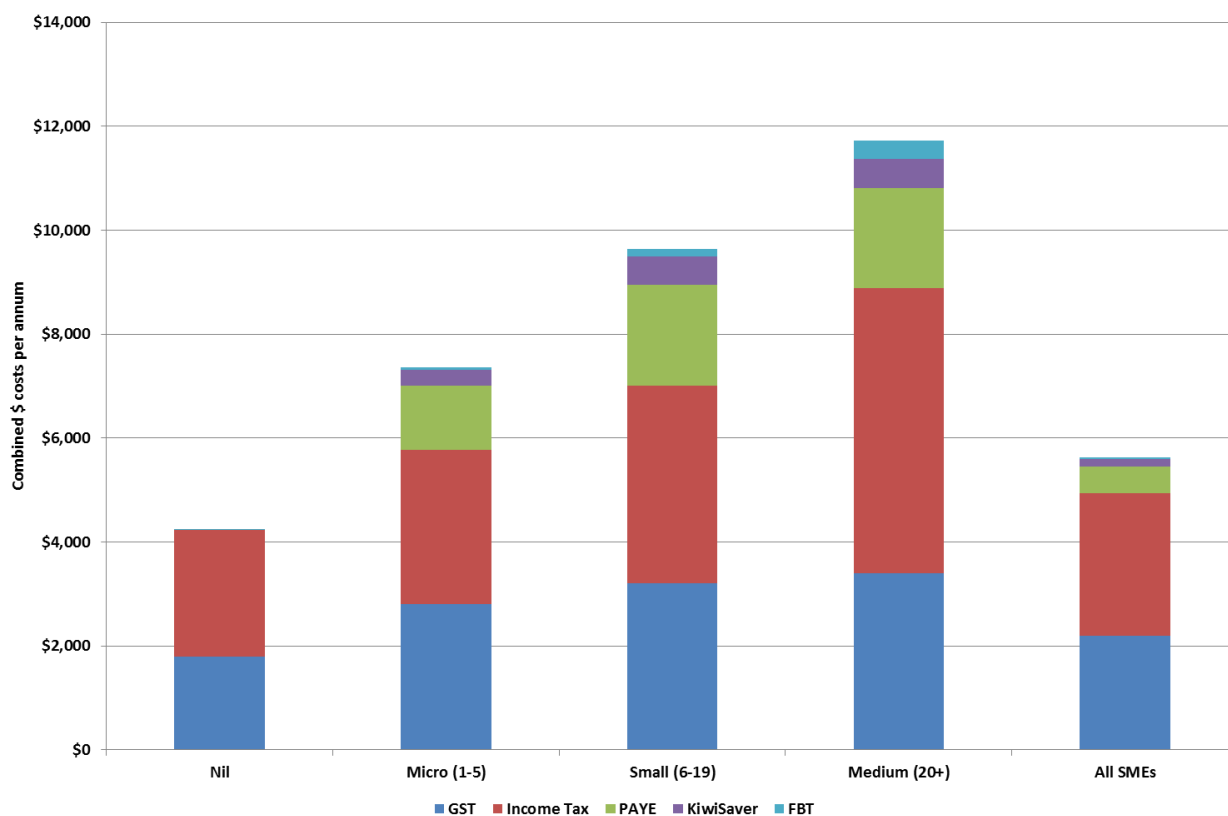
### External tax advisor costs

- Across all businesses, regardless of size or whether or not they pay for an external advisor, the mean annual cost for external advisors is \$1,842. This compares with a median cost of \$1,150.
- Overall, 80 percent of SMEs pay for external tax services across all tax types.
- Income tax accounts for the largest portion of these external compliance costs (79 percent). The mean annual cost is \$1,041 for income tax, \$377 for GST, \$13 for PAYE, \$3 for FBT and \$1 for KiwiSaver. Note that only 15 percent of all businesses that deal with KiwiSaver pay for external advice on that subject.
- Amongst those who pay external costs for a particular tax type, the mean annual tax-related cost is \$1,856.
- The figures for SMEs which paid external costs for the tax in question are \$1,469 for income tax, \$437 for GST, \$29 for PAYE, \$19 for FBT and \$2 for KiwiSaver.

### Tax-specific compliance costs

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

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



The following sub-sections summarise key findings from the survey as they pertain to each individual tax type. For each tax type, data are provided both for all SMEs (regardless of whether they file that particular type of tax) and for those SMEs who file that particular tax type. These findings are described in detail in the relevant sections of the report (Sections 5 – 14).

#### Income Tax (including provisional tax)

Across all SMEs, regardless of whether they pay income tax or not (i.e. *including* those SMEs that have *no* costs associated with income tax):

- Combined (internal + external) compliance costs are \$2,743; the highest of all tax types.
- External costs account for \$1,401 of this total (51 percent), compared with \$1,064 for internal costs. In comparison, external costs account for only 22 percent of GST costs and three percent of PAYE costs.
- 19.5 hours of internal time are spent annually on income tax.
- Tax compliance costs relating to income tax increase with business size, from \$2,445 (nil employees) to \$5,474 (20+ employees).

SMEs paying/filing income tax:

- 20.5 hours are spent annually on tax activities, equating to \$1,116 of internal tax compliance costs.
- Eighty percent of all hours spent on income tax are undertaken by owners, partners, directors and/or trustees (equating to 89 percent of all internal cost in dollars).
- Only in medium-sized businesses (20+ employees) do paid employees undertake more of the income tax compliance burden than the owners, partners, directors and/or trustees.
- Seventy-nine percent employ external tax advisors to deal with income tax, compared with 47 percent for GST (among GST-filing businesses). Those who use external tax advisors spend \$1,469, on average, on income tax-related advice.

## GST

Across all SMEs, regardless of size and tax types filed:

- Combined (internal + external) tax compliance costs for GST are \$2,194.
- External costs form \$377 of this total (22 percent), compared with \$1,746 for internal costs.
- 31.9 hours of internal time are spent annually on GST.
- Tax compliance costs for GST increase with business size, from \$1,788 (nil employees) to \$3,403 (20+ employees).

SMEs filing GST:

- 37.1 hours are spent annually on tax activities, equating to \$2,027 of internal tax compliance costs.
- 21.5 hours of this time is spent on 'recording information' (55 percent) - the greatest amount spent on this activity of any tax type.
- Seventy-five percent of time (hours) spent on income tax is undertaken by owners, partners, directors and/or trustees (84 percent of internal costs in dollars).
- Forty-seven percent employ external tax advisors to deal with GST. Those who use external advisors spend an average of \$437 annually on GST-related advice.

## PAYE

Across all SMEs, regardless of size and tax types filed:

- Combined tax compliance costs for PAYE are \$519.
- External costs form \$13 of this total (three percent), compared with \$478 of internal costs.
- The mean internal time spent annually on PAYE is 9.9 hours.
- The combined costs associated with PAYE increase between micro businesses (one to five employees) and small businesses (six to 19 employees), from \$1,240 to \$1,933 respectively. The cost for medium businesses (20+ employees) is \$1,939, which demonstrates a levelling effect for this tax type.

SMEs filing PAYE:

- The mean internal time spent annually is 25.8 hours across all activities, equating to \$1,099.
- An average of 11.0 hours is spent on 'recording information' (38 percent), and 7.1 hours are spent on 'calculating tax, completing and filing returns, paying tax' (25 percent).
- As might be expected, internal costs associated with PAYE are strongly related to business size (i.e. number of employees).
- Those who use external advisors spend \$29, on average, for advice on PAYE.

## KiwiSaver

Across all SMEs, regardless of size and tax types filed:

- Combined compliance costs for KiwiSaver are \$134.
- Internal costs account for the large majority of this total (\$132).
- An average of 3.0 internal hours is spent annually on KiwiSaver.

SMEs dealing with KiwiSaver:

- The mean internal time spent annually is 14.9 hours across all activities, equating to \$459.
- As business size increases, paid employees deal with more of the KiwiSaver burden than owners, partners, directors and/or trustees. Time spent by paid employees as a proportion of total internal hours on KiwiSaver increases from 21 percent among micro businesses, to 37 percent among small businesses and 78 percent among medium businesses.

- An average of just \$2 is spent on advice relating to KiwiSaver, among those who use external advisors.

### FBT

Across all SMEs, regardless of size and tax types filed:

- Overall combined tax compliance costs for FBT are \$39.
- As is the case with KiwiSaver, the large majority of these costs are internal (\$35).
- Annually, a mean of 0.9 hours is spent on FBT.

SMEs filing FBT:

- On average, 11.4 hours are spent annually on FBT-related tax activities, equating to an internal cost of \$197.
- This time is spent on a range of activities, with 3.7 hours spent on 'recording information'.
- Those who use external advisors spend \$19, on average, for advice on FBT.

### Psychological costs

- Sixty-three percent of all SMEs find meeting Inland Revenue requirements (ignoring finding the money) less than moderately stressful, 21 percent find it moderately stressful and 16 percent find tax requirements more than moderately stressful.
- On balance, businesses with no employees and business with 20 or more employees report higher stress levels than those with one to 19 employees.
- Seventy-nine percent of SMEs dealing with KiwiSaver indicated it was less than moderately stressful to do so (including finding the money).
- Overall, FBT was found to be the least stressful tax type (including finding the money), as indicated by those filing or paying each tax type. Reported stress levels for all other tax types were relatively similar.

## Section 2. Background and objectives

This report records the annual tax compliance costs for New Zealand small and medium size businesses (SMEs) in 2013. It follows similar surveys conducted in 2004 and 2009.

### Background

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

In 2009, Inland Revenue conducted a second measure of SMEs' tax compliance costs, using methods comparable to those used in 2004, to identify and assess trends in tax compliance costs during the preceding five years, as well as to 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 will enable Inland Revenue to again assess the on-going trends in tax compliance costs for small businesses is in line with Government's Result 9<sup>3</sup> target:

*Cut the cost of dealing with government by 25% by reducing effort required to work with agencies by 2017.*

#### Evaluation objectives

The overarching objective of this survey 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' tax compliance costs in terms of hours and dollars spent. The specific information objectives of the survey and evaluation are:

- Measure SMEs' tax compliance costs in 2013.
- Measure the change in SMEs' tax compliance costs since 2004 and 2009. More specifically:
  - By how much and in what direction have tax compliance costs changed?
  - Which elements of tax compliance costs have changed?
  - Which particular groups of taxpayers are affected?
  - What impact have the tax compliance cost changes had in the SME population overall?
  - To what extent can the changes be attributed to specific interventions?
- Evaluate the effectiveness of the GST and provisional tax alignment on making tax compliance easier for businesses.

This report specifically addresses the first bullet point above, and provides a starting point for considering the others.

Supplementary to this report, a second report (*Changes in SME tax compliance costs 2004 to 2013*) addresses the second bullet point.

<sup>3</sup> New Zealand businesses have a one-stop online shop for all government advice and support they need to run and grow their business.

## Defining tax compliance costs

The survey data presented in this report contribute to the measurement of tax compliance costs as defined below. Both internal time (as annual hours and converted to a dollar cost) and external tax advisor costs (dollar value) are presented. Data on psychological costs have also been collected, and presented in this report, although these costs have not been converted into dollars.

In defining overall combined tax compliance costs, the same definition used in the 2004 and 2009 surveys has been used:

*Compliance costs = (internal time plus external advisor costs) plus psychological costs minus (cash flow benefits plus tax deductibility)*

The following apply in relation to the above definition:

- Audit costs, computing and other internal non-labour costs.
- External payroll provider costs are excluded.
- Internal time = imputed costs of time spent by owners, staff, families and friends.
- Cash flow benefits = financial benefits arising from the mismatch in timing between when taxes are collected and when they are remitted to the tax authority. Note reducing cash flow management problems is an integral element of implementing some past tax initiatives.
- Tax deductibility = for example, costs associated with using a tax advisor.
- Psychological costs = the level of stress associated with tax activities, including finding the money; however, measures are not converted to dollars.
- Some of the less frequent compliance costs (e.g. audit costs) that may generate unusually higher costs than those where the tax component is not easily isolated have been acknowledged and quantified to varying degrees, but not included in the main calculations.
- Calculated compliance costs are based on trimmed means.

## Section 3. Methodology

This chapter outlines the methodology used to conduct the 2013 SME tax compliance costs survey.

To enable comparability with the results of the 2004 and 2009 surveys, the methodology and design used in 2013 was fundamentally the same as for those two previous surveys. The main exception to this was that, in 2013, respondents were given the option of completing the survey online.

Changes in the tax environment which occurred between 2009 and the completion of the 2013 survey were also incorporated into the survey design, where appropriate. These tax environment changes are detailed in the companion report *SME Tax Compliance Costs 2013 Comparative Report* (Chapter 3).

### Scoping and design

#### Sample design

To allow for direct comparisons to be made, the sample design for the 2013 survey was consistent with the design for the 2004 and 2009 surveys. The population of interest was small and medium businesses in New Zealand, along with relevant self-employed people. The sample was selected on the basis of the following factors:

- business nature, indicated by legal, or business structure (Inland Revenue's entity type);
- types of tax paid; and
- business size, as indicated by number of employees and annual turnover.
- SMEs, with and without employees, participating in KiwiSaver or other pre-existing employee superannuation schemes.

As was done in 2009, the total population of 433,734 SMEs was further segmented into three sub-populations:<sup>4</sup>

- multiple tax type businesses (i.e. paying GST and/or employing staff, in addition to being subject to income tax) (n=384,956);
- sole traders completing IR3 income tax returns (n=10,948); and
- companies, trusts and partnerships completing IR 4, IR6 or IR7 forms (n=37,830).

The definition of an eligible sole trader for sampling purposes was restricted to relevant SMEs with self-employment income recorded by Inland Revenue of \$16,095 or more.<sup>5</sup>

A disproportionate stratified random sample of n=7,900 SMEs was drawn for the survey reflecting different strata of turnover and employee numbers. In general terms, SMEs were included if they:

- were registered for either GST or PAYE as companies, partnerships, trusts or individuals – self-employed or employing taxpaying entities; or
- earned sufficient "business income" and were registered as "income tax only" (IR3, IR4, IR6 and IR7 tax return filers).

<sup>4</sup> This was not done in the 2004 benchmark survey, which only used two sub-populations.

<sup>5</sup> An income of \$16,095 reflects the threshold at which the individual has to pay provisional tax (RIT>\$2,500).



They were excluded if they:

- employed 50 staff or more **and** had an annual turnover of \$13.5 million or greater;<sup>6</sup>
- were not actively trading; and
- were inactive or very small (annual PAYE deductions of less than \$4,500<sup>7</sup> and turnover of less than \$30,000<sup>8</sup> for those with GST or PAYE obligations. For those income only entities, residual income of less than \$2,500<sup>9</sup>).

### Questionnaire redevelopment

Given the desire to measure changes in SMEs' tax compliance costs since the 2004 and 2009 surveys, minimal changes were made to the survey questionnaires in preparation for the 2013 compliance cost survey. As outlined above, these changes were made to take into account changes in the tax environment since the 2009 survey.

To assist with this, a steering group comprised of Martina Battisti (Massey University); Stephen Summers (Business NZ); Stephen Rutherford (NZICA); Katie Wellington (MBIE); and Marie Pallot, Geoff Leggett, David Udy and Linda Oliver (all from Inland Revenue).

Linda Oliver (IR) was appointed to.

- The inclusion of ESCT (employer superannuation contribution tax) when calculating internal time spent dealing with KiwiSaver deductions and contributions, and external tax-related costs paid to SMEs' main tax advisor.
- A set of new questions was added to capture the number of times businesses had filed different tax returns (PAYE, RWT, FBT, income tax, including provisional tax, and GST) in the last 12 months; how many of those returns were filed electronically; and SMEs' preferred ways of filing those returns (e.g. electronically, by post or through a tax advisor).
- A set of new questions was also added to capture the number of times businesses had paid different taxes (PAYE, RWT, FBT, income tax, including provisional tax, and GST) in the last 12 months; how many of those taxes were paid electronically; and SMEs' preferred ways of paying those taxes (e.g. electronically, by post or through a tax advisor).
- The deletion of a number of questions from the 2009 survey which were intended to capture recent changes in the tax environment at that time:
  - SMEs' awareness of the ratio option as an alternative option for calculating provisional tax.
  - Hours spent internally calculating provisional tax.
  - The time savings, or dollars savings, impact of the 1 April 2009 change in the PAYE payment threshold, which gave SMEs the option of paying PAYE only once per month, rather than twice.
  - The impact of the GST/provisional tax alignment on the amount of effort, time and dollars spent dealing with these two taxes.

Where relevant, a small number of changes were made in the IR 3, IR 4/6/7 and Tax Advisors questionnaires to reflect the above changes to the multi-tax questionnaire.

### Cognitive pre-testing

The questionnaires for the 2013 SME Tax Compliance Cost Survey were pre-tested between 23 and 31 October 2013. Twelve test surveys were completed in total by sole traders, business owners and finance managers from Wellington-based businesses, along with two tax agents.

As a result of this pre-testing, a number of minor question wording and formatting changes to some question instructions were made.

<sup>6</sup> Increased from \$10 million in 2004 and \$12.5 million in 2009 to adjust for inflation.

<sup>7</sup> Less than one full-time employee receiving the minimum wage.

<sup>8</sup> Based on one half of the GST registration threshold of \$60,000.

<sup>9</sup> The provisional tax liability threshold, based on a residual income tax of less than \$2,500.

## Fieldwork

Self-completion questionnaires, along with a reply-paid envelope, were sent to 5,500 businesses on 8 November 2013. Initially, 5,000 long questionnaires and 500 short questionnaires were despatched. In addition, booster mail-outs were sent to an additional 1,000 and 1,200 businesses on 26 November 2013 and 27 January 2014, respectively.<sup>10</sup>

Survey packs, including using Inland Revenue branded envelopes were sent with a covering letter from Inland Revenue explaining the purpose of the research and Research New Zealand's involvement as an independent Market Research company contracted to administer and process the survey on Inland Revenue's behalf.

To help maximise the response rate to the survey, the following activities were also undertaken:

- Reminder letters with replacement questionnaires.
- Telephone reminders.

**Table 3.1 Respondent sample numbers as proportion of overall population**

Survey respondent group	Sample population (n=)	Survey population (N=)	Percentage
Sole traders (IR3) income tax only	125	22	1.8%
Companies, trusts and partnerships (IR 4, IR 6 or IR 7)	375	50	4.1%
<b>Income tax only respondents (short questionnaires)</b>	<b>500</b>	<b>72</b>	<b>6.0%</b>
SMEs contributing towards KiwiSaver	793	179	14.8%
All other SMEs paying multiple taxes	6,407	955	7.9%
<b>Multiple tax respondents (long questionnaires)</b>	<b>7,200</b>	<b>1,134</b>	<b>94.0%</b>
<b>All SMEs</b>	<b>7,700</b>	<b>1,206</b>	<b>100.0%</b>

## Response rate SMEs survey

Questionnaires were despatched to 7,700 businesses and 1,206 were returned, representing a response rate of 15.7 percent.

We compared the demographic profiles of those SMEs responding to the survey with non-responders and found no significant differences by the main sampling variables (i.e. number of employees, turnover and tax type).

**Table 3.2 Response rate analysis**

Survey respondent group	Long questionnaires	Short questionnaires	Overall
Questionnaires dispatched (not including replacement questionnaires)	7,200	500	7,700
Completed questionnaires returned	1,134	72	1,206
<b>Response rate</b>	<b>15.8%</b>	<b>14.4%</b>	<b>15.7%</b>

<sup>10</sup> Note that although 7,900 SMEs were sampled for the survey, only 7,700 were invited to participate. This was due to the availability of printed questionnaires, and therefore 6,800 out of the 7,000 potential multiple tax respondents sampled were randomly selected to receive invitations.

### Tax Advisor sub-survey

A tax advisor sub-survey was conducted to gather information in order to apportion external Tax Advisor tax compliance costs to different tax types. The information was collected from Tax Advisors in regard to long questionnaire clients, who had participated in the survey and who had given their consent for their Tax Advisor to be contacted for information about the tax compliance costs they had paid in relation to different tax types.

In total, 317 questionnaires were sent to Tax Advisors and their response rate is detailed below.

**Table 3.3 Response rate analysis – Tax Advisors**

Businesses in long questionnaires sample that use an external Tax Advisor	Tax advisor questionnaires
Questionnaires dispatched (A)	317
Completed questionnaires returned (B)	175
Unusable returned questionnaires (C)	17
Usable returned questionnaires (D)	158
Number of businesses in achieved long questionnaire sample that have Tax Advisors (E)	925
<b>Response rate A</b> – percentage of Tax Advisors sent a questionnaire who returned a usable completed questionnaire (D/A)	<b>49.8%</b>
<b>Response rate B</b> – percentage of long questionnaire businesses who use an external Tax Advisor and whose advisor returned a completed usable questionnaire (D/E)	<b>17.1%</b>

### Weighting

An appropriate weighting scheme for the remaining records, to adjust for any sampling and non-response biases was developed in consultation with IR. This scheme is based upon businesses' responses to the size and turnover questions, as well as IR administrative data regarding each SME's tax type (i.e. multi-tax, IR3, etc.).

The data were weighted so the survey results could be used to make generalisations to the entire survey population. Weighted values have been used in all analysis for the reporting.

A weight for each responding SME was calculated as  $(N(i)/n(i))$ , where:

- N(i) is population count of each stratum; and
- n(i) is the achieved sample in each stratum.

### Data integrity and data processing

During the data entry stage, all returned paper questionnaires were reviewed, edited and double-entered 100 percent.

A number of steps were taken to ensure data integrity, including:

- Having a documented series of comprehensive editing checks and database checks to test for the internal validity of the survey data. This included checking for distinctions between 'true zero' values and missing values (i.e. answers not provided by respondents).
- A review of the consistency of multi-tax respondents' answers to Q13a and Q13b was undertaken. Where records with significant discrepancies were identified, these were flagged for the researchers' review.
- Where there were discrepancies between the totals listed in Q13a and Q13b, the totals from Q13a took precedence for the purposes of analysis and reporting.

### Total internal time hours

Total hours spent by businesses were recalculated, based upon the sum row values, rather than placing a reliance on what respondents listed as the total of those hours on their questionnaires.

### Business size and sector

Missing values for business size (turnover and number of employees) and sector in the SMEs' survey data were addressed using administrative information from Inland Revenue's database.

### External tax compliance costs

The calculation of external tax compliance costs by tax type was undertaken using both data from the Tax Advisor supplementary survey and the SME surveys, as well as data imputation.

To this end, external tax compliance costs have been calculated using the following approach:

- Tax Advisor-supplied data was used for respondents who completed the multi-tax survey questionnaire and supplied tax dollar data (regardless of whether it matched the total dollar amount reported by the business in question and regardless of whether the business reported using their Tax Advisor for one or more tax types).
- The dollar value provided in Q9a by respondents who completed the multi-tax survey questionnaire, but ticked only one tax type at Q9b, was used (providing the business had confirmed that the amount in Q9a only included tax-related costs).
- The response to Q3 was used for respondents who completed the IR 3 and IR 4/6/7 questionnaires on the basis that it reflected the amount they paid for external tax-related services for income tax purposes (providing the business had confirmed that the amount recorded at Q3 only related to tax-related costs).

There were also cases of missing dollar information for respondents who completed the multi-tax survey questionnaire indicating they had paid multiple tax types, but for whom no information was available from their Tax Advisor. Imputed data was used to address these situations, using a combination of the result they provided in Q9b and imputing or apportioning the result based on the 'industry average' results for Q9d (as derived from the Tax Advisors survey).

External costs for multi-tax respondents were considered as missing, and therefore not imputed, if the respondent did not indicate in Q9a that the amount listed was for only tax-related purposes and no data was available from their Tax Advisor.

### Calculation of means and medians

To ensure comparability with the 2004 and 2009 survey data, trimmed means<sup>11</sup> have been used extensively in the analysis and reporting of the amount of time businesses spend on tax compliance and associated tax compliance costs. This involves excluding any values where the log falls outside of the median  $(\log_{10}(x)) + 2.24 \text{ MAD}(\text{Log}_{10}(x))$ , where MAD is the median absolute deviation normalised to approximate the standard deviation for normally distributed data.

The constant 2.24 was originally selected by Inland Revenue for the 2004 benchmark survey so that only the most extreme values would be trimmed. Note that by taking the logs, zero values are excluded from the trimming process, but retained for subsequent mean and median calculations.

Outliers have not been removed in calculating medians, as the inclusion of outliers has very little effect when calculating median values.

<sup>11</sup> The term "trimmed mean" generally refers to a mean calculated after first removing a fixed percentage of values from the top and bottom ranges of the distribution (e.g. a 5% trimmed mean is the average after 5% of the smallest and 5% of the largest values have been removed from the data). In line with the 2004 and 2009 surveys, a flexible trimming approach has been taken for the 2013 surveys in which the percentage of values trimmed from each array of data has varied depending upon the extent to which a particular question elicited extreme values, or outliers. Using a flexible trimming approach only removes such outliers before averaging, but retains other valid records at the top and bottom of the distribution which are not outliers.

## Treatment of missing information

Where missing values were identified for:

- Total hours and costs in Q13a, they have been replaced with the total hours and costs values provided in Q13b, where available, and vice versa.
- Business size and turnover, and sector, they were imputed from Inland Revenue data provided with the original sample.

## Value of time analysis

For comparative purposes, converting the internal time spent on tax compliance activities into a monetary value was undertaken on the same basis as for the 2004 and 2009 surveys. This process relied on the following assumptions:

- There is no difference in the monetary value of time between respondents completing the short income tax survey questionnaire and those completing the long multi-tax survey questionnaire – i.e. that they are “equivalent” small and medium businesses. This enables a focus on differences in business size and the role of the person involved.
- Little significant value can be gained by introducing the complexity of value of time across sector type.
- Trimmed means are a more useful measurement to use for respondent-provided data than are medians, which are lower values. Therefore, trimmed means have been used.

### *Owners/partners/directors/trustees*

While calculating the value of time, based on reported hourly wage rates, is a relatively straightforward process for paid employees, the same cannot be necessarily said of owners, partners, directors and trustees. Selecting a value to apply to owners’ time is less objective, because owners may be dealing with the business’s tax compliance work outside of ‘working hours’, in what would otherwise be their leisure time.

That said, given the fact that the variation in reported values across business size is relatively small, one figure has been used to assign a value to the time of owners, partners, directors and/or trustees, based upon respondent data (see table below). This has been done to ensure consistency with the approach taken in both 2004 and 2009.

The value of time figures used for owners/partners/directors/trustees was \$61.13 per hour.

**Table 3.4 Value of time data relating to owners**

	Survey Data (Mean \$/hr)
Nil employees	\$62.55
Micro (1-5)	\$55.09
Small (6-19)	\$60.93
Medium (20+)	\$75.93
<b>Total</b>	<b>\$61.13</b>

### *Paid employees*

In line with the approach taken in both the 2004 and 2009 surveys, the value of time used for the 2013 survey relies on external data; that is, the Quarterly Employee Survey September 2013. Again, given the small variation across business sizes, and to maintain comparability with the previous tax compliance surveys, only one figure for all business size groupings has been used. The value of time figure used for paid employees was \$28.03 per hour.

## Unpaid friends or relatives

It is more difficult to place a monetary value on the time of unpaid friends or relatives who are dealing with businesses' tax compliance activities, as it is not clear whose time in the business they are "replacing" or if they are replacing the services of an external tax advisor. For this reason, and to maintain consistency with the approach taken in both 2004 and 2009, we decided to use respondent-provided data, as averaged across all business sizes. The value of time figure used for unpaid friends or relatives was \$38.69 per hour.

**Table 3.5: Value of time data relating to unpaid friends/relatives**

	Survey Data (Mean \$/hr)
Nil employees	\$42.50
Micro (1-5)	\$41.82
Small (6-19)	\$25.00
Medium (20+)	\$16.00
<b>Total</b>	<b>\$38.69</b>

## Section 4. Sample profile

This chapter provides a profile of the sample. All percentages use weighted data. Similar tables using unweighted data can be found in the appendices to this report.

### Sample profile by business size – weighted data

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

	Nil employees %	Micro (1-5) %	Small (6-19) %	Medium (20+) %	All %
<b>Number of owners working in the business</b>					
1	10	3	7	11	8
2	39	39	28	28	38
3+	30	49	50	30	37
Missing information	2	8	15	29	5
	19	1	0	2	12
<b>Business size – Number of employees (full-time and part-time combined)</b>					
Nil	100	0	0	0	64
Micro (1-5) employees	0	100	0	0	26
Small (6-19 employees)	0	0	100	0	8
Medium (20+ employees)	0	0	0	100	2
Missing information	0	0	0	0	0
<b>Business size – turnover</b>					
Nothing	3	1	1	0	2
\$1 - \$19,999	7	2	1	0	5
\$20,000 - \$39,999	15	3	1	1	11
\$40,000 - \$59,999	16	5	1	0	12
\$60,000 - \$99,999	21	9	1	0	16
\$100,000 - \$249,999	22	27	4	2	21
\$250,000 - \$499,999	10	20	10	1	13
\$500,000 - \$1,299,999	3	21	32	6	10
\$1.3 million - \$1,999,999	1	6	19	11	4
\$2 million - \$4,999,999	1	4	19	30	4
\$5 million - \$9,999,999	0	1	6	22	1
\$10 million - \$23,999,999	0	0	1	17	0
\$24 million - \$49,999,999	0	0	0	7	0
\$50 million - \$99,999,999	0	0	0	1	0
\$100 million or more	0	0	0	2	0
Missing information	1	1	2	0	1

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

	Nil employees %	Micro (1-5) %	Small (6-19) %	Medium (20+) %	All %
<b>Length of time in business</b>					
Less than six months	2	1	4	2	2
1 – 2 years	8	7	6	5	8
3 – 5 years	19	18	11	8	18
6 – 10 years	23	20	21	14	22
> 10 years	48	53	58	70	51
Missing information	1	0	1	1	0
<b>Use of tax advisor</b>					
Don't use a tax advisor	21	15	22	15	20
Use a tax advisor	78	84	77	85	80
Missing information	0	1	1	0	1
<b>Main business activity</b>					
Agriculture	19	27	12	10	20
Mining	0	0	0	1	0
Manufacturing	1	5	14	16	3
Electricity, gas, water supply	2	1	0	1	2
Construction, landscape, building repair	7	11	9	14	8
Wholesale trade	2	5	8	8	3
Retail trade	4	14	11	7	7
Accommodation, café, restaurant	4	4	10	6	5
Transport, storage	4	2	4	5	3
Communication services	3	3	4	6	3
Finance, insurance	5	3	2	2	4
Property and business services	35	11	8	10	26
Education	2	1	6	5	2
Health and community services	4	5	7	6	5
Cultural and recreational services	1	0	2	1	1
Personal and other services	5	7	3	2	6
Other	2	1	2	0	2
Missing information	0	0	1	0	0
<b>Industry sector groupings</b>					
Primary production	19	27	12	10	20
Industrial	7	16	22	30	11
Distribution	8	6	7	11	8
Business and finance	42	18	17	20	33
Service	22	31	40	27	26
Missing information	1	2	2	2	1



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

	<b>Nil employees %</b>	<b>Micro (1-5) %</b>	<b>Small (6-19) %</b>	<b>Medium (20+) %</b>	<b>All %</b>
<b>Legal entity</b>					
Company	86	100	100	100	91
Individual	5	0	0	0	3
Partnership	4	0	0	0	2
Trust	5	0	0	0	3
<b>Tax type</b>					
Income	97	95	94	96	96
GST	81	99	100	100	87
PAYE	10	92	99	100	40
KiwiSaver	2	48	77	86	21
FBT	3	16	23	53	9
<b>Tax type combination (main types)</b>					
Income only	20	0	0	0	13
Income, GST	70	8	1	0	47
Income, GST, PAYE	8	37	17	5	16
Income, GST, PAYE, FBT	1	6	6	8	3
Income, GST, PAYE, KiwiSaver	1	37	54	36	15
Income, GST, PAYE, KiwiSaver, FBT	1	13	22	52	6
<b>Survey completed</b>					
Multi-tax (long)	94	80	100	100	100
Short	6	20	0	0	0
<b>Number of respondents (unweighted)</b>	369	384	262	190	1,206
<b>SME population (calculated using weighted base sizes)</b>	280,319	112,374	33,178	8,571	434,796

Source: Long questionnaire Q3, Q4, Q9a, Q19, Q20, Q28; short questionnaire Q3, Q9, Q10 Q11; and IR database data.

## Sample profile by tax type

Table 4.2: Sample profile by tax type

	GST %	Income Tax %	PAYE %	KiwiSaver %	FBT %	All %
<b>Number of owners working in the business</b>						
0	8	7	5	5	6	8
1	43	38	37	38	32	38
2	42	37	48	44	51	37
3+	6	5	10	12	11	5
Missing information	1	12	1	1	0	12
<b>Business size – Number of employees (full-time and part-time combined)</b>						
Nil	60	65	16	6	21	64
Micro (1-5) employees	29	26	60	58	47	26
Small (6-19 employees)	9	8	19	27	20	8
Medium (20+ employees)	2	2	5	8	12	2
Missing information	0	0	0	0	0	0
<b>Business size – turnover</b>						
Nothing	2	2	1	1	1	2
\$1 - \$19,999	3	5	2	1	0	5
\$20,000 - \$39,999	9	11	3	1	4	11
\$40,000- \$59,999	11	12	4	2	0	12
\$60,000 - \$99,999	16	16	10	6	11	16
\$100,000 - \$249,999	23	22	21	17	13	21
\$250,000 - \$499,999	13	13	16	17	13	13
\$500,000 - \$1,299,999	11	10	21	28	21	10
\$1.3 million - \$1,999,999	4	4	8	10	12	4
\$2 million - \$4,999,999	4	4	9	10	13	4
\$5 million - \$9,999,999	1	1	3	5	6	1
\$10 million - \$23,999,999	0	0	1	2	3	0
\$24 million - \$49,999,999	0	0	0	1	2	0
\$50 million - \$99,999,999	0	0	0	0	1	0
\$100 million or more	0	0	0	0	0	0
Missing information	1	1	1	1	1	1
<b>Length of time in business</b>						
Less than six months	2	1	1	1	1	2
1 – 2 years	8	7	6	9	4	7
3 – 5 years	17	18	18	19	15	18
6 – 10 years	23	22	21	20	25	22
> 10 years	50	50	53	51	56	50
Missing information	0	0	0	0	0	0
<b>Use of tax advisor</b>						
Don't use a tax advisor	18	19	15	19	16	20
Use a tax advisor	82	81	85	80	84	80
Missing information	0	0	1	1	0	0

Table 4.2: Sample profile by business size (number of employees) (cont.)

	GST %	Income Tax %	PAYE %	KiwiSaver %	FBT %	All %
<b>Main business activity</b>						
Agriculture	22	20	24	16	12	20
Mining	0	0	0	0	0	0
Manufacturing	4	3	7	10	13	3
Electricity, gas, water supply	2	2	1	1	0	2
Construction, landscape, building repair	8	8	12	14	11	8
Wholesale trade	4	3	5	6	9	3
Retail trade	8	7	12	13	8	7
Accommodation, café, restaurant	4	4	5	5	1	5
Transport, storage	4	3	4	3	3	3
Communication services	3	3	4	4	8	3
Finance, insurance	3	4	2	2	4	4
Property and business services	25	26	9	9	20	26
Education	2	2	3	2	1	2
Health and community services	4	5	5	6	3	5
Cultural and recreational services	1	1	0	1	1	1
Personal and other services	6	6	6	7	4	6
Other	2	2	1	1	1	2
Missing information	0	0	0	0	0	0
<b>Industry sector groupings</b>						
Primary production	21	20	23	16	11	20
Industrial	12	11	18	23	24	11
Distribution	9	8	9	8	11	8
Business and finance	32	33	16	16	33	33
Service	24	26	31	34	19	26
Missing information	1	1	2	2	1	1
<b>Legal entity</b>						
Company	100	91	100	100	100	91
Individual	0	3	0	0	0	3
Partnership	0	2	0	0	0	2
Trust	0	3	0	0	0	3
<b>Survey completed</b>						
Multi-tax (long)	100	89	100	100	100	89
Short	0	11	0	0	0	11
<b>Number of respondents (unweighted)</b>	1,197	1,115	1,144	837	580	291
<b>SME population (calculated using weighted base sizes)</b>	434,796	376,631	413,956	170,804	91,957	37,561

Source: Long questionnaire Q3, Q4, Q9a, Q9b, Q19, Q20, Q28; short questionnaire Q3, Q9, Q10 Q11; and IR database data.

## Section 5. Internal time compliance costs: All tax activities

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

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

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

### Internal time spent on specific tax activities

#### Annualised time spent by businesses on specific taxes and tax activities

Respondents were asked to estimate the average number of hours per month the business had spent on tax activities during the preceding 12 months. For each tax type, they were asked to record this information by tax activity. Although monthly data were collected for analysis and reporting purposes, these data have been converted to annual figures. Table 5.1 (mean) and Table 5.2 (medians) detail the amount of time in annual hours spent on specific tax activities for each tax type. Figures 5.1 and 5.2 summarise the total hours spent on tax activities, and by business size in graphical format, and demonstrate that the number of hours varies significantly when viewed by tax type, and by business size.

The mean number of hours businesses reported spending across all tax types annually was  $\bar{x}$ =83.8 hours. The highest mean number of hours was reported for GST ( $\bar{x}$ =39.3 hours). The single most commonly reported activity was *recording information* ( $\bar{x}$ =36.4 hours across all tax types), followed by *calculating tax/completing and filing returns/paying tax* ( $\bar{x}$ =16.4 hours).

Of note, across all tax types, the mean annual hours of internal time spent tends to increase with business size, with the exception of mean hours spent on FBT by “small” and “medium businesses”.

While the variances between the median hours spent on all tax activities also increase by size of business between “nil” and “micro” (increase of 40 hours) and “micro” and “small” (increase of 40 hours), the observed increase in median hours spent between “small” and “medium” businesses (increase of 8.0 hours), is not statistically significant (see Table 5.4).

The survey also shows that there is a strong relationship between business size and the number of hours spent on most individual tax activities per year (i.e. recording information, etc.), between “nil” and “micro” businesses and “micro” and “small” businesses, particularly in relation to *recording information*, and *calculating tax/completing and filing returns/paying tax*.

Figure 5.4 provides a graphical representation of the number of hours spent internally per annum by SMEs dealing with a range of different tax-compliance related activities, broken down by business size, while Table 5.5 provides an annualised break down of hours spent on all tax activities by tax type, rather than by the specific tax activities as described above.

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

Activity	GST	Income Tax	PAYE	KiwiSaver	FBT	All
Recording information	21.5 (1,047)	8.3 (1,084)	11.0 (787)	6.2 (565)	3.7 (282)	36.4 (1,121)
Calculating tax, completing and filing returns, paying tax	7.7 (1,085)	3.8 (1,110)	7.1 (808)	4.3 (571)	2.8 (280)	16.4 (1,151)
Dealing with IRD	1.7 (1,095)	1.1 (1,132)	2.1 (821)	1.4 (575)	0.7 (287)	3.4 (1,165)
Tax planning	0.7 (1,111)	1.2 (1,137)	0.4 (835)	NA	0.3 (288)	2 (1,191)
Dealing with tax advisors (including providing information)	3.5 (1,095)	3.8 (1,112)	1.8 (829)	1.3 (577)	1.3 (284)	8.5 (1,155)
Learning about tax laws (new or existing)	1.9 (1,102)	1.5 (1,125)	2.0 (830)	2.2 (571)	2.2 (282)	5.4 (1,190)
Other	0.2 (1,109)	0.2 (1,140)	0.1 (836)	0.3 (579)	0.1 (291)	0.6 (1,195)
<b>All activities</b>	<b>39.3 (1,034)</b>	<b>21.9 (1,060)</b>	<b>28.9 (814)</b>	<b>16.6 (552)</b>	<b>12.3 (266)</b>	<b>83.8 (1,156)</b>

Base: All respondents who filed/paid the particular tax type in question (excluding missing information and outliers). Source: long survey questionnaire Q13a; short survey questionnaire Q5a.

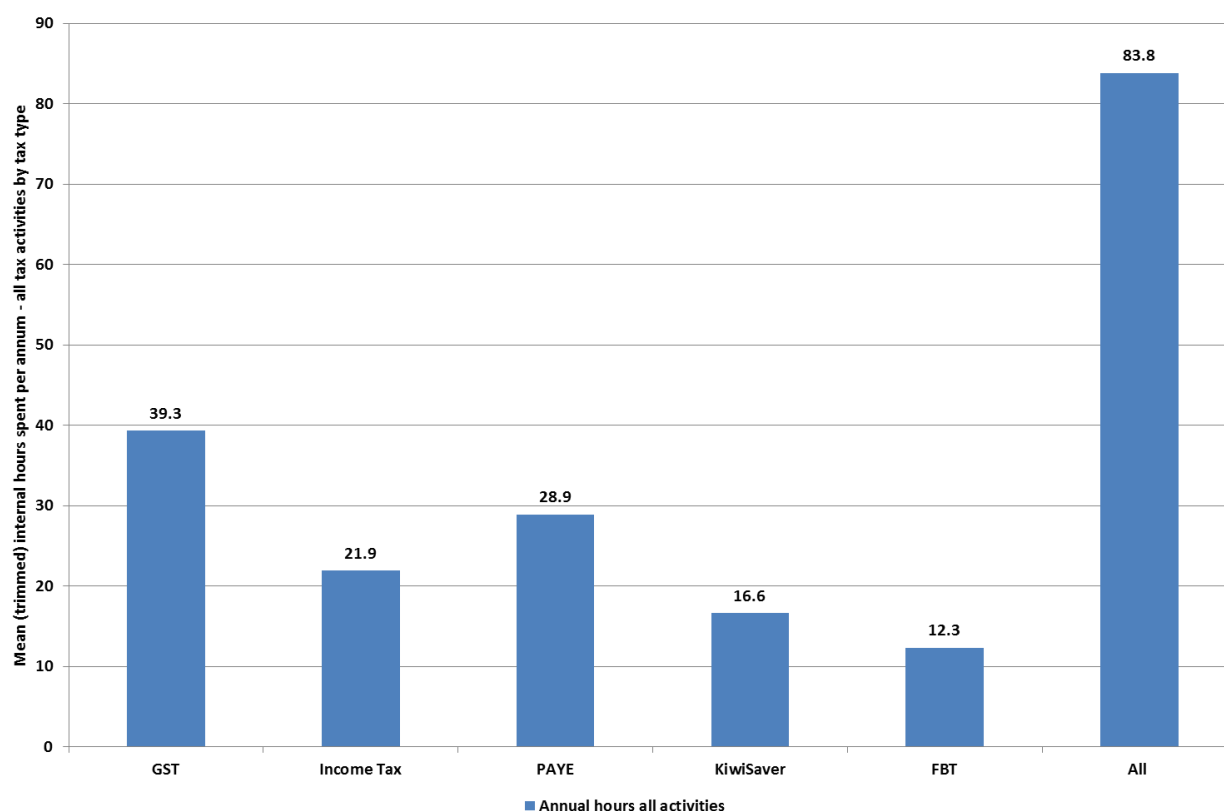
**Figure 5.1: Internal time spent on all tax activities – annual hours by tax type**

Figure 5.2: Internal time spent on all tax activities –annual hours by business size)

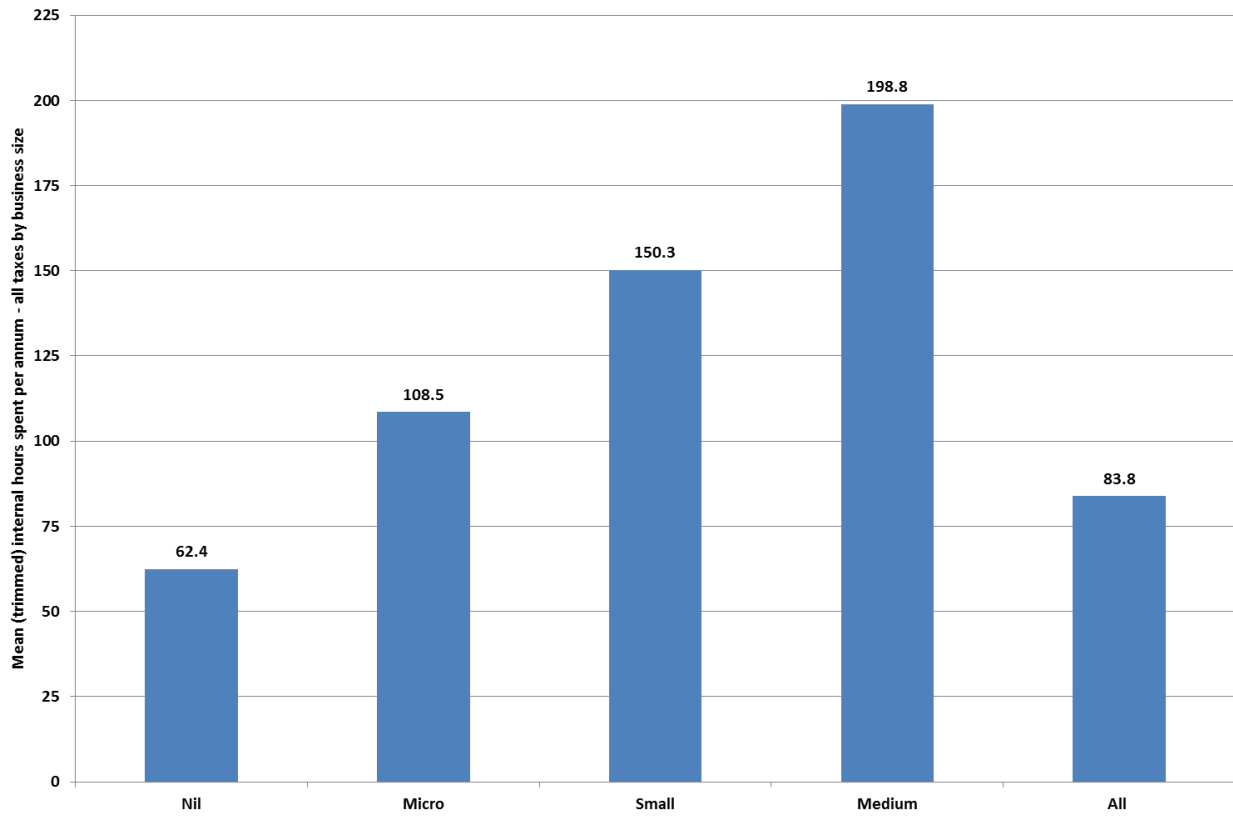
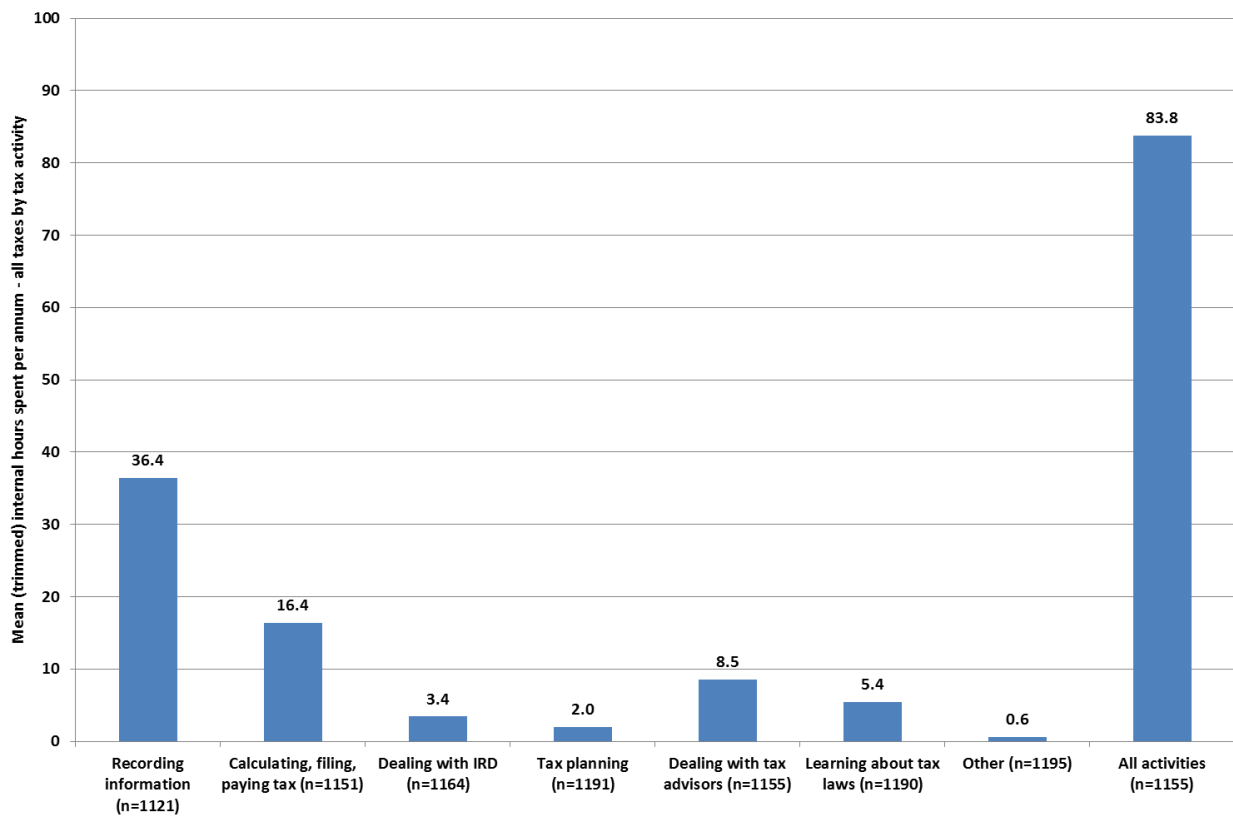


Figure 5.3: Internal time spent on tax activities (all taxes)



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

Activity	GST	Income Tax	PAYE	KiwiSaver	FBT	All
Recording information	12 (1,047)	3 (1,084)	6 (787)	4 (565)	1 (282)	24 (1,121)
Calculating tax, completing and filing returns, paying tax	4 (1,085)	0 (1,110)	4 (808)	2 (571)	0 (280)	8 (1,151)
Dealing with IRD	0 (1,095)	0 (1,132)	0 (821)	0 (575)	0 (287)	0 (1,165)
Tax planning	0 (1,111)	0 (1,137)	0 (835)	NA	0 (288)	0 (1,191)
Dealing with tax advisors (including providing information)	0 (1,095)	0 (1,112)	0 (829)	0 (577)	0 (284)	3 (1,155)
Learning about tax laws (new or existing)	0 (1,102)	0 (1,125)	0 (830)	0.4 (571)	1 (282)	0 (1,190)
Other	0 (1,109)	0 (1,140)	0 (836)	0 (579)	0 (291)	0 (1,195)
<b>All activities</b>	<b>26 (1,034)</b>	<b>12 (1,060)</b>	<b>16 (814)</b>	<b>12 (552)</b>	<b>8 (266)</b>	<b>48 (1,156)</b>

Base: All respondents who filed/paid the particular tax type in question (excluding missing information, but inclusive of outliers).

Source: long survey questionnaire Q13a; short survey questionnaire Q5a.

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

Activity	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)	All
Recording information	27.3 (343)	46.7 (365)	69.1 (247)	66.8 (165)	36.4 (1,121)
Calculating tax, completing and filing returns, paying tax	10.7 (337)	22.5 (371)	35.8 (257)	39.7 (185)	16.4 (1,151)
Dealing with IRD	2.0 (360)	5.1 (372)	7.5 (249)	9.5 (183)	3.4 (1,165)
Tax planning	1.2 (362)	2.8 (381)	5.0 (259)	4.2 (188)	2.0 (1,191)
Dealing with tax advisors (including providing information)	5.8 (350)	13.6 (372)	12.6 (248)	15.7 (184)	8.5 (1,155)
Learning about tax laws (new or existing)	3.8 (363)	6.7 (379)	12.6 (258)	14.8 (189)	5.4 (1,190)
Other	0.7 (364)	0.4 (381)	0.5 (260)	2.6 (189)	0.6 (1,195)
<b>All activities</b>	<b>62.4 (352)</b>	<b>108.5 (375)</b>	<b>150.3 (251)</b>	<b>198.8 (177)</b>	<b>83.8 (1,156)</b>

Base: All respondents who filed/paid the particular tax type in question (excluding missing information and outliers). Source: long survey questionnaire Q13a; short survey questionnaire Q5a.

Figure 5.4: Internal time spent on tax activities (annual hours by tax type)

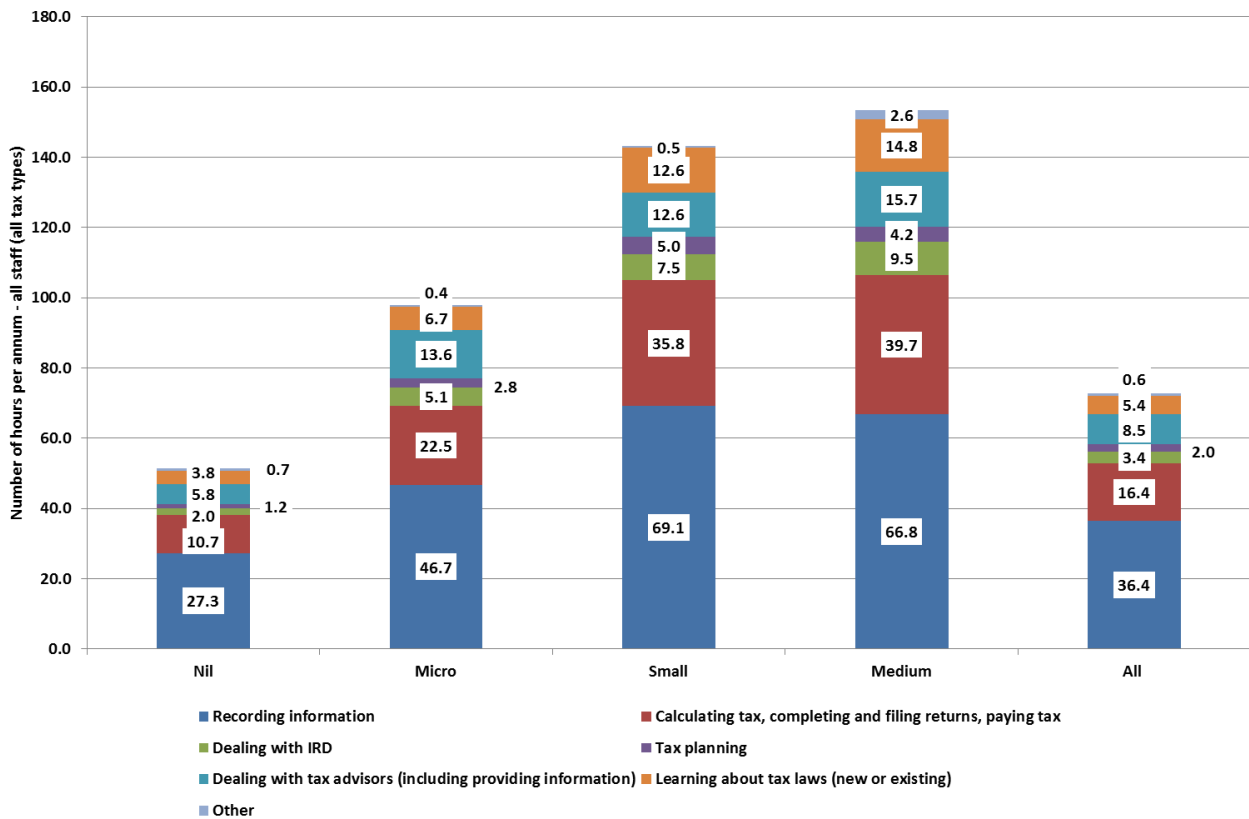


Table 5.4: Median annual hours of internal time spent on tax activities by business size

Activity	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)	All
Recording information	13 (343)	30 (365)	45 (247)	42 (165)	24 (1,121)
Calculating tax, completing and filing returns, paying tax	5 (337)	15 (371)	25 (257)	33 (185)	8 (1,151)
Dealing with IRD	0 (360)	0 (372)	4 (249)	6 (183)	0 (1,165)
Tax planning	0 (362)	0 (381)	0 (259)	0 (188)	0 (1,191)
Dealing with tax advisors (including providing information)	2 (350)	6 (372)	6 (248)	10 (184)	3 (1,155)
Learning about tax laws (new or existing)	0 (363)	1.4 (379)	6 (258)	10 (189)	0 (1,190)
Other	0 (364)	0 (381)	0 (260)	0 (189)	0 (1,195)
<b>All activities</b>	<b>32 (352)</b>	<b>72 (375)</b>	<b>112 (251)</b>	<b>120 (177)</b>	<b>48 (1,156)</b>

Base: All respondents who filed/paid the particular tax type in question (excluding missing information, but inclusive of outliers).  
Source: long survey questionnaire Q13a; short survey questionnaire Q5a.



**Table 5.5: Mean (trimmed) annual hours of internal time spent on tax type by business size**

Tax type	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)
GST	31.2 (275)	43.4 (360)	52.2 (245)	54.7 (172)
Income tax	18.9 (332)	21.9 (337)	26.4 (232)	36.1 (169)
PAYE	--- (33)	25.4 (338)	39.1 (254)	41.7 (180)
KiwiSaver	--- (8)	14.1 (186)	16.7 (197)	20.0 (162)
FBT	5.2 (9)	10.5 (61)	16.3 (81)	15.8 (117)

Base: All respondents who filed/paid the particular tax type in question (excluding missing information and outliers). Source: long survey questionnaire Q13a; short survey questionnaire Q5a.

## Internal time spent on specific tax activities by specific types of personnel

### Internal time on tax activities by different personnel groups

For each tax type, respondents were asked to estimate how many hours per month, on average, was spent by three different categories of personnel on business-related tax activities during the preceding 12 months period. These data have been converted into annualised hour figures and are detailed in Table 5.6 (means) and Table 5.7 (medians). A graphical representation of the trimmed means data is presented in Figure 5.4

One of the main findings is that the number of hours spent on tax increases as business size increases, and this increase is most marked for owners/partners/directors/trustees in “nil” and “micro” businesses, while the increase among paid employees is most marked between “small” and “medium” businesses.

Owners/partners/directors/trustees were the personnel group spending the most combined internal time on tax activities for all tax types ( $\bar{x}$  =52.5 hours), and contributing the most significantly to hours spent by “all personnel” total of ( $\bar{x}$  =74.9 hours). Paid employees were the personnel group which spent the second greatest amount of time across all tax activities ( $\bar{x}$  =16.5 hours), while the number of hours expended by unpaid friends or relatives was relatively negligible ( $\bar{x}$  =2.3 hours).

When viewed by median hours, owners/partners/ directors/trustees spent  $\bar{x}$  =30 hours, while the median hours spent by both paid employees and unpaid friends and family were both below zero.

Table 5.8 (means) and Table 5.9 (medians) detail the amount of time that different types of personnel spent on all tax activities by size of business (as defined in terms of number of employees). Figure 5.4 provides a graphical representation of the mean hours reported for each personal group by size of business.

What these data show is that the number of hours by owners/partners/directors/trustees increases significantly between “nil” and “micro” businesses (an increase of 19.4 hours), increases moderately between “micro” and “small” businesses (an increase of 6.5 hours), but decreases between “small” and “medium” businesses (a decrease of 28.6 hours). In contrast, the hours spent by paid employees increases significantly between “small” and “medium” businesses (an increase of 99.3 hours).

The median values, as presented in Table 5.9, further emphasise the difference in personnel spending time on tax activities between “small” and “medium” businesses, with the median hours of owners/partners/directors/trustees being 34 hours for “small” businesses and seven hours for “medium” businesses, while the median hours spent by employees was 16 and 82 hours respectively.

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

Personnel	GST	Income Tax	PAYE	KiwiSaver	FBT	All
Owners/partners/directors/trustees	28.0 (1,076)	16.3 (1,122)	14.8 (830)	7.7 (573)	4.3 (285)	52.5 (1,184)
Paid employees	6.7 (1,079)	2.9 (1,124)	9.8 (825)	6.7 (568)	4.2 (282)	16.5 (1,164)
Unpaid friends and relatives	1.2 (1,112)	0.8 (1,144)	1.4 (837)	0 (569)	0.1 (291)	2.3 (1,203)
<b>All personnel</b>	<b>37.1 (1,053)</b>	<b>20.6 (1,070)</b>	<b>25.8 (805)</b>	<b>14.9 (553)</b>	<b>11.4 (268)</b>	<b>74.9 (1,162)</b>

Base: All respondents who filed/paid the particular tax type in question (excluding missing information and outliers). Source: long survey questionnaire Q13b; short survey questionnaire Q5b.

Figure 5.5: Internal time spent on all tax activities by personnel by tax type

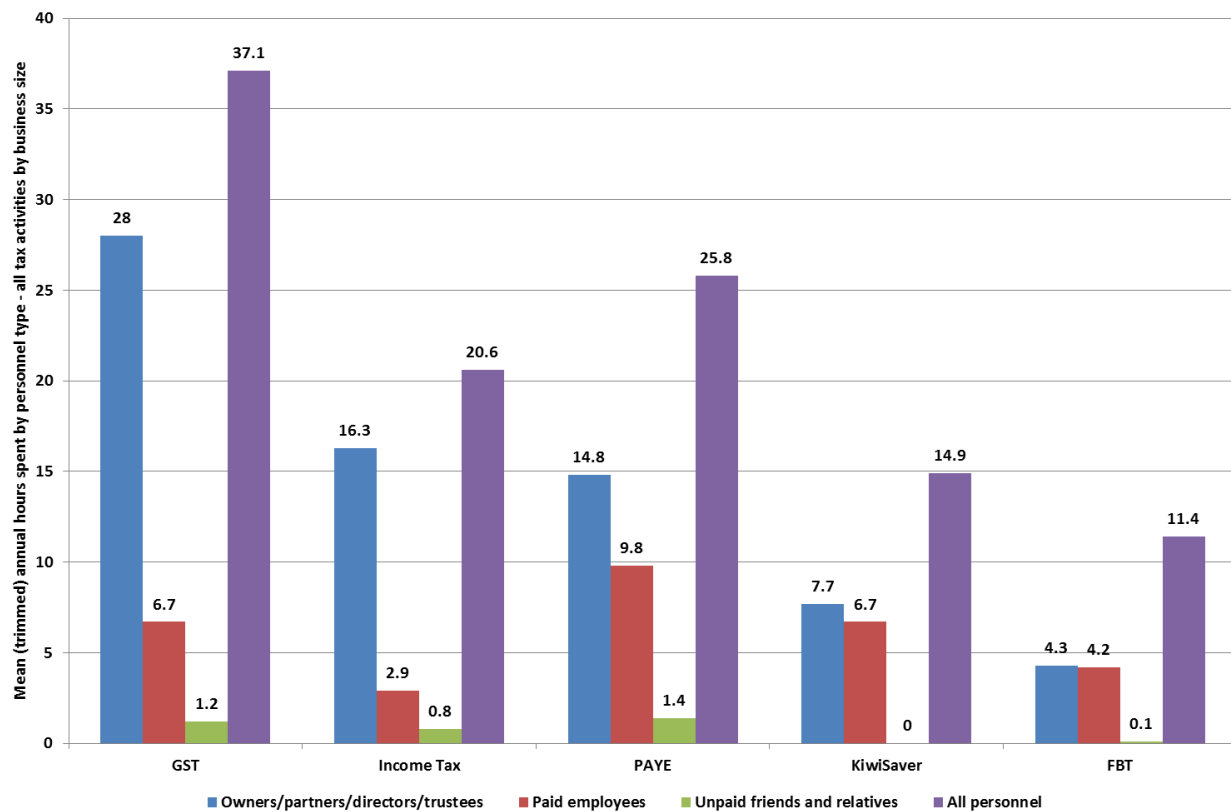


Table 5.7: Median annual hours of internal time spent by personnel on all tax activities by tax type

Personnel	GST	Income Tax	PAYE	KiwiSaver	FBT	All
Owners/partners/directors/trustees	18 (1,076)	8 (1,122)	6 (830)	3 (573)	1.6 (285)	30 (1,184)
Paid employees	0 (1,079)	0 (1,124)	0 (825)	0 (568)	0 (282)	0 (1,164)
Unpaid friends and relatives	0 (1,112)	0 (1,144)	0 (837)	0 (569)	0 (291)	0 (1,203)
<b>All personnel</b>	<b>24 (1,053)</b>	<b>12 (1,070)</b>	<b>14 (805)</b>	<b>10 (553)</b>	<b>7 (268)</b>	<b>40 (1,162)</b>

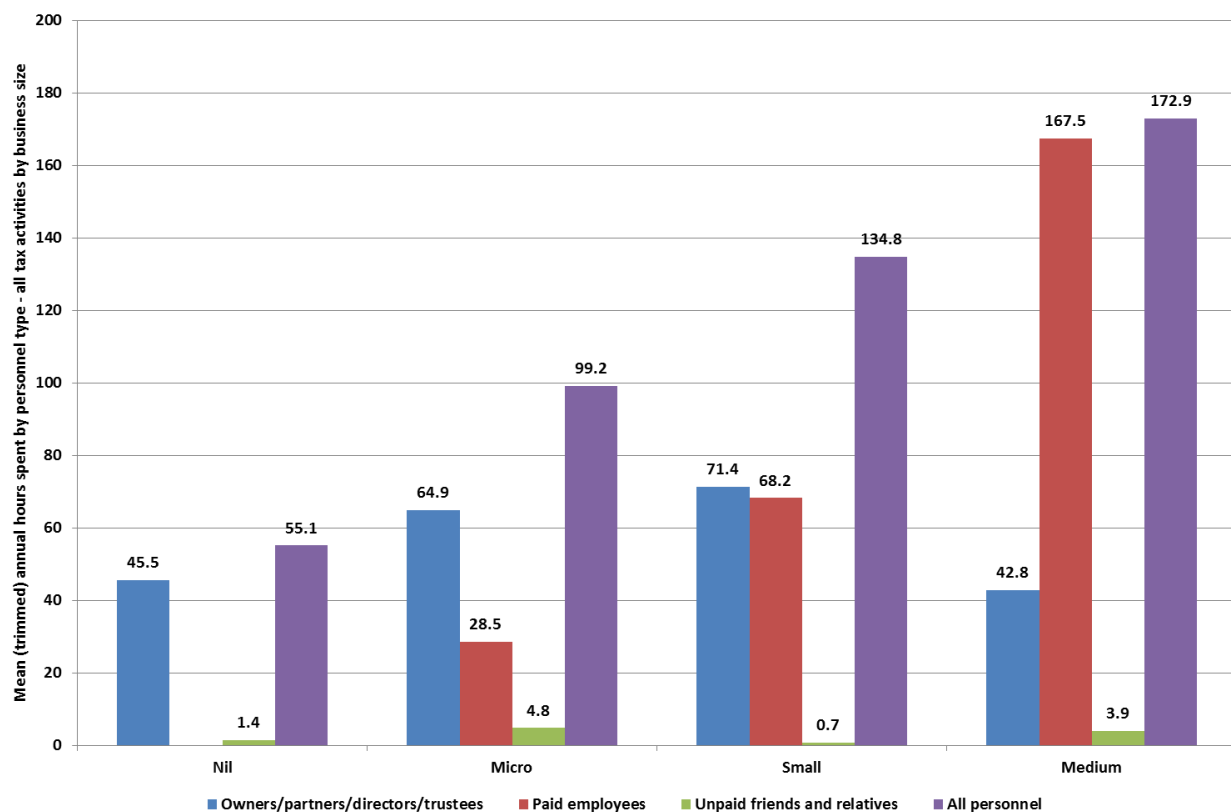
Base: All respondents who filed/paid the particular tax type in question (excluding missing information, but inclusive of outliers).

Source: long survey questionnaire Q13b; short survey questionnaire Q5b.

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

Personnel	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)
Owners/partners/directors/trustees	45.5 (362)	64.9 (379)	71.4 (256)	42.8 (186)
Paid employees	- (360)	28.5 (372)	68.2 (248)	167.5 (183)
Unpaid friends and relatives	1.4 (369)	4.8 (381)	0.7 (262)	3.9 (190)
<b>All personnel</b>	<b>55.1 (357)</b>	<b>99.2 (378)</b>	<b>134.8 (250)</b>	<b>172.9 (176)</b>

Base: All respondents who filed/paid the particular tax type in question (excluding missing information and outliers). Source: long survey questionnaire Q4 and Q13b; short survey questionnaire Q5c.

**Figure 5.6: Mean (trimmed) annual hours of internal time spent by all personnel on all tax activities by business size****Table 5.9: Median annual hours of internal time spent on all tax activities by business size and personnel group**

Personnel	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)
Owners/partners/directors/trustees	24 (362)	36 (379)	34 (256)	7 (186)
Paid employees	--- (356)	0 (372)	16 (248)	82 (183)
Unpaid friends and relatives	\$0 (369)	0 (381)	0 (262)	0 (190)
<b>All personnel</b>	<b>30 (357)</b>	<b>66 (378)</b>	<b>96 (250)</b>	<b>117 (176)</b>

Base: All respondents who filed/paid the particular tax type in question (excluding missing information, but inclusive of outliers). Source: long survey questionnaire Q4 and Q13b; short survey questionnaire Q5c.

## Section 6. Internal tax compliance costs: Income tax

This section describes the internal tax compliance costs associated with income tax.

### Internal tax compliance costs associated with income tax by personnel group

Table 6.1 provides a summary of the internal tax compliance costs for income tax. The first column details the internal time spent by various personnel groups (trimmed means), the second the estimated monetary compliance cost (time spent multiplied by the dollar value for that time) and the third column shows the percentage of overall tax compliance cost associated with the particular category of personnel.

On average, businesses report spending  $\bar{x}$ =20.5 hours on tax activities associated with income tax. This equates to \$1,116 per annum as a compliance cost. The majority of this cost is generated by owners, partners, directors and/or trustees  $\bar{x}$ =16.3 hours (\$995, 89 percent). This is in contrast to the comparable figures for paid employees, at  $\bar{x}$ =2.9 hours (\$80, seven percent).

**Table 6.1: Summary of internal income tax compliance costs**

Personnel	Mean (trimmed) hours	Compliance cost (\$)	% of overall compliance cost
Owners/partners/directors/trustees	16.3 (1,121)	\$995 (1,122)	89%
Paid employees	2.9 (1,124)	\$80 (1,124)	7%
Unpaid friends and relatives	0.8 (1,144)	\$30 (1,144)	3%
<b>All personnel</b>	<b>20.5 (1,071)</b>	<b>\$1,116 (1,104)</b>	

Base: All respondents who filed/paid the particular tax type in question (excluding missing information and outliers). Source: long survey questionnaire Q13b and Q13c; short survey questionnaire Q5a, Q5b, Q5c and Q5d.

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

### Internal time spent by different personnel groups by business size

Table 6.2 overleaf shows the internal time (mean trimmed annual hours) spent on income tax broken down by business size (number of employees) and by the different categories of personnel. The annualised number of hours spent by owners/partners/directors/trustees for businesses with “nil” employees is  $\bar{x}$ =17.1 hours,  $\bar{x}$ =14.2 hours for “micro” businesses, and  $\bar{x}$ =18.1 for “small” businesses, while paid employees’ hours do not contribute significantly to the total hours spent by businesses of those sizes.

In contrast, paid employees are the main contributor to the total of internal hours spent by “medium” businesses dealing with their income tax obligations ( $\bar{x}$ =30.7 hours, compared with 11.9 hours by owners/partners).

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

Personnel	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)
Owners/partners/directors/trustees	17.1 (345)	14.2 (354)	18.1 (243)	11.9 (179)
Paid employees	0.4 (353)	5.5 (358)	8 (237)	30.7 (175)
Unpaid friends and relatives	0.7 (353)	1.2 (362)	0.2 (246)	0.6 (182)
<b>All personnel</b>	<b>18.8 (333)</b>	<b>21.9 (337)</b>	<b>26.4 (232)</b>	<b>36.1 (169)</b>

Base: All respondents who filed/paid income tax (excluding missing information, and of outliers). Source: long survey questionnaire Q4 and Q13b; short survey questionnaire Q5a, Q5b and Q5c.

### Annualised internal compliance costs in dollars for income tax related activities

As shown in Table 6.3, when converted to dollars, the mean annual internal compliance cost for income tax for “nil” and “micro” businesses are similar (\$1,089 and \$1,079, respectively), but income tax costs increase incrementally for “small” (\$1,374) and “medium” businesses (\$1,529).

Reflecting the respective hours contributed by each personnel group, the annualised costs are greatest for owners/partners/ directors/trustees, with the exception of “medium” businesses.

Figure 6.1 shows the markedly different pattern of internal costs by personnel group for medium sized businesses, particularly compared to businesses other sized businesses. However, as noted above, for all owners, compliance costs comprise the largest dollar amounts for “nil”, “micro” and “small” businesses.

**Table 6.3: Mean trimmed annual internal tax compliance costs spent by personnel groups on income tax by business size**

Personnel	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)
Owners/partners/directors/trustees	\$1,043 (345)	\$865 (354)	\$1,104 (243)	\$725 (179)
Paid employees	--- (353)	\$153 (358)	\$224 (237)	\$861 (175)
Unpaid friends and relatives	\$27 (353)	\$46 (362)	\$9 (246)	\$21 (182)
<b>All personnel</b>	<b>\$1,089 (343)</b>	<b>\$1,079 (349)</b>	<b>\$1,374 (236)</b>	<b>\$1,529 (175)</b>

Base: All respondents who filed/paid income tax (excluding missing information, and of outliers). Source: long survey questionnaire Q4, Q13b and Q13c; short survey questionnaire Q5a, Q5b, Q5c and Q5d.

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

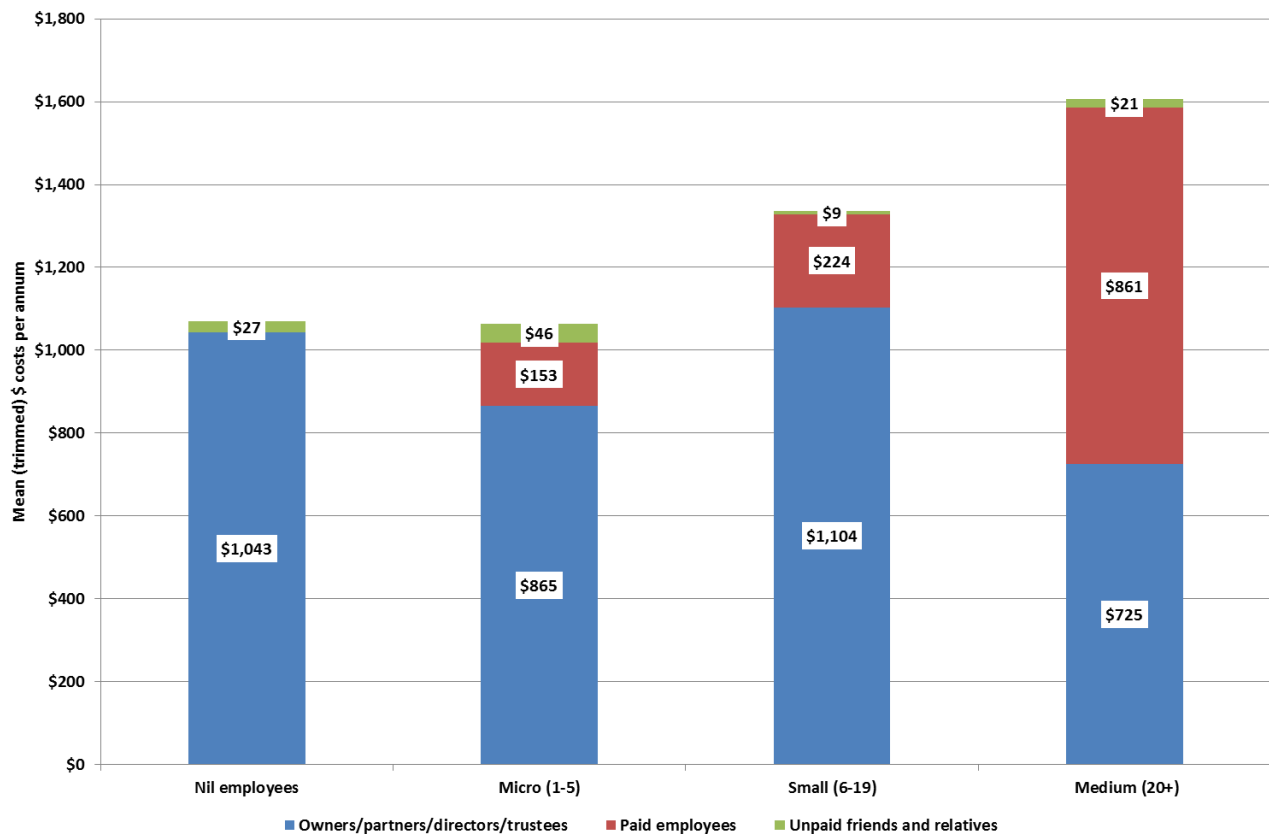


Table 6.4 shows the internal costs of income tax analysed by whether or not the business uses a Tax Advisor for income tax purposes by personnel group. When comparing businesses that use a Tax Advisor, the internal compliance costs for income tax associated with owners/partners/directors/trustees are lower than for those who do not use a Tax Advisor.

Table 6.5 provides a breakdown by business size for businesses that use a Tax Advisor and those that do not, while Figure 6.2 provides a graphical representation of these data.

Notably the differences between total internal costs associated with income tax are greatest between “nil” and “micro” businesses, with such businesses reporting spending the equivalent of  $\bar{x} = \$194$  and  $\bar{x} = \$233$  less internal time, respectively, if they use a Tax Advisor. Similarly, “small” businesses that use a Tax Advisor reported spending the equivalent of  $\bar{x} = \$144$  less. While the survey results suggest that “medium” businesses that use a Tax Advisor reported spending the equivalent of  $\bar{x} = \$146$  more than those that do not, the observed difference is not statistically significant due to the small sub-sample of “medium” businesses that said they did not use a Tax Advisor.

**Table 6.4: Mean trimmed annual internal tax compliance costs spent by personnel groups on income tax by use of a tax advisor**

Personnel	Use tax advisor	Do not use tax advisor
Owners/partners/directors/trustees	\$966 (932)	\$1,127 (185)
Paid employees	\$84 (932)	\$61 (187)
Unpaid friends and relatives	\$21 (951)	\$69 (188)
<b>All personnel</b>	<b>\$1,081 (917)</b>	<b>\$1,273 (182)</b>

Base: All respondents who filed/paid income tax (excluding missing information, and of outliers). Source: long survey questionnaire Q9a, Q9b, Q13b and Q13c; short survey questionnaire Q3, Q5a, Q5b, Q5c and Q5d.

**Table 6.5: Mean trimmed annual internal tax compliance costs spent on income tax by business size and use of a tax advisor**

Business size (number of employees)	Use tax advisor	Do not use tax advisor
Nil employees	\$1,049 (273)	\$1,243 (70)
Micro (1-5)	\$1,050 (299)	\$1,283 (48)
Small (6-19)	\$1,346 (190)	\$1,490 (44)
Medium (20+)	\$1,548 (154)	\$1,402 (20)
<b>All SMEs</b>	<b>\$1,081 (917)</b>	<b>\$1,273 (182)</b>

Base: All respondents who filed/paid income tax (excluding missing information, and of outliers). Source: long survey questionnaire Q4, Q9a, Q9b, and Q13b; short survey questionnaire Q3, Q5a, Q5c and Q7a.

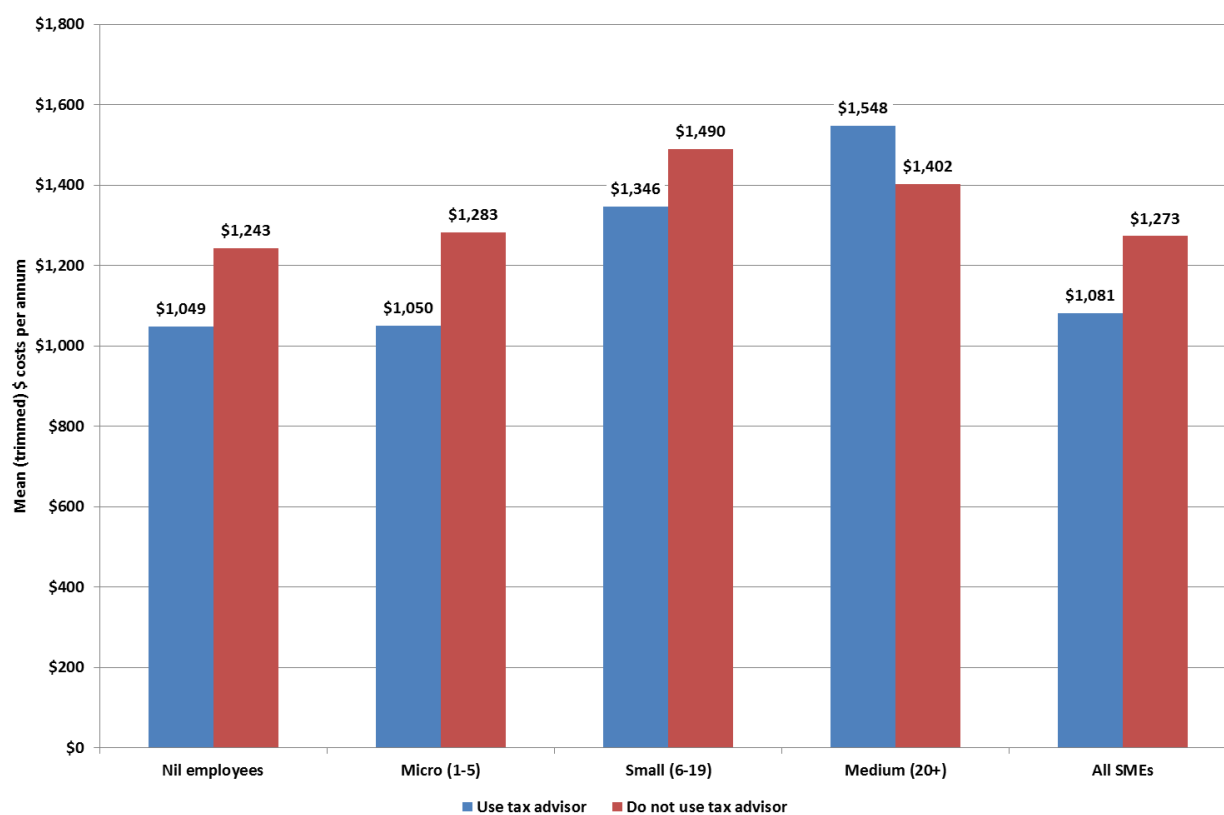
**Figure 6.2 Annual internal tax compliance costs (\$) for income tax by business size and use of a tax advisor**



Table 6.6 summarises the mean (trimmed) internal tax compliance costs in relation to income tax by business size, as determined by annual turnover. Actual costs range from \$796 for businesses with annual turnovers of less than \$40,000 to \$1,575 for businesses with annual turnovers between \$500,000 and \$1,299,999.

The table shows that mean tax compliance costs as a percentage of turnover decreases markedly as turnover increases. For example, total internal tax compliance costs for businesses in 2013 represent the equivalent of 2.3 percent of the 2012 mean turnover of businesses earning less than \$40,000 per year. The equivalent figure for businesses with annual turnovers of between \$40,000 and \$99,999 is 1.7 percent.

**Table 6.6: Mean trimmed annual internal tax compliance costs spent on income tax by annual turnover**

Turnover	Mean (trimmed) compliance costs	Mean compliance costs as a percent of turnover
Less than \$40,000 (mean in turnover range = \$34,445.76)^	\$796 (107)	2.3%
\$40,000 - \$99,999 (mean in range = \$64,901.75)	\$1,091 (166)	1.7%
\$100,000 - \$249,999 (mean in range = \$160,719.72)	\$1,022 (178)	0.6%
\$250,000 - \$499,999 (mean in range = \$354,418.44)	\$1,319 (127)	0.4%
\$500,000 – 1,299,999 (mean in range = \$805,792.03)	\$1,575 (160)	0.2%
\$1.3 million – less than \$5 million (mean in range = \$2,218,756.12)	\$1,382 (88)	0.1%
\$5 million and over (mean in range = \$13,882,938.54)	\$1,137 (276)	0.0%

Base: All respondents who filed/paid income tax (excluding missing information, and of outliers). Source: long survey questionnaire Q4, Q13b and Q19; short survey questionnaire Q5a, Q5c and Q9.

^Note: Mean turnover data is based on IRD 2012 tax year data.

## Stress associated with provisional tax compliance

Respondents were asked to indicate on a seven-point scale, where 1=Not at all stressful and 7=Extremely stressful, how stressful meeting their tax obligations for provisional tax during the last 12 months (including finding the money). Table 6.7 provides details of the percentage of respondents reporting each level of stress by business size and overall. Table 6.8 details the mean reported levels by business size and age of business respectively.

Overall, 22 percent of respondents reported that there was *no stress* related with provisional tax compliance, while at the other extreme, seven percent reported that provisional tax compliance had been *extremely stressful*. Between these two extremes, 57 percent of respondents reported that provisional tax compliance had been *less than moderately stressful* (i.e. a rating of 1, 2 or 3); while a further 18 percent reported it as *moderately stressful* (a rating of 4).

Figure 6.3 displays combined percentages across three bands:

- Less than moderately stressful (rating of 1, 2 or 3)
- Moderately stressful (rating of 4)
- More than moderately stressful (rating of 5, 6 or 7).

The combined percentage reporting *more than moderately stressful* is lowest for those SMEs with 20 plus employees (17 percent) and those with no employees (21 percent).

Relatedly and as detailed in the figure, the combined percentage of respondents reporting that compliance is *less than moderately stressful* is highest among businesses with 20 plus employees while being lowest for those with 1-5 employees.

Mean stress cores by business size and age of the business are detailed in Table 6.8, allowing one to test the hypothesis that relatively younger SMEs may find provisional tax compliance (including finding the money) more stressful than do more established SMEs.

While the results suggest this may be the case for businesses that have been trading for 1-2 years, the observed differences is not statistically significant.

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

Level of reported stress	Nil employees (n=289)	Micro (1-5) (n=307)	Small (6-19) (n=205)	Medium (20+) (n=161)	All (n=963)
1 (not at all stressful)	24%	17%	16%	17%	22%
2	21%	21%	18%	21%	21%
3	17%	11%	17%	25%	15%
4 (moderately stressful)	18%	19%	18%	19%	18%
5	8%	14%	12%	8%	10%
6	7%	12%	8%	7%	8%
7 (highly stressful)	6%	8%	12%	2%	7%

Base: All respondents who filed/paid income tax (excluding those who indicated 'not applicable'). Source: long survey questionnaire Q4 and Q23; short survey questionnaire Q13.

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

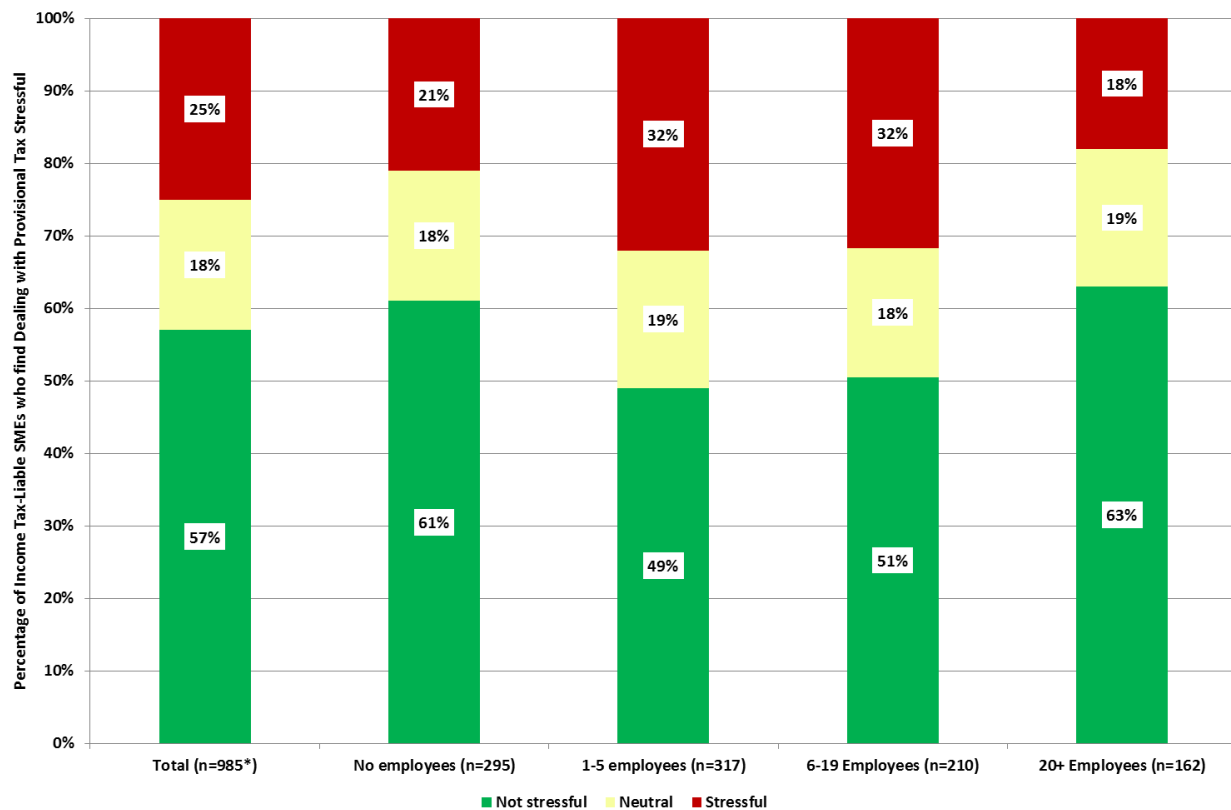


Table 6.8: Mean stress score associated with provisional tax compliance by business size and age of business

Age of business	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)	All
Less than 1 year	--- (5)	--- (1)	--- (5)	--- (1)	--- (12)
1-2 years	3.4 (20)	--- (17)	--- (9)	--- (6)	3.5 (52)
3-5 years	3.1 (50)	3 (47)	--- (15)	--- (9)	3.1 (121)
6-10 years	3.1 (65)	3.4 (60)	4.1 (36)	3.3 (16)	3.3 (177)
10 years +	3.0 (147)	3.8 (181)	3.6 (140)	3.1 (128)	3.3 (597)
All	3.1 (289)	3.6 (307)	3.6 (205)	3.1 (161)	3.2 (963)

Base: All respondents who filed/paid income tax (excluding those who indicated 'not applicable'). Source: long survey questionnaire Q4, Q20 and Q23; short survey questionnaire Q11 and Q13.

Note: mean scores for cells with fewer than 20 respondents have been suppressed.

## Section 7. Internal tax compliance costs: GST

This section describes the internal tax compliance costs associated with GST.

### Internal tax compliance costs associated with GST by personnel group

Table 7.1 provides a summary of the internal tax compliance costs for income tax. The first column details the internal time spent by various personnel groups (trimmed means), the second the estimated monetary compliance cost (time spent multiplied by the dollar value for that time) and the third column shows the percentage of overall tax compliance cost associated with the particular category of personnel.

On average, businesses report spending 37.1 hours on tax activities associated with GST. This equates to \$2,027 per annum as a compliance cost. As was the case for income tax, the majority of this cost is spent by owners/ partners/ directors/trustees  $\bar{x}$  =28.0 hours (\$1,711, 84 percent). This is in contrast to the comparable figures for paid employees  $\bar{x}$  =6.7 hours (\$187, nine percent).

**Table 7.1: Summary of GST tax compliance costs**

Personnel	Mean (trimmed) hours	Compliance cost (\$)	% of overall compliance cost
Owners/partners/directors/trustees	28.0 (1,076)	\$1,711 (1,076)	84%
Paid employees	6.7 (1,079)	\$187 (1,079)	9%
Unpaid friends and relatives	1.2 (1,112)	\$46 (1,112)	2%
<b>All personnel</b>	<b>37.1 (1,053)</b>	<b>\$2,027 (1,067)</b>	

Base: All respondents who filed/paid the particular tax type in question (excluding missing information and outliers). Source: long survey questionnaire Q13b and Q13c.

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

### Internal time spent by different personnel groups by business size

Table 7.2 shows the internal time (mean trimmed annual hours) spent on GST broken down by business size (number of employees) and by the different categories of personnel. The annualised number of hours spent by owners/partners, etc. for “nil”, “micro” and “small” businesses are quite similar (between  $\bar{x}$  =26.6 and  $\bar{x}$  =28.5), while the hours reported by “medium” businesses for owners/partners etc. are significantly lower  $\bar{x}$  =13.3 hours.

In contrast, “medium” businesses reported the highest number of internal hours by paid employees  $\bar{x}$  =42.4, compared with  $\bar{x}$  =26.5 hours for “small” businesses and  $\bar{x}$  =9.9 hours for “micro” businesses.

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

Personnel	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)
Owners/partners/directors/trustees	28.5 (281)	28.4 (362)	26.6 (249)	13.3 (183)
Paid employees	- (286)	9.9 (366)	26.5 (251)	42.4 (175)
Unpaid friends and relatives	0.9 (288)	2 (373)	0.2 (261)	2 (189)
<b>All personnel</b>	<b>31.2 (275)</b>	<b>43.4 (360)</b>	<b>52.2 (245)</b>	<b>54.7 (172)</b>

Base: All respondents who filed/paid income tax (excluding missing information, and of outliers). Source: long survey questionnaire Q4 and Q13b.

### Annualised internal tax compliance costs in dollars for GST tax related activities

As shown in Table 7.3, when converted to dollars, the mean annual internal tax compliance cost for GST generally increases as business size increases, with the largest incremental change in total costs being between businesses with nil employees and those having 1-5 employees (an increase of \$423 dollars on average).

When viewed by personnel group, the annualised costs resulting from paid employee time is greater the larger the business. For example, “micro” businesses reported internal GST-related costs of \$278 for paid employees, compared with \$743 for “small” and \$1,189 for “medium” businesses. In contrast, the costs associated with owners’ time dealing with GST among “medium” businesses (\$813), was roughly half that spent by smaller businesses.

**Table 7.3: Mean trimmed annual internal tax compliance costs spent by personnel groups on GST by business size**

Personnel	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)
Owners/partners/directors/trustees	\$1,742 (281)	\$1,733 (362)	\$1,627 (249)	\$813 (183)
Paid employees	- (286)	\$278 (366)	\$743 (251)	\$1,189 (175)
Unpaid friends and relatives	\$36 (288)	\$76 (373)	\$6 (261)	\$77 (189)
<b>All personnel</b>	<b>\$1,835 (277)</b>	<b>\$2,258 (362)</b>	<b>\$2,481 (250)</b>	<b>\$2,277 (177)</b>

Base: All respondents who filed/paid income tax (excluding missing information, and of outliers). Source: long survey questionnaire Q4, Q13b and Q13c.

Figure 7.1 overleaf shows the markedly different pattern of internal costs by personnel group for medium sized businesses, particularly compared to businesses with 1-5 employees. However, as noted above, for all owners, tax compliance costs comprise the largest dollar amounts for “nil”, “micro” and “small” businesses.

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

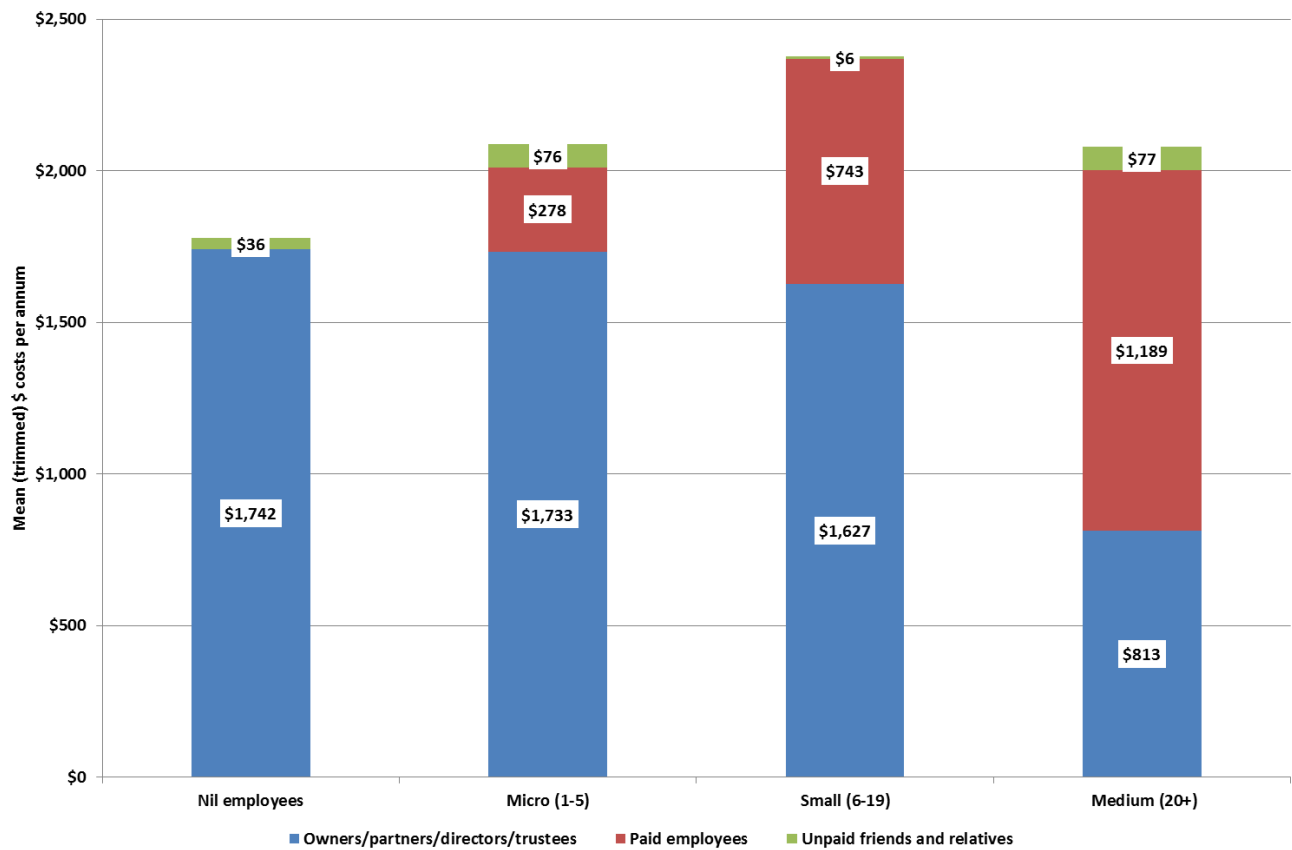


Table 7.4 shows the internal tax compliance costs of GST analysed by whether or not the business uses a Tax Advisor for income tax purposes by personnel group. Table 7.5 provides a breakdown by business size for businesses that use a Tax Advisor and those that do not, while Figure 7.2 provides a graphical representation of these data.

Notably, there are no significant differences in internal tax compliance costs, between businesses that do and do not use a Tax Advisor, at either an “all” personal level, or when viewed by personnel type.

When viewed by business size, the results suggest that “nil” and “micro” businesses that use Tax Advisors have slightly lower internal costs, but the observed difference is not statistically significant, due to the relatively small sub-samples of “nil” and “micro” businesses that do not use Tax Advisors.

The results also suggest that “small” and “medium” businesses that use Tax Advisors have higher costs on average, but again the observed differences are indicative only, and should be treated with some caution due to the relatively small number of such businesses reporting they do not use a Tax Advisor.

**Table 7.4: Mean trimmed annual internal tax compliance costs spent by personnel groups on GST by use of a Tax Advisor**

Personnel	Use tax advisor	Do not use tax advisor
Owners/partners/directors/trustees	\$1,704 (888)	\$1,757 (182)
Paid employees	\$185 (887)	\$189 (186)
Unpaid friends and relatives	\$43 (918)	\$59 (188)
<b>All personnel</b>	<b>\$2,028 (877)</b>	<b>\$2,037 (184)</b>

Base: All respondents who filed/paid income tax (excluding missing information, and of outliers). Source: long survey questionnaire Q9a, Q9b, Q13b and Q13c.

**Table 7.5: Mean trimmed annual internal tax compliance costs spent on GST by business size and use of a Tax Advisor**

Business size (number of employees)	Use tax advisor	Do not use tax advisor
Nil employees	\$1,811 (223)	\$1,928 (54)
Micro (1-5)	\$2,257 (304)	\$2,332 (55)
Small (6-19)	\$2,593 (197)	\$2,095 (51)
Medium (20+)	\$2,364 (152)	\$1,739 (24)
All SMEs	\$2,028 (877)	\$2,037 (184)

Base: All respondents who filed/paid income tax (excluding missing information, and of outliers). Source: long survey questionnaire Q4, Q9a, Q9b, and Q13b.

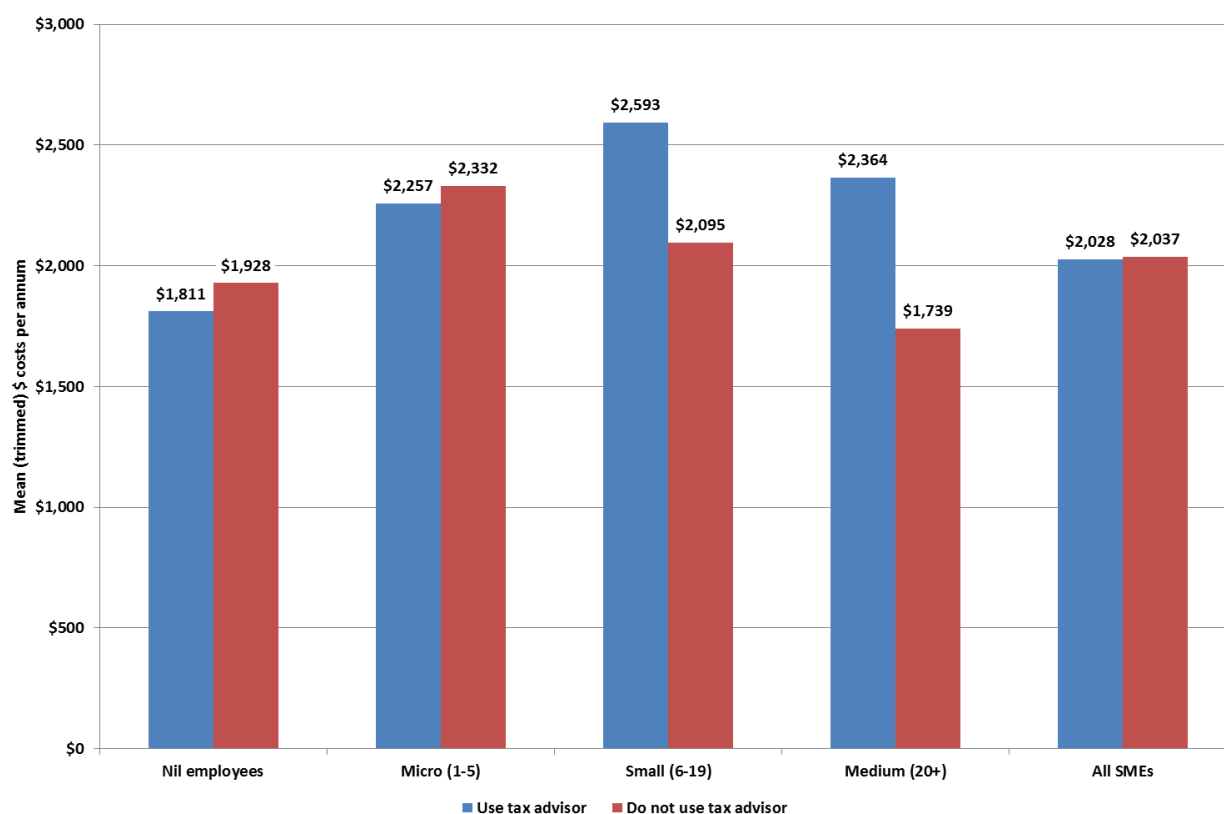
**Figure 7.2 Annual internal tax compliance costs (\$) for GST by business size and use of a Tax Advisor**

Table 7.6 summarises the mean (trimmed) internal compliance costs in relation to GST by business size, as determined by annual turnover. Actual costs range from \$1,536 for businesses with annual turnovers of less than \$40,000 to \$2,592 for businesses with annual turnovers of \$1.3 – less than \$5 million.

While internal tax compliance costs generally trend upward the greater a business's turnover, mean tax compliance costs as a percentage of mean turnover decrease markedly as turnover increases. For example, the internal costs associated with GST for businesses with turnovers of less than \$40,000 represent 4.5 percent of such businesses total annual turnover on average, while this decreases to 2.7 percent for businesses with annual turnovers between \$40,000 and \$99,999 and 1.3 percent for businesses with annual turnovers between \$100,000 and \$249,999.

**Table 7.6: Mean trimmed annual internal tax compliance costs spent on GST by annual turnover**

Turnover	Mean (trimmed) compliance costs	Mean compliance costs as a percent of turnover
Less than \$40,000 (mean in turnover range = \$34,445.76)	\$1,536 (76)	4.5%
\$40,000 - \$99,999 (mean in range = \$64,901.75)	\$1,778 (148)	2.7%
\$100,000 - \$249,999 (mean in range = \$160,719.72)	\$2,034 (174)	1.3%
\$250,000 - \$499,999 (mean in range = \$354,418.44)	\$2,465 (129)	0.7%
\$500,000 – 1,299,999 (mean in range = \$805,792.03)	\$2,229 (164)	0.3%
\$1.3 million – less than \$5 million (mean in range = \$2,218,756.12)	\$2,592 (96)	0.1%
\$5 million and over (mean in range = \$13,882,938.54)	\$2,415 (280)	0.0%

Base: All respondents who filed/paid income tax (excluding missing information, and of outliers). Source: long survey questionnaire Q4, Q13b and Q19.

### Stress associated with GST tax compliance

Respondents were asked to indicate on a seven-point scale, where 1=Not at all stressful and 7=Extremely stressful, how stressful it was during the last 12 months meeting their tax obligations for GST (including finding the money). Table 7.7 provides details of the percentage of respondents reporting each level of stress by business size and overall. Table 7.8 details the mean reported levels by business size and age of business respectively.

Overall, 19 percent of respondents reported that there was *no stress* related with GST compliance, while at the other extreme, just five percent reported that GST compliance had been *extremely stressful*. Between these two extremes, 56 percent of respondents reported that GST compliance had been *less than moderately stressful* (i.e. a rating of 1, 2 or 3); while a further 21 percent reported it as being *moderately stressful* (a rating of 4).

Figure 7.3 displays combined percentages across three bands:

- Less than moderately stressful (rating of 1, 2 or 3)
- Moderately stressful (rating of 4)
- More than moderately stressful (rating of 5, 6 or 7).

As detailed in the figure, the combined percentage of respondents reporting that compliance is *more than moderately stressful* is highest among businesses with 6-9 employees (37 percent) and those with 1-5 plus employees (32 percent).

At 46 percent, businesses with 1-5 employees are also less likely to report it as being *less than moderately stressful*.

Mean stress cores by business size and age of the business are provided in Table 7.8. As detailed in the table, small businesses reported higher stress levels overall (a rating of  $\bar{x}$ =3.7) than did all GST-liable SMEs.

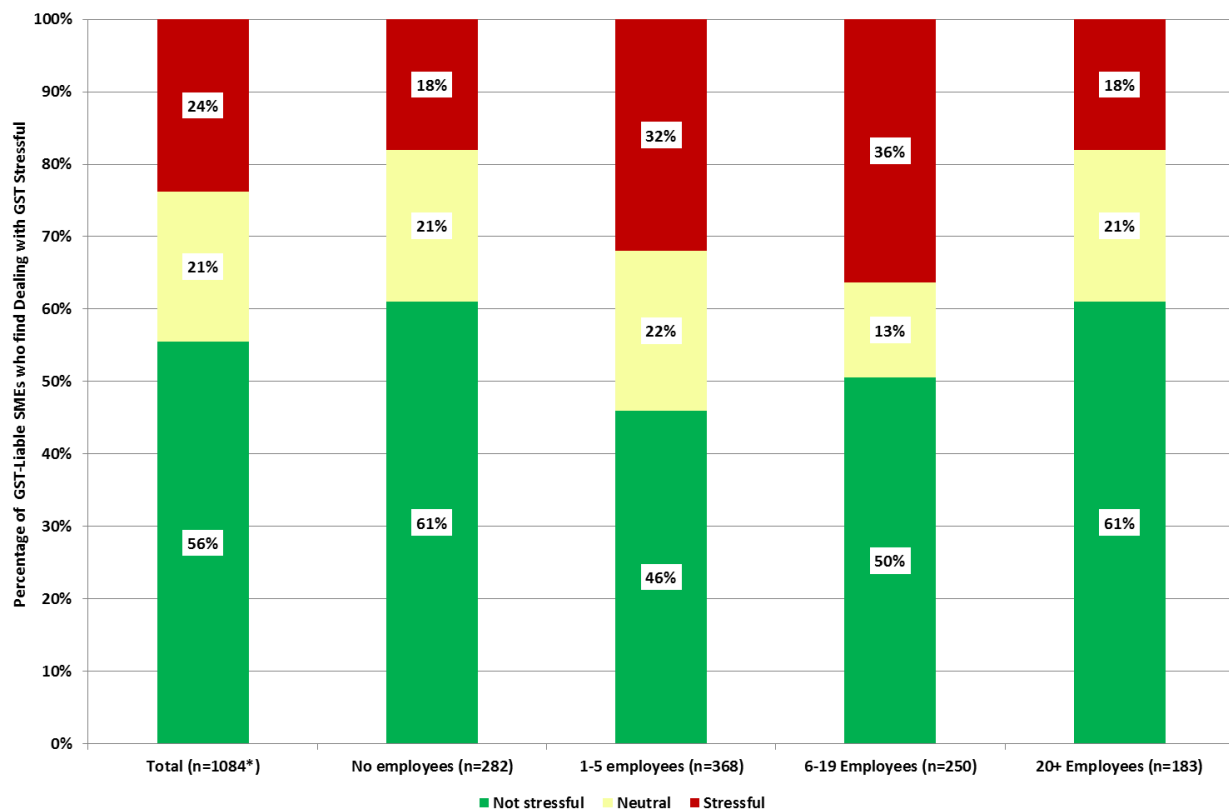
However, when viewed by age of businesses, there were no significant differences in mean stress levels.



**Table 7.7: Percentage of respondents reporting levels of stress associated with GST compliance by business size**

Level of reported stress	Nil employees (n=280)	Micro (1-5) (n=365)	Small (6-19) (n=250)	Medium (20+) (n=183)	All (n=1,079)
1 (not at all stressful)	23%	13%	12%	20%	19%
2	20%	20%	19%	23%	20%
3	18%	13%	19%	17%	16%
4 (moderately stressful)	21%	22%	13%	21%	21%
5	8%	14%	15%	3%	10%
6	6%	12%	11%	8%	8%
7 (highly stressful)	4%	6%	10%	7%	5%

Base: All respondents who filed/paid GST excluding those who indicated 'not applicable'. Source: long survey questionnaire Q4 and Q22.

**Figure 7.3 Percentage of respondents reporting banded levels of stress related to GST by business size**

**Table 7.8: Mean stress score associated with GST tax compliance by business size and age of business**

Age of business	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)	All
Less than 1 year	--- (5)	--- (3)	--- (6)	--- (2)	--- (16)
1-2 years	3.1 (22)	4.2 (23)	--- (12)	--- (6)	3.4 (63)
3-5 years	3.1 (51)	3.5 (57)	--- (19)	--- (9)	3.2 (136)
6-10 years	3.1 (68)	3.4 (76)	4.4 (47)	3.9 (18)	3.3 (209)
10 years +	3.1 (133)	3.7 (203)	3.7 (165)	3.0 (147)	3.3 (649)
<b>All</b>	<b>3.1 (280)</b>	<b>3.6 (365)</b>	<b>3.7 (250)</b>	<b>3.2 (183)</b>	<b>3.3 (1,079)</b>

Base: All respondents who filed/paid GST excluding those who indicated 'not applicable'. Note mean scores for cells with fewer than 20 respondents have been suppressed. Source: long survey questionnaire Q4, Q20 and Q22.

## Section 8. Internal compliance costs: PAYE

This section describes the internal tax compliance costs associated with PAYE.

### Internal tax compliance costs associated with PAYE by personnel group

Table 8.1 provides a summary of the internal tax compliance costs for PAYE. The first column details the internal time spent by various personnel groups (trimmed means), the second the estimated monetary compliance cost (time spent multiplied by the dollar value for that time) and the third column shows the percentage of overall tax compliance cost associated with the particular category of personnel.

On average, businesses report spending 25.8 hours on tax activities associated with PAYE. This equates to \$1,099 per annum as a compliance cost. The majority of this cost is spent by owners/partners/directors/trustees  $\bar{x}$  = 14.8 hours (\$802, 73 percent). This is in contrast to the comparable figures for paid employees  $\bar{x}$  = 9.8 hours (\$243, 22 percent).

**Table 8.1: Summary of PAYE tax compliance costs**

Personnel	Mean (trimmed) hours	Compliance cost (\$)	% of overall compliance cost
Owners/partners/directors/trustees	14.8 (830)	\$802 (861)	73%
Paid employees	9.8 (825)	\$243 (855)	22%
Unpaid friends and relatives	1.4 (837)	\$47 (867)	4%
<b>All personnel</b>	<b>25.8 (805)</b>	<b>\$1,099 (843)</b>	

Base: All respondents who filed/paid the particular tax type in question (excluding missing information and outliers). Source: long survey questionnaire Q13b and Q13c.

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

### Internal time spent by different personnel groups by business size

Table 8.2 shows the internal time (mean trimmed annual hours) spent on PAYE broken down by business size (number of employees) and by the different categories of personal. The annualised number of hours spent by owners/partners etc., for businesses with 1-5 employees is  $\bar{x}$  = 16.4 hours, while owners/partners etc., in businesses with 6-19 employees reported spending  $\bar{x}$  = 20.2 hours on PAYE.

In contrast, owners/partners etc., of “medium” businesses reported spending significantly fewer hours ( $\bar{x}$  = 7.2) with most of the internal hours on PAYE being spent by employees ( $\bar{x}$  = 37.5).

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

Personnel	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)
Owners/partners/directors/trustees	---	16.4 (349)	20.2 (258)	7.2 (187)
Paid employees	---	7.0 (350)	19.4 (255)	37.5 (184)
Unpaid friends and relatives	---	2.1 (354)	0.2 (258)	1.2 (189)
<b>All personnel</b>	---	<b>25.4 (338)</b>	<b>39.1 (254)</b>	<b>41.7 (180)</b>

Base: All respondents who filed/paid income tax (excluding missing information, and of outliers). Source: long survey questionnaire Q4 and Q13b.

### Annualised internal tax compliance costs in dollars for PAYE tax related activities

As shown in Table 8.3, when converted to dollars, the mean annual internal tax compliance cost for PAYE increases for “small” and “medium” businesses (\$1,798 and \$1,731) are much greater than PAYE internal costs for “micro” businesses (\$1,241).

When viewed by personnel group, the annualised costs are greatest among owners/partners/ directors/trustees of “micro” (\$985) and “small” (\$1,237) businesses. In contrast, the annualised costs for owners/partners, etc. of “medium” businesses are significantly lower (\$438 on average).

The survey findings also indicate that the annualised internal tax compliance costs for PAYE, associated with paid employee time, increase significantly the larger the business.

**Table 8.3: Mean trimmed annual internal tax compliance costs spent by personnel groups on PAYE by business size**

Personnel	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)
Owners/partners/directors/trustees	-	\$985 (354)	\$1,237 (258)	\$438 (187)
Paid employees	-	\$195 (354)	\$542 (255)	\$1,051 (184)
Unpaid friends and relatives	-	\$79 (358)	\$9 (258)	\$47 (189)
<b>All personnel</b>	-	<b>\$1,241 (345)</b>	<b>\$1,798 (254)</b>	<b>\$1,731 (184)</b>

Base: All respondents who filed/paid income tax (excluding missing information, and of outliers). Source: long survey questionnaire Q4, Q13b and Q13c.

Figure 8.1 overleaf shows the markedly different pattern of internal costs by personnel group for medium sized businesses, particularly compared to businesses with 1-5 employees. However, as noted above, owners' compliance costs comprise the largest dollar amounts for SMEs as a whole.

Figure 8.1 Annual internal tax compliance costs (\$) for PAYE by business size and personnel group

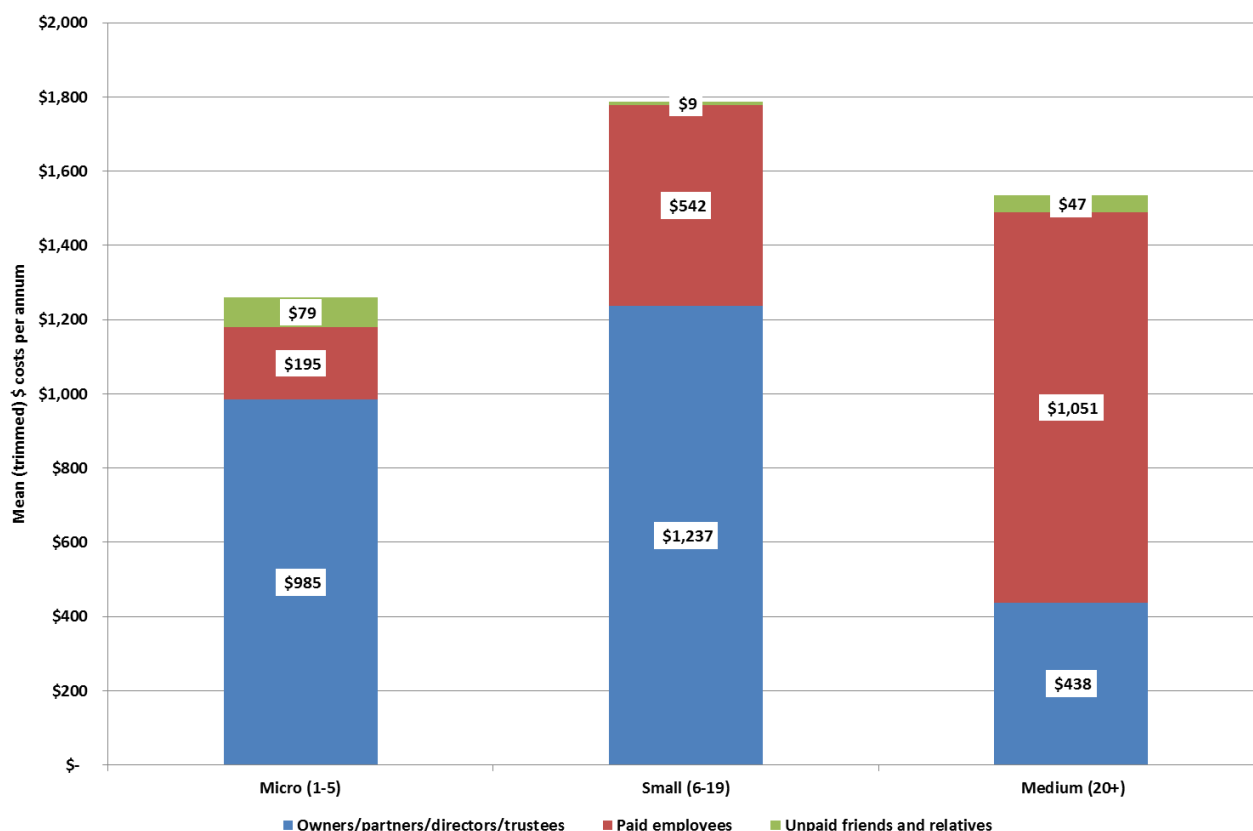


Table 8.4 shows the internal costs of PAYE analysed by whether or not the business uses a Tax Advisor for PAYE purposes by personnel group. Table 8.5 provides a breakdown by business size for businesses that use a Tax Advisor and those that do not, while Figure 8.2 provides a graphical representation of these data.

Notably the internal compliance costs for businesses that do not use a Tax Advisor are higher than for those that do, when viewed by personnel type, as well as business size.

**Table 8.4: Mean trimmed annual internal tax compliance costs spent by personnel groups on PAYE by use of a tax advisor**

Personnel	Use tax advisor	Do not use tax advisor
Owners/partners/directors/trustees	\$737 (720)	\$1,213 (135)
Paid employees	\$233 (714)	\$309 (135)
Unpaid friends and relatives	\$24 (726)	\$195 (135)
<b>All personnel</b>	<b>\$1,023 (704)</b>	<b>\$1,589 (133)</b>

Base: All respondents who filed/paid income tax (excluding missing information, and of outliers). Source: long survey questionnaire Q9a, Q9b, Q13b and Q13c.

**Table 8.5: Mean trimmed annual internal tax compliance costs spent on PAYE by business size and use of a Tax Advisor**

Business size (number of employees)	Use tax advisor	Do not use tax advisor
Nil employees	\$170 (55)	\$304 (5)
Micro (1-5)	\$1,198 (293)	\$1,548 (49)
Small (6-19)	\$1,679 (200)	\$2,220 (52)
Medium (20+)	\$1,685 (156)	\$1,988 (27)
All SMEs	\$1,023 (704)	\$1,589 (133)

Base: All respondents who filed/paid income tax (excluding missing information, and of outliers). Source: long survey questionnaire Q4, Q9a, Q9b, and Q13b.

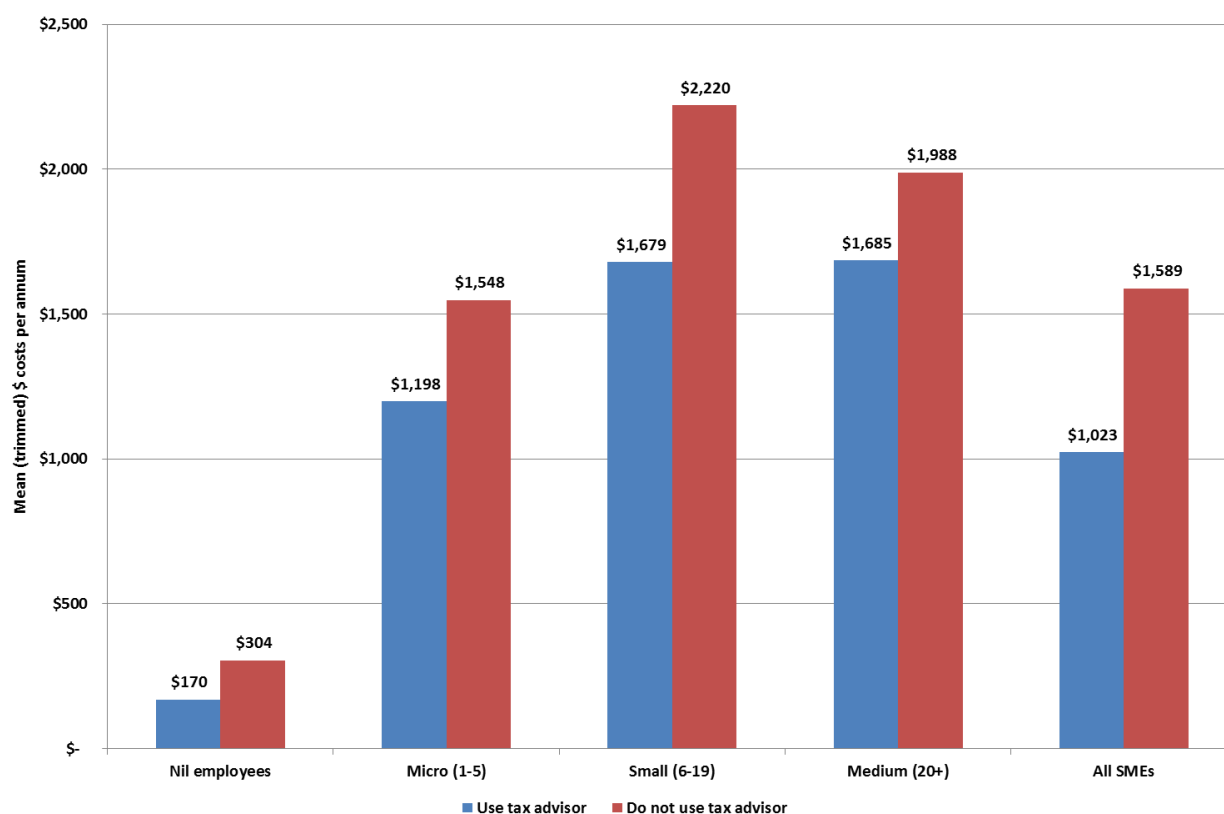
**Figure 8.2 Annual internal tax compliance costs (\$) for PAYE by business size and use of a Tax Advisor**

Table 8.6 summarises the mean (trimmed) internal tax compliance costs in relation to PAYE by business size, as determined by annual turnover.

Actual costs range from \$579 for businesses with annual turnovers of between \$40,000 and \$99,999 to \$1,892 for businesses with annual turnovers of between \$1.3 million and \$5 million.

As is the case with previous tax specific sections on income tax and GST, mean tax compliance costs as a percentage of annual turnover decrease as turnover increases. However, as it comprises a smaller proportion of all respondents' mean annual turnover, the decrease is not as marked as that seen for income tax and GST.

**Table 8.6: Mean trimmed annual internal tax compliance costs spent on PAYE by annual turnover**

Turnover	Mean (trimmed) compliance costs	Mean compliance costs as a percent of turnover
Less than \$40,000 (mean in turnover range = \$34,445.76)	---- (27)	----
\$40,000 - \$99,999 (mean in range = \$64,901.75)	\$579 (55)	0.9%
\$100,000 - \$249,999 (mean in range = \$160,719.72)	\$1,181 (116)	0.7%
\$250,000 - \$499,999 (mean in range = \$354,418.44)	\$1,010 (103)	0.3%
\$500,000 – 1,299,999 (mean in range = \$805,792.03)	\$1,299 (155)	0.2%
\$1.3 million – less than \$5 million (mean in range = \$2,218,756.12)	\$1,892 (94)	0.1%
\$5 million and over (mean in range = \$13,882,938.54)	\$1,396 (286)	0.0%

Base: All respondents who filed/paid income tax (excluding missing information, and of outliers). Source: long survey questionnaire Q4, Q13b and Q19.

### Stress associated with PAYE tax compliance

Respondents were asked to indicate on a seven-point scale, where 1=Not at all stressful and 7=Extremely stressful, how stressful it was meeting their tax obligations for PAYE during the last 12 months (including finding the money). Table 8.7 provides details of the percentage of respondents reporting each level of stress by business size and overall. Table 8.8 details the mean reported levels by business size and age of business respectively.

Overall, 20 percent of respondents reported that there was *no stress* related with PAYE compliance, while at the other extreme, three percent reported that PAYE compliance had been *extremely stressful*. Between these two extremes, 62 percent of respondents reported that PAYE compliance had been *less than moderately stressful* (i.e. a rating of 1, 2 or 3); while a further 18 percent reported it as *moderately stressful* (a rating of 4).

Figure 8.3 displays combined percentages across three bands:

- Less than moderately stressful (rating of 1, 2 or 3)
- Moderately stressful (rating of 4)
- More than moderately stressful (rating of 5, 6 or 7).

The combined percentage reporting *more than moderately stressful* is lowest for those businesses with 20 plus employees (12 percent), while it is highest for those with 6-19 employees (27 percent).

SMEs with 20 plus employees were also more likely to report that it was *less than moderately stressful* (73 percent).

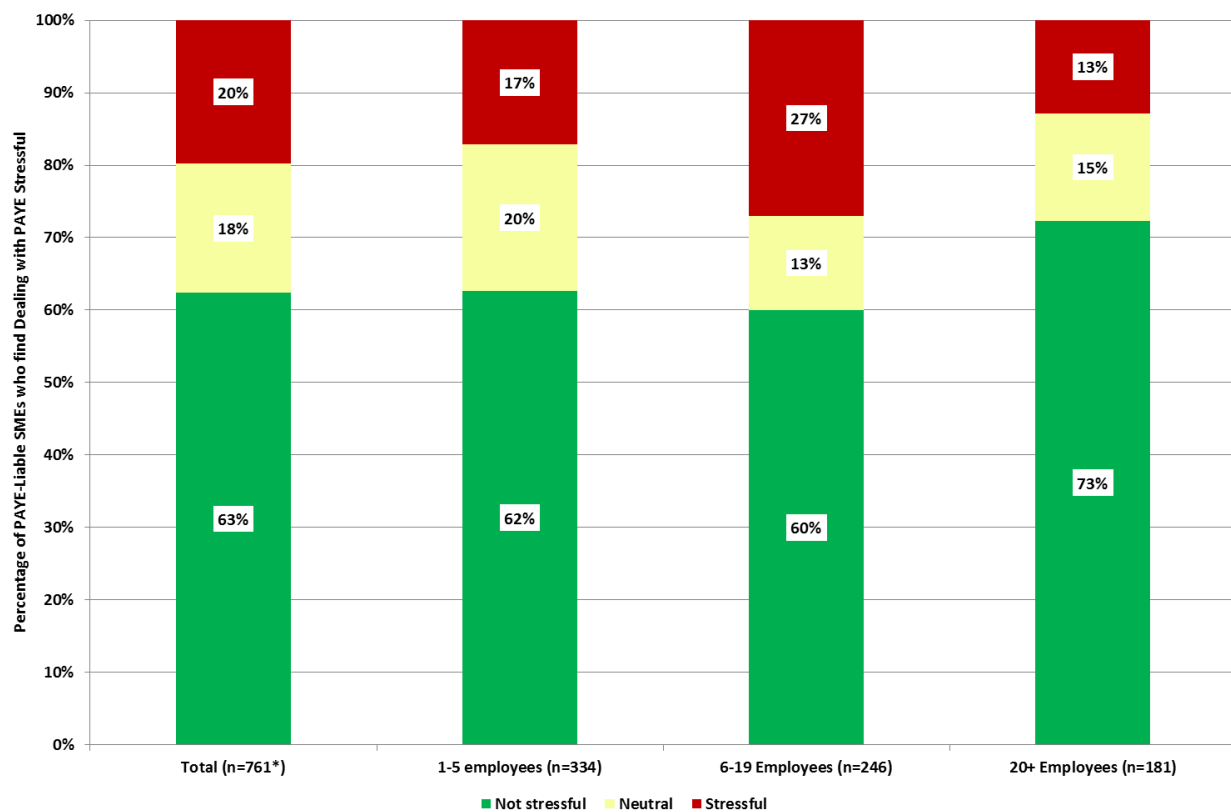
Because of the large number of suppressed cells, when viewed by business size and age, mean stress cores broken down by those variables have not been provided based on business age in Table 8.8 .

As detailed in the table, the mean stress score for PAYE, for all businesses, is  $\bar{x}=3.1$ , with small businesses reporting a higher than average score of  $\bar{x}=3.3$ , while the mean stress rating for medium businesses is  $\bar{x}=2.7$ .

**Table 8.7: Percentage of respondents reporting levels of stress associated with PAYE tax compliance by business size**

Level of reported stress	Nil employees	Micro (1-5) (n=334)	Small (6-19) (n=246)	Medium (20+) (n=181)	All (n=761)
1 (not at all stressful)	---	17%	16%	33%	18%
2	---	25%	26%	17%	25%
3	---	20%	18%	23%	20%
4 (moderately stressful)	---	20%	13%	15%	18%
5	---	7%	13%	2%	8%
6	---	8%	7%	7%	8%
7 (highly stressful)	---	2%	7%	4%	4%

Base: All respondents who filed/paid PAYE excluding those who indicated 'not applicable'. Source: long survey questionnaire Q4 and Q24.

**Figure 8.3 Percentage of respondents reporting banded levels of stress related to PAYE by business size**



**Table 8.8: Mean stress score associated with PAYE tax compliance by business size**

Business size (number of employees)	Mean stress scores
Nil employees	---
Micro (1-5)	3.1 (334)
Small (6-19)	3.3 (246)
Medium (20+)	2.7 (181)
<b>All SMEs</b>	<b>3.1 (761)</b>

Base: All respondents who filed/paid PAYE excluding those who indicated 'not applicable'. Note mean scores for cells with fewer than 30 respondents have been suppressed. Source: long survey questionnaire Q4 and Q24.

## Section 9. Internal compliance costs: KiwiSaver

This section describes the internal tax compliance costs associated with KiwiSaver.

### Internal tax compliance costs associated with KiwiSaver by personnel group

Table 9.1 provides a summary of the internal tax compliance costs for KiwiSaver. The first column details the internal time spent by various personnel groups (trimmed means), the second the estimated monetary compliance cost (time spent multiplied by the dollar value for that time) and the third column shows the percentage of overall tax compliance cost associated with the particular category of personnel.

On average, businesses report spending  $\bar{x}$ =14.9 hours on tax activities associated with KiwiSaver. This equates to \$459 per annum as a compliance cost. Unlike the other tax types discussed in this report, the average number of hours spent by owners/partners/directors/trustees  $\bar{x}$ =7.7 is similar to that spent by paid employees  $\bar{x}$ =6.7. However, because owners/partners, etc. place a higher value on an hour of their time, their annualised costs when converted to dollars are much higher (\$338, 74 percent), when compared with those for paid employees (\$134, 29 percent).

**Table 9.1: Summary of KiwiSaver tax compliance costs**

Personnel	Mean (trimmed) hours	Compliance cost (\$)	% of overall compliance cost
Owners/partners/directors/trustees	7.7 (573)	\$338 (645)	74%
Paid employees	6.7 (568)	\$134 (640)	29%
Unpaid friends and relatives	0 (569)	\$0 (641)	0%
<b>All personnel</b>	<b>14.9 (553)</b>	<b>\$459 (633)</b>	

Base: All respondents who filed/paid the particular tax type in question (excluding missing information and outliers). Source: long survey questionnaire Q13b and Q13c.

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

### Internal time spent by different personnel groups by business size

Table 9.2 shows the internal time (mean trimmed annual hours) spent on KiwiSaver broken down by business size (number of employees) and by the different categories of personal. The annualised number of hours spent by owners/partners, etc. with 1-5 employees ( $\bar{x}$ =8.8 hours) or 6-19 employees ( $\bar{x}$ =7.1 hours) are significantly higher than that reported by "medium" businesses ( $\bar{x}$ =2.2 hours). In contrast "medium" businesses reported significantly higher hours being spent on KiwiSaver by employees ( $\bar{x}$ =17.6 hours), than did "small" ( $\bar{x}$ =9.4 hours) or "micro" ( $\bar{x}$ =4.7 hours) businesses on average.

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

Personnel	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)
Owners/partners/directors/trustees	---	8.8 (198)	7.1 (202)	2.2 (165)
Paid employees	---	4.7 (199)	9.4 (199)	17.6 (162)
Unpaid friends and relatives	---	0 (196)	0 (201)	0 (164)
<b>All personnel</b>	---	<b>14.1 (186)</b>	<b>16.7 (197)</b>	<b>20 (162)</b>

Base: All respondents who filed/paid income tax (excluding missing information, and of outliers). Source: long survey questionnaire Q4 and Q13b.

### Annualised internal tax compliance costs in dollars for KiwiSaver tax related activities

As shown in Table 9.3, when converted to dollars, the mean annual internal tax compliance cost for KiwiSaver is relatively consistent, regardless of business size, with there being no statistically significant differences in the dollar amounts for “micro”, “small” or “medium” businesses. However, as shown in the table, the costs associated with owners/partners/directors/trustees are significantly lower for “medium” sized businesses (\$134, compared with \$458 for “micro” and \$403 for “small” businesses).

In contrast, the cost associated with paid employees’ time is significantly higher for “medium” businesses (\$489, compared with \$245 and \$111 for “small” and “micro” businesses respectively).

**Table 9.3: Mean trimmed annual internal tax compliance costs spent by personnel groups on KiwiSaver by business size**

Personnel	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)
Owners/partners/directors/trustees	-	\$458 (226)	\$403 (212)	\$134 (167)
Paid employees	-	\$111 (227)	\$245 (209)	\$489 (164)
Unpaid friends and relatives	-	\$0 (224)	\$0 (211)	\$0 (166)
<b>All personnel</b>	-	<b>\$538 (221)</b>	<b>\$657 (209)</b>	<b>\$623 (163)</b>

Base: All respondents who filed/paid income tax (excluding missing information, and of outliers). Source: long survey questionnaire Q4, Q13b and Q13c.

Figure 9.1 overleaf shows the markedly different pattern of internal costs by personnel group for medium sized businesses, particularly compared to businesses with 1-5 employees.

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

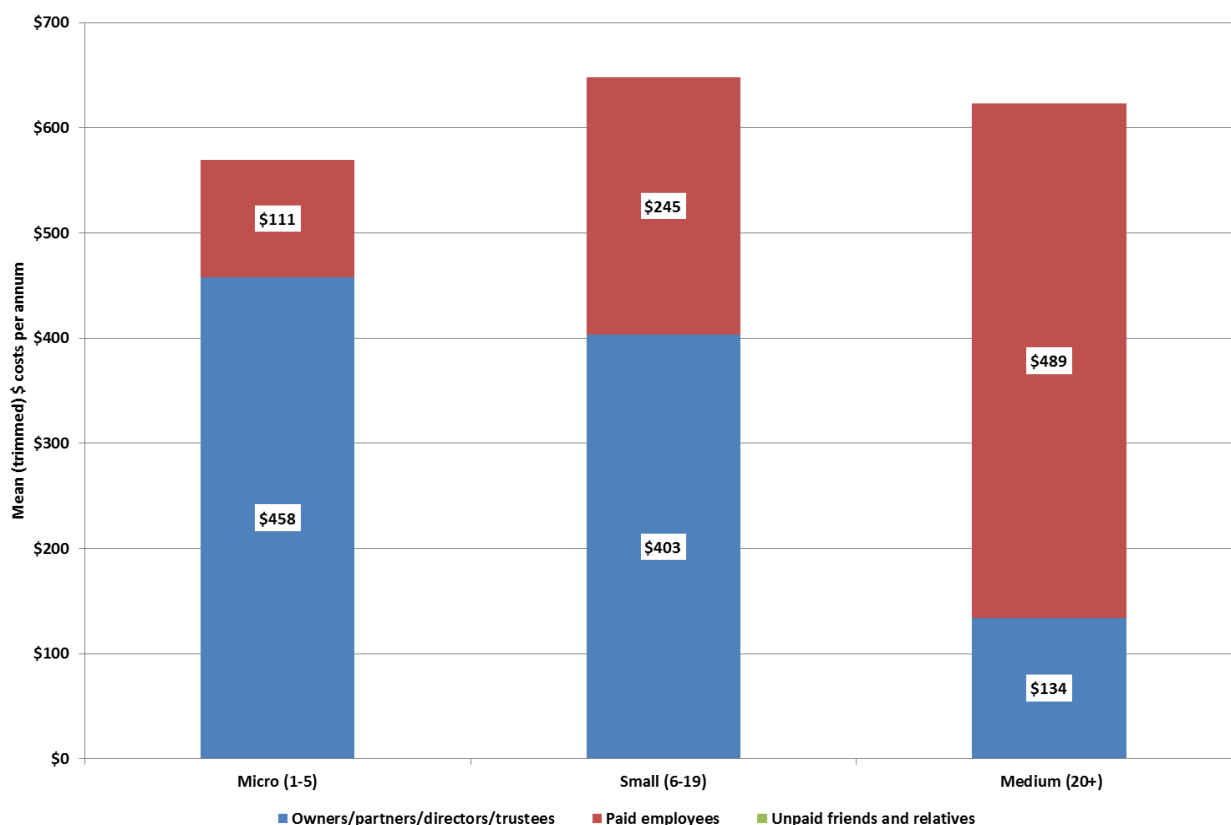


Table 9.4 shows the internal costs of KiwiSaver analysed by whether or not the business uses a Tax Advisor by personnel group. Table 9.5 provides a breakdown by business size for businesses that use a Tax Advisor and those that do not, while Figure 9.2 provides a graphical representation of these data.

Notably, the survey findings suggest that businesses that use Tax Advisors have higher owners/ partners/etc., internal compliance costs, as measured in dollars, than do businesses which do not use a Tax Advisor. However, due to the relatively smaller sub-sample of businesses that do not use a Tax Advisor, the observed difference should be viewed as indicative only.

Similarly, while the results suggest that, at the all personnel level, businesses that do not use a Tax Advisor have lower KiwiSaver-related internal costs than do businesses which use Tax Advisors, the observed difference should be viewed as indicative only and treated with some caution.

Due to the relatively small sub-samples involved, any variance in KiwiSaver-related internal costs for businesses that use a Tax Advisor are significantly different than for SMEs that do not use as Tax Advisor, when viewed by business size, should be treated with caution.

**Table 9.4: Mean trimmed annual internal tax compliance costs spent by personnel groups on KiwiSaver by use of a Tax Advisor for KiwiSaver**

Personnel	Use tax advisor	Do not use tax advisor
Owners/partners/directors/trustees	\$328 (543)	\$346 (99)
Paid employees	\$125 (537)	\$190 (100)
Unpaid friends and relatives	\$0 (541)	\$0 (97)
<b>All personnel</b>	<b>\$433 (532)</b>	<b>\$553 (98)</b>

Base: All respondents who filed/paid income tax (excluding missing information, and of outliers). Source: long questionnaire Q9a, Q9b, Q13b and Q13c.

**Table 9.5: Mean trimmed annual internal tax compliance costs spent on KiwiSaver by business size and use of a Tax Advisor**

Business size (number of employees)	Use tax advisor	Do not use tax advisor
Nil employees	---	---
Micro (1-5)	\$517 (186)	\$558 (33)
Small (6-19)	\$645 (166)	\$700 (43)
Medium (20+)	\$636 (145)	\$512 (17)
<b>All SMEs</b>	<b>\$433 (532)</b>	<b>\$553 (98)</b>

Base: All respondents who filed/paid income tax (excluding missing information, and of outliers). Source: long questionnaire Q4, Q9a, Q9b, and Q13b.

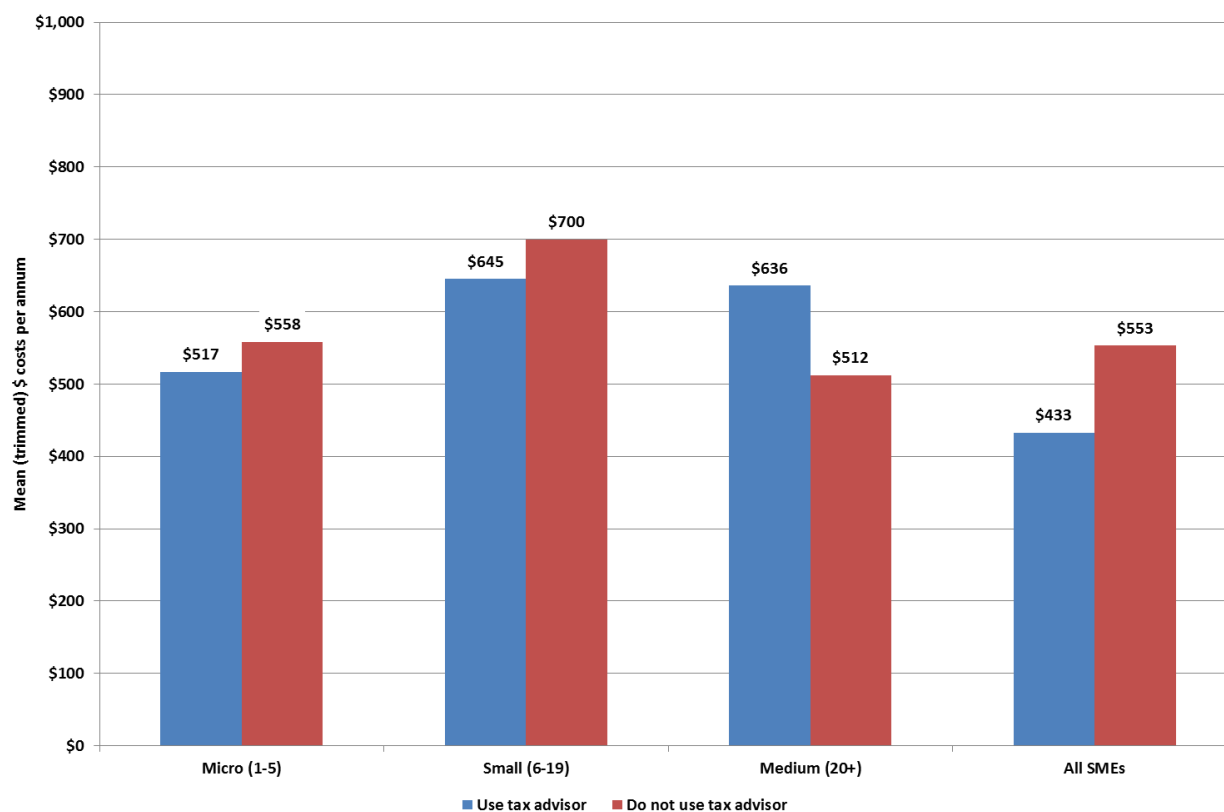
**Figure 9.2 Annual internal tax compliance costs (\$) for KiwiSaver by business size and use of a tax advisor**

Table 9.6 summarises the mean (trimmed) internal tax compliance costs in relation to KiwiSaver by business size, as determined by annual turnover.

Actual costs are relatively equivalent when viewed by respondents' respective annual turnovers, and while the results suggest that SMEs with annual turnover of between \$100,000 and \$249,000 have higher internal costs on average, the observed difference is not statistically significant.

Due to the relatively low internal costs associated with KiwiSaver compliance, as a percent of turnover, costs range from just 0.4 percent for SMEs with annual turnovers of between \$40,000 to \$99,999, to being negligible for those with annual turnovers of \$1.3 million or higher.

**Table 9.6: Mean trimmed annual internal tax compliance costs spent on KiwiSaver by annual turnover**

Turnover	Mean (trimmed) compliance costs	Mean compliance costs as a percent of turnover
Less than \$40,000 (mean in turnover range = \$34,445.76)	--- (23)	---
\$40,000 - \$99,999 (mean in range = \$64,901.75)	\$266 (25)	0.4%
\$100,000 - \$249,999 (mean in range = \$160,719.72)	\$488 (71)	0.3%
\$250,000 - \$499,999 (mean in range = \$354,418.44)	\$371 (73)	0.1%
\$500,000 – 1,299,999 (mean in range = \$805,792.03)	\$589 (127)	0.1%
\$1.3 million – less than \$5 million (mean in range = \$2,218,756.12)	\$557 (69)	0.0%
\$5 million and over (mean in range = \$13,882,938.54)	\$666 (244)	0.0%

Base: All respondents who filed/paid income tax (excluding missing information, and of outliers). Source: long survey questionnaire Q4, Q13b and Q19.

### Stress associated with KiwiSaver tax compliance

Respondents were asked to indicate on a seven-point scale, where 1=Not at all stressful and 7=Extremely stressful, how stressful it was meeting their tax obligations for KiwiSaver during the last 12 months (including finding the money). Table 9.7 provides details of the percentage of respondents reporting each level of stress by business size and overall. Table 9.8 details the mean reported levels by business size and age of business respectively.

Overall, 16 percent of respondents reported that there was *no stress* related with KiwiSaver compliance, while at the other extreme, three percent reported that KiwiSaver compliance had been *extremely stressful*. Between these two extremes, 63 percent of respondents reported that KiwiSaver compliance had been *less than moderately stressful* (i.e. a rating of 1, 2 or 3); while a further 16 percent reported is as *moderately stressful* (a rating of 4).

Figure 9.3 displays combined percentages across three bands:

- Less than moderately stressful (rating of 1, 2 or 3)
- Moderately stressful (rating of 4)
- More than moderately stressful (rating of 5, 6 or 7).

The combined percentage reporting *more than moderately stressful* is lowest for those SMEs with 20 plus employees (nine percent), while it is highest among those with 6-19 employees (24 percent).

As detailed in the figure, the combined percentage of respondents reporting that compliance is *less than moderately stressful* is highest among businesses with 20 plus employees (80 percent), while similar for "micro" (62 percent) "small" SMEs (62 percent).

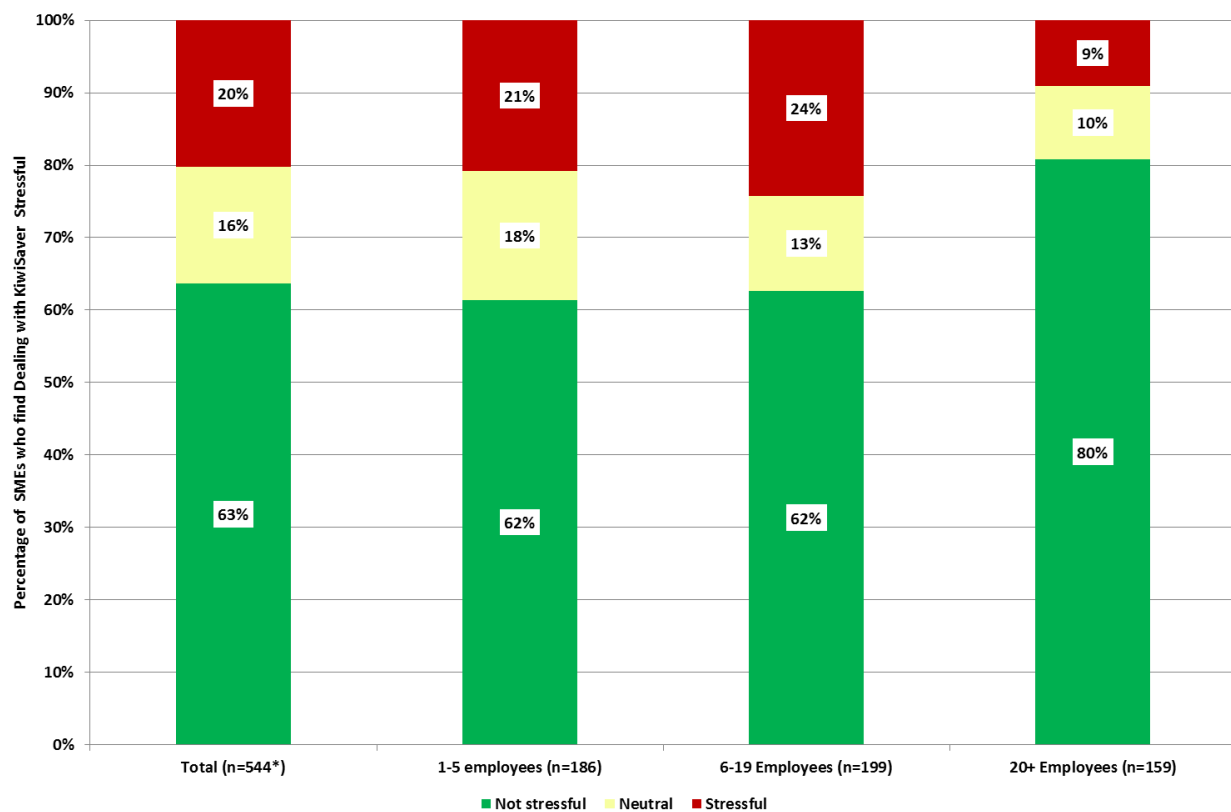
Mean stress scores by business size are detailed in Table 9.9, and show that the mean stress score reported by all businesses was  $\bar{x}=3.1$ , with “medium” businesses reporting the lowest average stress score ( $\bar{x}=2.6$ ) and “small” businesses reporting slight higher stress scores on average  $\bar{x}=3.2$

**Table 9.7: Percentage of respondents reporting levels of stress associated with KiwiSaver tax compliance by business size**

Level of reported stress	Nil employees	Micro (1-5) (n=186)	Small (6-19) (n=199)	Medium (20+) (n=159)	All (n=544)
1 (not at all stressful)	---	13%	17%	32%	16%
2	---	31%	29%	21%	29%
3	---	18%	16%	27%	18%
4 (moderately stressful)	---	18%	13%	10%	16%
5	---	11%	11%	3%	10%
6	---	8%	8%	2%	7%
7 (highly stressful)	---	2%	5%	4%	3%

Base: All respondents who filed/paid KiwiSaver excluding those who indicated 'not applicable'. Source: long survey questionnaire Q4 and Q25.

**Figure 9.3 Percentage of respondents reporting banded levels of stress related to KiwiSaver by business size**



**Table 9.8: Mean stress score associated with KiwiSaver compliance by business size**

Business size (number of employees)	Mean stress scores
Nil employees	---
Micro (1-5)	3.1 (186)
Small (6-19)	3.2 (199)
Medium (20+)	2.6 (159)
<b>All SMEs</b>	<b>3.1 (544)</b>

Base: All respondents who filed/paid KiwiSaver excluding those who indicated 'not applicable'. Note mean scores for cells with fewer than 20 respondents have been suppressed. Source: long survey questionnaire Q4 and Q25.



## Section 10. Internal compliance costs: FBT

This section describes the internal tax compliance costs associated with FBT.

### Internal tax compliance costs associated with FBT by personnel group

Table 10.1 provides a summary of the internal tax compliance costs for FBT. The first column details the internal time spent by various personnel groups (trimmed means), the second the estimated monetary compliance cost (time spent multiplied by the dollar value for that time) and the third column shows the percentage of overall tax compliance cost associated with the particular category of personnel.

On average, businesses report spending  $\bar{x} = 11.4$  hours on tax activities associated with FBT. This equates to \$197 per annum as a tax compliance cost. As was the case with KiwiSaver internal hours, the mean annualised hours spent by owners/partners, etc. ( $\bar{x} = 4.3$  hours) are equivalent to that spent by paid employees ( $\bar{x} = 4.2$  hours).

However, the majority of the dollar costs relate to time spent by owners/partners, etc. (\$124, 63 percent) compared with the time spent by employees (\$56, 28 percent), due to owners placing a higher dollar value on an hour of their time.

**Table 10.1: Summary of FBT compliance costs**

Personnel	Mean (trimmed) hours	Compliance cost (\$)	% of overall compliance cost
Owners/partners/directors/trustees	4.3 (285)	\$124	63%
Paid employees	4.2 (282)	\$56	28%
Unpaid friends and relatives	0.1 (291)	\$1	1%
<b>All personnel</b>	<b>11.4 (268)</b>	<b>\$197</b>	

Base: All respondents who filed/paid the particular tax type in question (excluding missing information and outliers). Source: long survey questionnaire Q13b and Q13c.

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

### Internal time spent by different personnel groups by business size

Table 10.2 shows the internal time (mean trimmed annual hours) spent on FBT broken down by business size (number of employees) and by the different categories of personal. The annualised number of hours spent by all personnel tends to increase the larger the business. For example “micro” businesses reported spending  $\bar{x} = 10.5$  hours per annum dealing with FBT, compared with  $\bar{x} = 16.3$  and  $15.8$  hours by “small” and “medium” businesses respectively.

The annualised number of hours spent by owners/partners, etc. ranged from  $\bar{x} = 4.8$  for “micro business” to  $\bar{x} = 2.9$  for “medium” sized businesses; however, the observed difference is not statistically significant.

In contrast, the hours spent by paid employees increases significantly when viewed by business size, with “medium” businesses reporting that paid employees spend  $\bar{x} = 12.8$  hours per annum dealing with FBT, compared with  $\bar{x} = 2.4$  hours by “micro” businesses.

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

Personnel	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)
Owners/partners/directors/trustees	--- (10)	4.8 (69)	3.9 (84)	2.9 (122)
Paid employees	--- (10)	2.4 (73)	8.1 (82)	12.8 (117)
Unpaid friends and relatives	--- (10)	0.1 (73)	0 (86)	0.1 (122)
<b>All personnel</b>	--- (9)	10.5 (61)	16.3 (81)	15.8 (117)

Base: All respondents who filed/paid income tax (excluding missing information, and of outliers).

Source: long survey questionnaire Q4 and Q13b.

Note mean scores for cells with fewer than 20 respondents have been suppressed.

### Annualised internal tax compliance costs in dollars for FBT tax related activities

As shown in Table 10.3, when converted to dollars, the mean annual internal tax compliance costs among “micro” businesses” are significantly lower (\$204) than the dollars costs for “small” and “medium” businesses (\$454 and \$513 respectively).

When viewed by personnel group, the annualised costs are greatest for paid employees among “medium” sized businesses (\$337, compared with \$38 dollars for “micro” business). “Medium” businesses also reported higher paid-employee related internal costs when compared with those reported by “small” businesses (\$164); however, the observed difference should be viewed with some caution, as it is not statistically significant.

**Table 10.3: Mean trimmed annual internal tax compliance costs spent by personnel groups on FBT by business size**

Personnel	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)
Owners/partners/directors/trustees	--- (10)	\$166 (108)	\$171 (103)	\$164 (126)
Paid employees	--- (10)	\$38 (113)	\$164 (101)	\$337 (121)
Unpaid friends and relatives	--- (10)	\$2 (113)	\$0 (105)	\$4 (126)
<b>All personnel</b>	--- (10)	\$204 (108)	\$454 (103)	\$513 (123)

Base: All respondents who filed/paid income tax (excluding missing information, and of outliers).

Source: long questionnaire Q4, Q13b and Q13c.

Note mean scores for cells with fewer than 20 respondents have been suppressed.

Figure 10.1 overleaf shows the markedly different pattern of internal costs by personnel group for medium sized businesses, particularly compared to businesses with “micro” businesses.

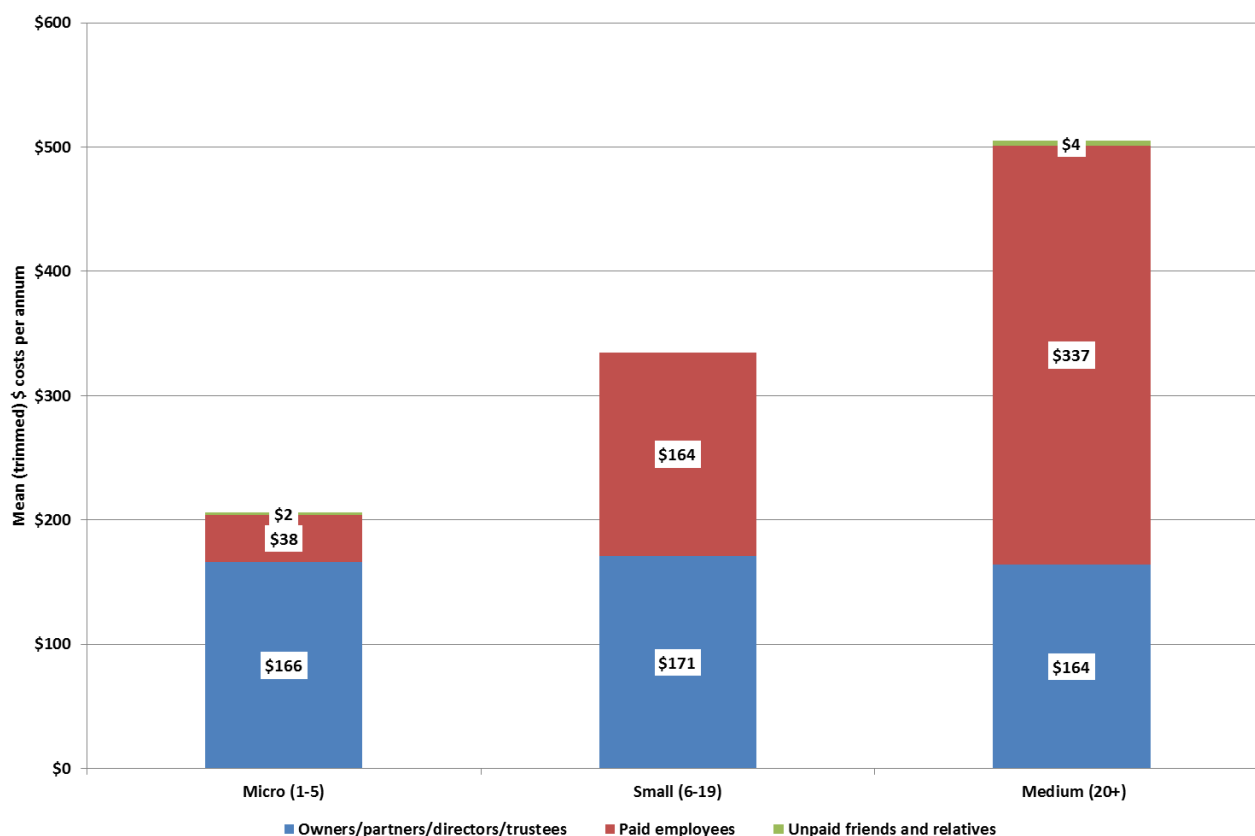
**Figure 10.1 Annual internal tax compliance costs (\$) for FBT by business size and personnel group**

Table 10.4 shows the internal costs of FBT analysed by whether or not the business uses a Tax Advisor for income tax purposes by personnel group. When comparing businesses that use a Tax Advisor and those which do not.

Table 10.5 provides a breakdown by business size for businesses that use a Tax Advisor and those that do not.

While the results suggest that businesses that do not use a Tax Advisor have higher FBT-related internal costs, as measured by dollars, than do business that use a Tax Advisor; however, the observed difference is not statistically significant and should be treated as indicative only. This is due to the small sub-sample of FBT-liable businesses that do not use a Tax Advisor.

Due to the small sub-sample of FBT-liable businesses that do not use a Tax Advisor, comparisons by business size are not possible. As such, no graphical representation in relation to costs by business size and Tax Advisor use has been provided in this section.

**Table 10.4: Mean trimmed annual internal tax compliance costs spent by personnel groups on FBT by use of a Tax Advisor for FBT**

Personnel	Use tax advisor	Do not use tax advisor
Owners/partners/directors/trustees	\$113 (338)	\$226 (40)
Paid employees	\$48 (336)	\$136 (40)
Unpaid friends and relatives	\$1 (344)	\$0 (41)
<b>All personnel</b>	<b>\$170 (334)</b>	<b>\$456 (41)</b>

Base: All respondents who filed/paid income tax (excluding missing information, and of outliers). Source: long survey questionnaire Q9a, Q9b, Q13b and Q13c. Note: Large discrepancies between 'all personnel' costs and individual personal type costs are the result of independent trimming of each mean.

**Table 10.5: Mean trimmed annual internal tax compliance costs spent on FBT by business size and use of a Tax Advisor**

Business size (number of employees)	Use tax advisor	Do not use tax advisor
Nil employees	--- (40)	--- (3)
Micro (1-5)	\$196 (99)	--- (9)
Small (6-19)	\$336 (85)	--- (17)
Medium (20+)	\$523 (110)	--- (12)
<b>All SMEs</b>	<b>\$170 (334)</b>	<b>\$456 (41)</b>

Base: All respondents who filed/paid income tax (excluding missing information, and of outliers). Source: long survey questionnaire Q4, Q9a, Q9b, and Q13b. Note mean dollar costs for cells with fewer than 20 respondents have been suppressed.

Note: Large discrepancies between 'all personnel' costs and individual personal type costs are the result of independent trimming of each mean.

Table 10.6 summarises the mean (trimmed) internal tax compliance costs in relation to FBT by business size, as determined by annual turnover, for businesses with annual turnovers of \$100,000 or greater. However, because of the small sub-samples involved, any comparisons between businesses in the different turnover bands, should be treated with caution.

**Table 10.6: Mean trimmed annual internal tax compliance costs spent on FBT by annual turnover**

Turnover	Mean (trimmed) compliance costs	Mean compliance costs as a percent of turnover
<b>Less than \$40,000</b> (mean in turnover range = \$34,445.76)	--- (17)	---
\$40,000 - \$99,999 (mean in range = \$64,901.75)	--- (18)	---
\$100,000 - \$249,999 (mean in range = \$160,719.72)	\$63 (39)	0.0%
\$250,000 - \$499,999 (mean in range = \$354,418.44)	\$136 (36)	0.0%
\$500,000 - 1,299,999 (mean in range = \$805,792.03)	\$229 (46)	0.0%
\$1.3 million - less than \$5 million (mean in range = \$2,218,756.12)	\$395 (35)	0.0%
\$5 million and over (mean in range = \$13,882,938.54)	\$547 (186)	0.0%

Base: All respondents who filed/paid income tax (excluding missing information, and of outliers).

Source: long survey questionnaire Q4, Q13b and Q19.

Note mean dollar costs for cells with fewer than 20 respondents have been suppressed.

### Stress associated with FBT tax compliance

Respondents were asked to indicate on a seven-point scale, where 1=Not at all stressful and 7=Extremely stressful, how stressful it was meeting their tax obligations for FBT during the last 12 months (including finding the money). Table 10.7 provides details of the percentage of respondents reporting each level of stress by business size and overall. Table 10.8 details the mean reported levels by business size and age of business respectively.

Overall, 26 percent of respondents reported that there was *no stress* related with FBT compliance, while at the other extreme, two percent reported that FBT tax compliance was *extremely stressful*. Between these two extremes, 73 percent of respondents reported that FBT tax compliance had been *less than moderately stressful* (i.e. a rating of 1, 2 or 3); while a further nine percent reported is as *moderately stressful* (a rating of 4).

Figure 10.3 displays combined percentages across three bands:

- Less than moderately stressful (rating of 1, 2 or 3)
- Moderately stressful (rating of 4)
- More than moderately stressful (rating of 5, 6 or 7).

The combined percentage reporting *more than moderately stressful* is lowest for those SMEs with no employees (three percent), while 21 percent of FBT-liable SMEs with 1-5 employees found compliance to be *more than moderately stressful*. Relatedly, as detailed in the figure, the combined percentage of respondents reporting that compliance is *less than moderately stressful* is highest among businesses with no employees and lowest for those with 1-5 employees.

Due to the small sub-samples of FBT-liable businesses, the breakdown by age or business has been suppressed, as most cells had fewer than 20 respondents. The overall mean stress score reported by FBT-liable SMEs was 2.8.

**Table 10.7: Percentage of respondents reporting levels of stress associated with FBT compliance by business size**

Level of reported stress	Nil employees (n=7)	Micro (1-5) (n=54)	Small (6-19) (n=80)	Medium (20+) (n=109)	All (n=250)
1 (not at all stressful)	---	32%	22%	28%	26%
2	---	21%	24%	26%	29%
3	---	14%	29%	17%	18%
4 (moderately stressful)	---	7%	12%	22%	9%
5	---	6%	3%	1%	6%
6	---	17%	9%	4%	10%
7 (highly stressful)	---	3%	0%	2%	2%

Base: All respondents who filed/paid FBT excluding those who indicated 'not applicable'. Source: long survey questionnaire Q4 and Q26.

Figure 10.3 Percentage of respondents reporting banded levels of stress related to FBT by business size

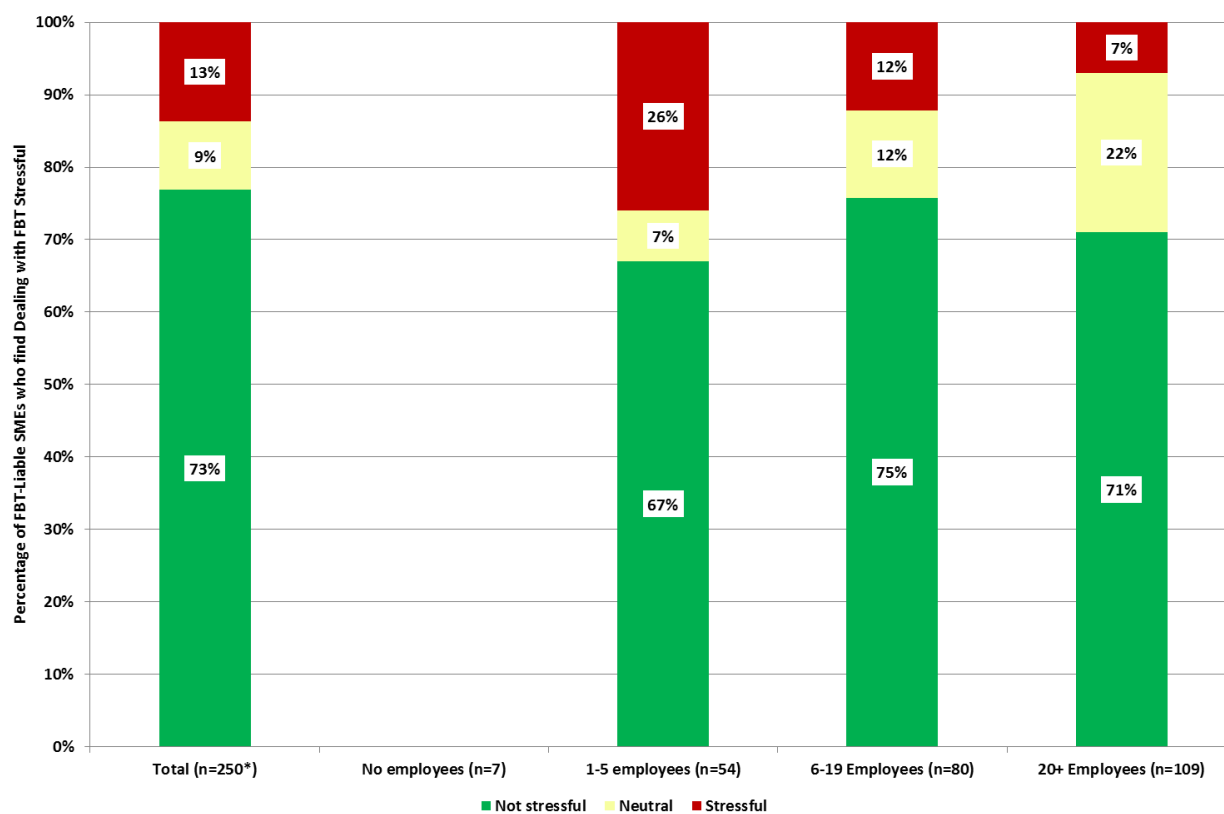


Table 10.8: Mean stress score associated with FBT compliance by business size

Business size (number of employees)	Mean stress scores
Nil employees	--- (7)
Micro (1-5)	3.0 (54)
Small (6-19)	2.8 (80)
Medium (20+)	2.6 (109)
All SMEs	2.8 (250)

Base: All respondents who filed/paid KiwiSaver excluding those who indicated 'not applicable'. Note mean scores for cells with fewer than 20 respondents have been suppressed. Source: long survey questionnaire Q4 and Q25.

## Section 11. External tax advisor costs

This section reports on external tax compliance costs; that is, payments made for tax services from advisors such as external accountants, tax agents or lawyers.

### Use of, and payment for, external Tax Advisor services - business survey data

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

Overall, 80 percent of respondents paid for external tax advice. This is relatively consistent by business size, but does vary by type of tax. External advice is used mostly for income tax (79 percent of respondents paying income tax), GST (47 percent of respondents paying GST) and FBT (42 percent of respondents paying FBT), and least for KiwiSaver (15 percent of respondents paying KiwiSaver).

**Table 11.1: Use of external tax advisor services**

Tax type	Nil employees %	Micro (1-5) %	Small (6-19) %	Medium (20+) %	All %
GST	49 (288)	46 (376)	39 (261)	36 (189)	47 (1,115)
Income tax	78 (284)	82 (362)	77 (246)	85 (182)	79 (1,075)
PAYE	---	30 (354)	23 (258)	20 (189)	30 (837)
KiwiSaver (including ESCT)	---	12 (203)	16 (203)	16 (166)	15 (580)
FBT	68 (10)	38 (73)	31 (86)	33 (122)	42 (291)
<b>All tax related services</b>	<b>79 (365)</b>	<b>84 (381)</b>	<b>78 (261)</b>	<b>85 (189)</b>	<b>80 (1,197)</b>

Base: Respondents who make an external payment in regard to that tax type among businesses that file that particular tax type (excluding missing information and outliers). Source: long survey questionnaire Q9a and Q9b; short questionnaire Q3.

Note: cells with fewer than 20 respondents have been suppressed.

### Tax advisor sub-survey

A Tax Advisor sub-survey was conducted to provide a breakdown of external tax compliance costs for SMEs who used Tax Advisors, but were unable to provide the necessary detail directly. In the following parts of this section, data from this sub-survey has been combined with data from the business survey to give an overall view of external tax compliance costs.

A profile of the Tax Advisor sample is given overleaf in Table 11.2 with a comparison from the business survey. The business survey data is only based on businesses that used external tax advice services. Both samples are very similar in terms of entity type, taxes paid and business size.

**Table 11.2: Profile of Tax Advisor sub-survey sample**

Age of business	Advisor sample*		Business sample (long questionnaire)**	
	n	%	n	%
<b>Tax type</b>				
GST	172	99	919	94
Income tax	174	100	951	97
PAYE	128	74	697	71
KiwiSaver	82	47	478	49
FBT	45	26	250	26
<b>Business size (number of employees)</b>				
Nil employees	49	28	290	30
Micro (1-5)	60	34	322	33
Small (6-19)	35	20	206	21
Medium (20+)	30	17	161	16
Missing	0	0	1	0
<b>All</b>	<b>174</b>	<b>100</b>	<b>980</b>	<b>100</b>

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

Source: long survey questionnaire Q1 and Q4, IRD database information, tax advisor sub-survey Q4. Note: Values for n and % are unweighted.

### External tax compliance costs by tax type

Imputed data have been used for the data presented in Tables 11.3 and 11.4.<sup>12</sup>

Table 11.3 presents external tax compliance costs by tax type and business size as determined by the number of employees. On average, SMEs pay \$1,856 annually to external Tax Advisors. Overall, regardless of size, income tax accounts for a substantially large proportion of their external tax compliance costs. The average annual cost for income tax for all SMEs is \$1,469, compared with \$437 for GST. In contrast PAYE, at \$29, FBT at \$19 and KiwiSaver at just \$2 account for relatively small proportions of the overall external tax compliance costs paid by SMEs.

As business size increases, so do external tax compliance costs. On average, these costs range from \$1,423 for businesses with no employees through to \$4,960 for those with 20 or more employees.

Across all tax types, the amount of external tax compliance costs paid by tax-specific liable businesses increases the larger the business, with this particularly being the case for income tax and GST.

<sup>12</sup> See relevant section in chapter 3 for details of the data imputation process.



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

Business size (number of employees)	GST	Income Tax	PAYE	KiwiSaver	FBT	All
Nil employees	\$367 (281)	\$1,136 (348)	NA	NA	\$4 (43)	\$1,423 (359)
Micro (1-5)	\$479 (372)	\$1,831 (358)	\$31 (348)	\$2 (230)	\$15 (107)	\$2,289 (378)
Small (6-19)	\$669 (256)	\$2,506 (241)	\$38 (252)	\$3 (209)	\$46 (103)	\$3,245 (257)
Medium (20+)	\$844 (174)	\$3,817 (171)	\$55 (178)	\$7 (163)	\$90 (123)	\$4,960 (177)
<b>All SMEs</b>	<b>\$437 (1,084)</b>	<b>\$1,469 (1,119)</b>	<b>\$29 (838)</b>	<b>\$2 (642)</b>	<b>\$19 (376)</b>	<b>\$1,856 (1,172)</b>

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

Source: Long questionnaire Q4, Q9a, Q9 b and Q9d; tax advisors sub-survey Q4.

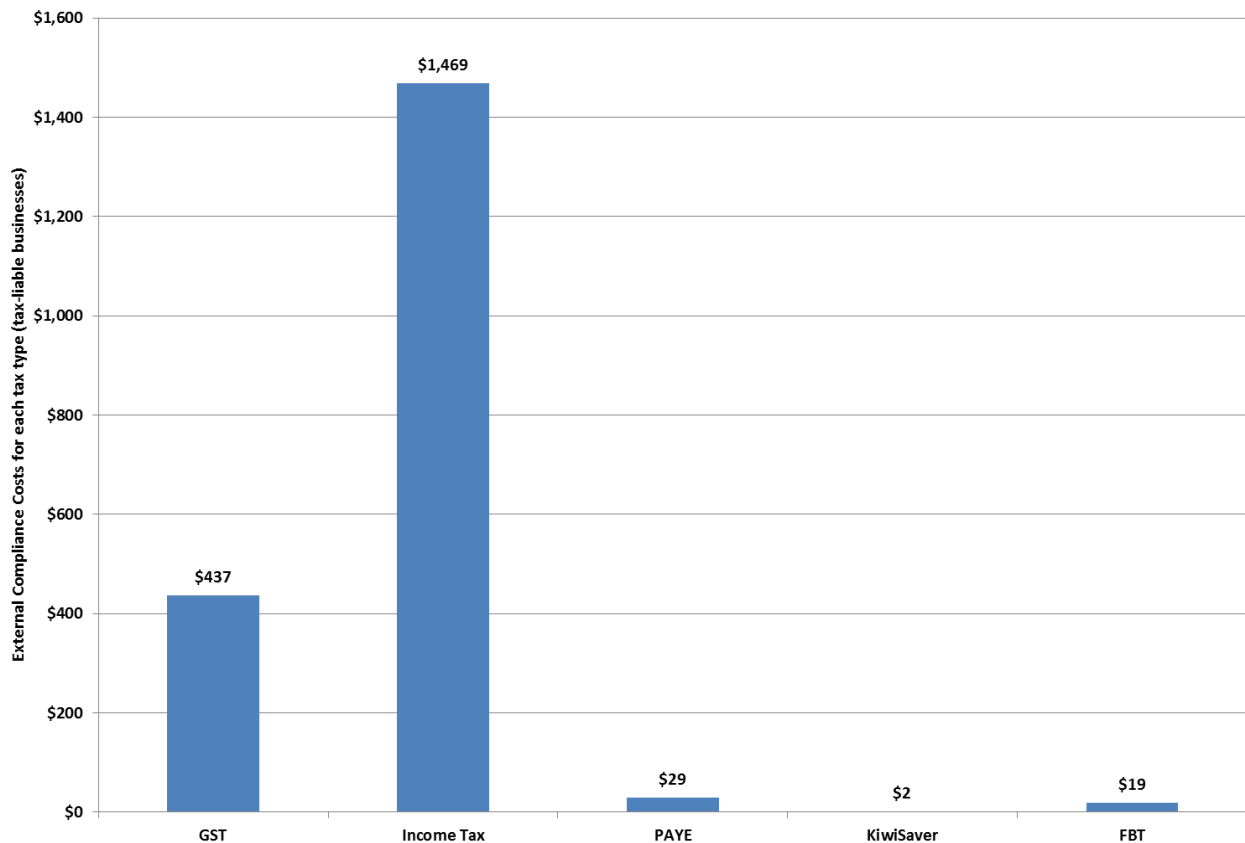
**Figure 11.1 Mean (trimmed) external tax compliance costs by tax type**

Figure 11.1 above graphically illustrates the variance in external tax costs by tax type. Table 11.4 and Figure 11.2 overleaf breakdown external tax compliance costs by business size as determined by annual turnover. The general trend is for external tax compliance costs to increase as annual turnover increases.

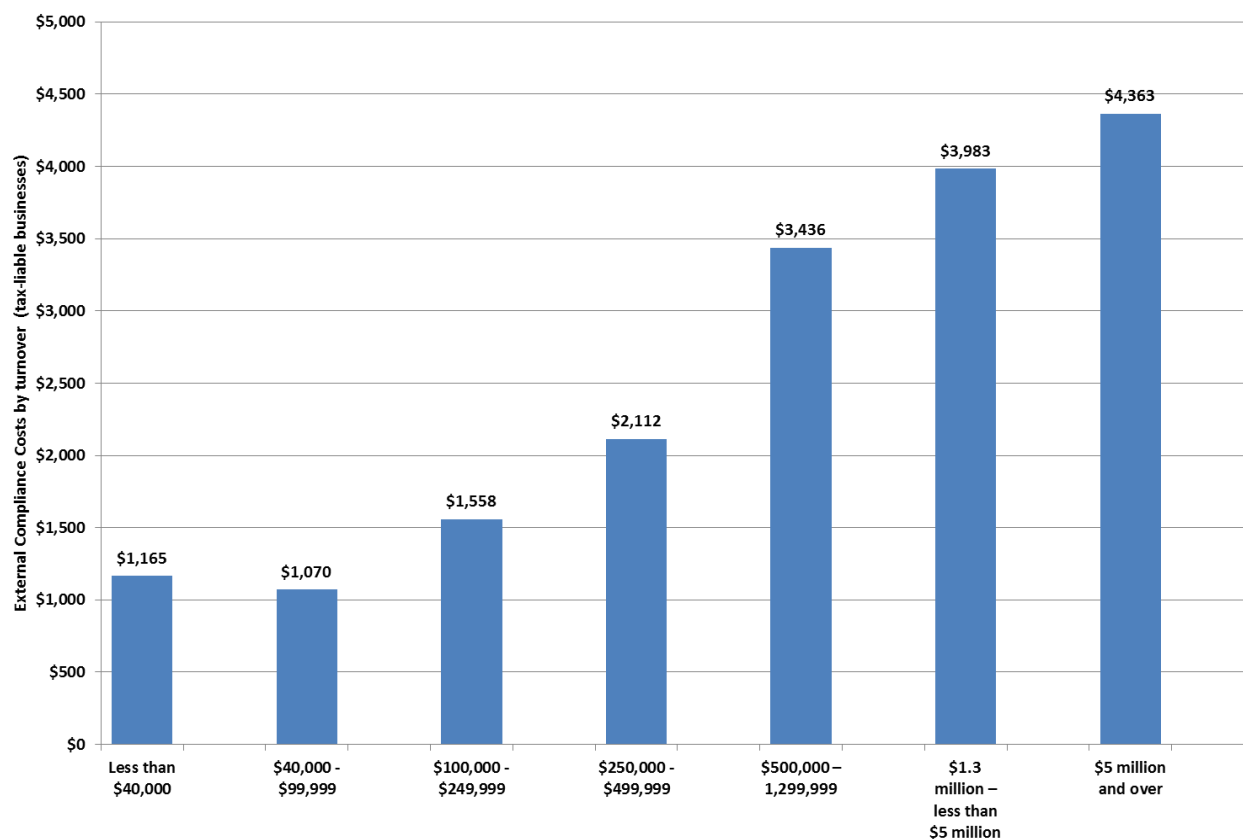
Table 11.5 presents these mean compliance costs as a percentage of annual turnover. External tax compliance costs, as a percentage of annual turnover, decrease markedly as annual turnover increases. For businesses with an annual turnover of less than \$40,000, external tax compliance costs are 3.4 percent of turnover on average. At the other extreme end of the scale, external tax compliance costs are proportionally negligible for businesses with an annual turnover of \$5 million and over.

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

Business size (turnover)	GST	Income Tax	PAYE	KiwiSaver	FBT	All
Less than \$40,000 (mean in turnover range = \$34,445.76)	\$362 (76)	\$942 (108)	\$15 (32)	\$0 (23)	\$3 (17)	\$1,165 (114)
\$40,000 - \$99,999 (mean in range = \$64,901.75)	\$252 (152)	\$819 (172)	\$19 (59)	\$0 (27)	\$5 (19)	\$1,070 (177)
\$100,000 - \$249,999 (mean in range = \$160,719.72)	\$336 (181)	\$1,264 (182)	\$23 (115)	\$2 (73)	\$10 (38)	\$1,558 (190)
\$250,000 - \$499,999 (mean in range = \$354,418.44)	\$491 (129)	\$1,686 (128)	\$25 (104)	\$1 (76)	\$8 (37)	\$2,112 (137)
\$500,000 - 1,299,999 (mean in range = \$805,792.03)	\$702 (164)	\$2,653 (159)	\$39 (150)	\$2 (127)	\$26 (44)	\$3,436 (165)
\$1.3 million - less than \$5 million (mean in range = \$2,218,756.12)	\$955 (102)	\$3,137 (92)	\$41 (93)	\$2 (71)	\$30 (36)	\$3,983 (103)
\$5 million and over (mean in range = \$13,882,938.54)	\$797 (280)	\$3,543 (275)	\$45 (284)	\$5 (244)	\$66 (185)	\$4,363 (282)

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

Source: Long survey questionnaire Q9a, Q9 b, Q9d and Q19; tax advisors sub-survey Q4.

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

**Table 11.5: Mean (trimmed) external tax compliance costs as a percentage of annual turnover.**

Business size (turnover)	Mean (trimmed) external compliance costs	Mean external compliance costs as a percent of turnover*
Less than \$40,000 (mean in turnover range = \$34,445.76)	\$1,165 (114)	3.4%
\$40,000 - \$99,999 (mean in range = \$64,901.75)	\$1,070 (177)	1.6%
\$100,000 - \$249,999 (mean in range = \$160,719.72)	\$1,558 (190)	1.0%
\$250,000 - \$499,999 (mean in range = \$354,418.44)	\$2,112 (137)	0.6%
\$500,000 – 1,299,999 (mean in range = \$805,792.03)	\$3,436 (165)	0.4%
\$1.3 million – less than \$5 million (mean in range = \$2,218,756.12)	\$3,983 (103)	0.2%
\$5 million and over (mean in range = \$13,882,938.54)	\$4,363 (282)	0.0%

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

Source: Long survey questionnaire Q9a, Q9 b,Q9d and Q19; tax advisors sub-survey Q4.

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

**Table 11.5: Mean (trimmed) external tax compliance costs as a percentage of annual turnover.**

Business size (turnover)	Mean (trimmed) external compliance costs	Mean external compliance costs as a percent of turnover*
Less than \$40,000 (mean in turnover range = \$34,445.76)	\$1,165 (114)	3.4%
\$40,000 - \$99,999 (mean in range = \$64,901.75)	\$1,070 (177)	1.6%
\$100,000 - \$249,999 (mean in range = \$160,719.72)	\$1,558 (190)	1.0%
\$250,000 - \$499,999 (mean in range = \$354,418.44)	\$2,112 (137)	0.6%
\$500,000 – 1,299,999 (mean in range = \$805,792.03)	\$3,436 (165)	0.4%
\$1.3 million – less than \$5 million (mean in range = \$2,218,756.12)	\$3,983 (103)	0.2%
\$5 million and over (mean in range = \$13,882,938.54)	\$4,363 (282)	0.0%

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

Source: Long survey questionnaire Q9a, Q9 b,Q9d and Q19; tax advisors sub-survey Q4.

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

## Section 12. Payroll services

This section examines payroll services.

Table 12.1 shows the percentage of businesses that use external payroll services and the mean payment made by those businesses for those services. Just six percent of respondents reported utilising external payroll services. The mean amount paid for external payroll services ranges from \$537 for “micro” businesses to \$3,133 for “medium” SMEs, with the mean dollar amount for all SMEs that use external payroll services being \$1,053.

Due to the small numbers of respondents utilising an external payroll services, cost comparisons by business size should be viewed as indicative only. However, it does make sense that SMEs that employs a larger number of staff would have higher external payroll costs when they use such services.

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

	Nil employees	Micro (1-5)	Small (6-19)	Medium (20+)	All
Proportion of SMEs using external payroll services	---	11%	23%	27%	6%
Mean (trimmed) amount paid for external payroll services	--- (4)	\$537 (41)	\$1,296 (57)	\$3,133 (46)	\$1,053 (148)

Base: All SMEs that file/pay PAYE (excluding missing information and outliers); sub-sample of SMEs who indicated they use external payroll services (excluding missing information and outliers).

Source: long survey questionnaire Q10. Note: cells with fewer than 20 respondents have been suppressed.

## Section 13. Combined tax compliance costs across all SMEs

This section is the culmination of the preceding analyses. It presents the overall tax compliance costs for all SMEs; that is, both internal and external costs combined. The average combined tax compliance costs for SMEs are \$5,861 per year, made of \$3,778 of internal time and \$1,842 of external costs (see Table 13.4).

It is important to note that the approach taken in this section to calculate the overall combined costs is different to that used in previous sections. Where a respondent did not file a particular tax type, they were given a value of zero, denoting them as having no tax compliance costs for that particular tax type. This has been done to provide an “all SMEs” compliance cost picture that is not based only on those SMEs that deal with a particular tax type. In earlier sections, tax compliance costs were calculated using the base of businesses that pay/file the particular tax type in question (i.e. the mean costs for all SMEs having that particular tax obligation).

Before combining the internal and the external dollars to arrive at overall combined costs figures, the next part of this section details the mean hours spent internally on tax activities. The hours are then converted into dollars in the following part of the section, “Overall combined compliance costs”.

### Internal time

Tables 13.1 and 13.2 summarise the internal time spent on tax activities on an annual basis using mean (trimmed) values. For all tax types, the mean number of hours of internal time increases as business size increases, ranging from  $\bar{x}$  =55.1 hours for businesses with no employees through to  $\bar{x}$  =172.9 hours for those with 20 or more employees.

Except for GST, in relation to which “small” and “medium” respondents reported spending similar amount of time, the general increase in number of hours spent internally on each tax type also increases as business size increases.

Figure 13.1 graphically compares the data for the three main tax types (GST, income tax and PAYE) in terms of total hours spent by size of business (as measured by number of employees).

**Table 13.1: Summary of mean (trimmed) annual hours of internal time spent on all tax activities by tax type and business size (number of employees)**

Business size (number of employees)	GST	Income tax	PAYE	KiwiSaver	FBT	All tax types
Nil employees	24.8 (356)	18 (348)	NA	NA	0.1 (368)	55.1 (357)
Micro (1-5)	42.4 (368)	20.5 (359)	23 (368)	6.4 (367)	1.4 (372)	99.2 (378)
Small (6-19)	51.8 (246)	24.7 (248)	38.5 (258)	12.7 (256)	3.6 (257)	134.8 (250)
Medium (20+)	54.7 (173)	34.6 (177)	41.7 (181)	17.2 (186)	8.2 (185)	172.9 (176)
<b>All SMEs</b>	<b>31.9 (1,144)</b>	<b>19.5 (1,132)</b>	<b>9.9 (1,174)</b>	<b>3 (1,179)</b>	<b>0.9 (1,183)</b>	<b>74.9 (1,162)</b>

Base: All respondents (excluding those who indicated ‘don’t know or ‘not applicable’) regardless of whether they pay/file a particular tax type. Source: long survey questionnaire Q1, Q4 and Q13b; short questionnaire Q5a, Q5b and Q5c

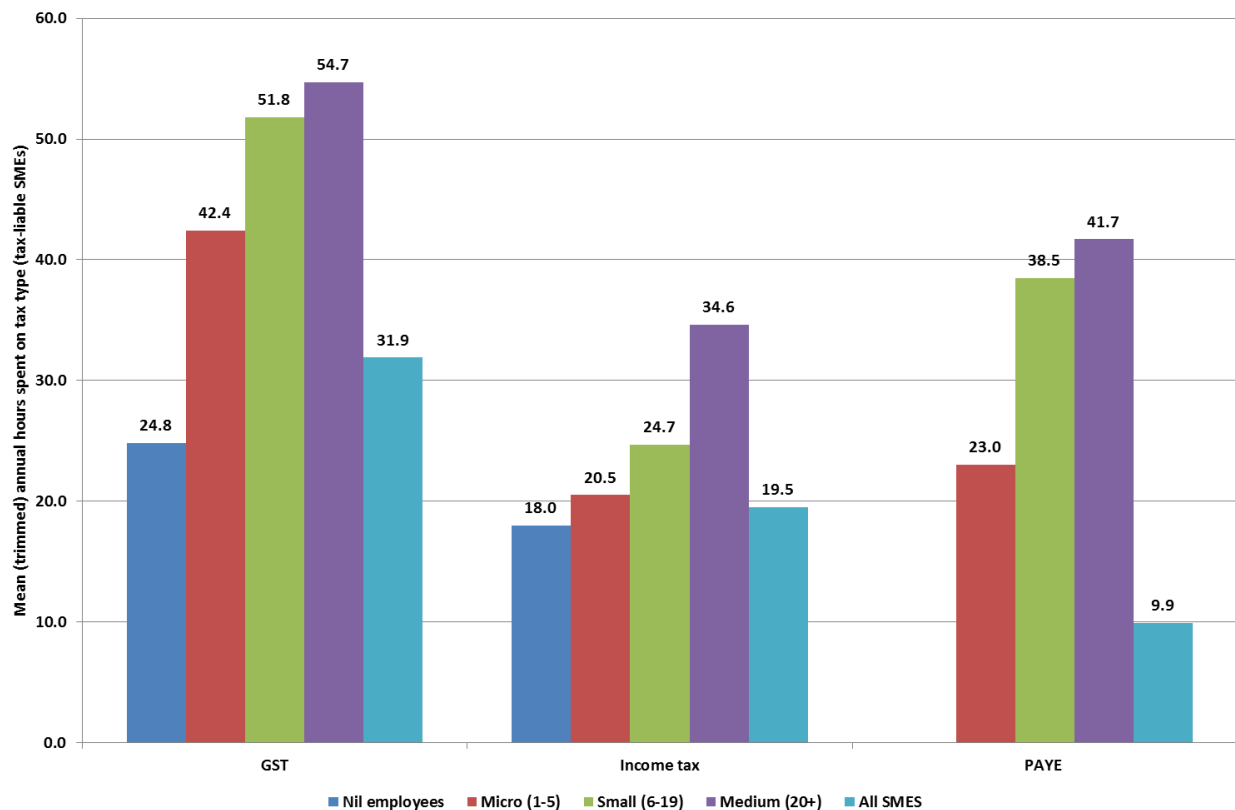
**Figure 13.1: Mean (trimmed annual hours of internal time for main tax types by business size (employees))**

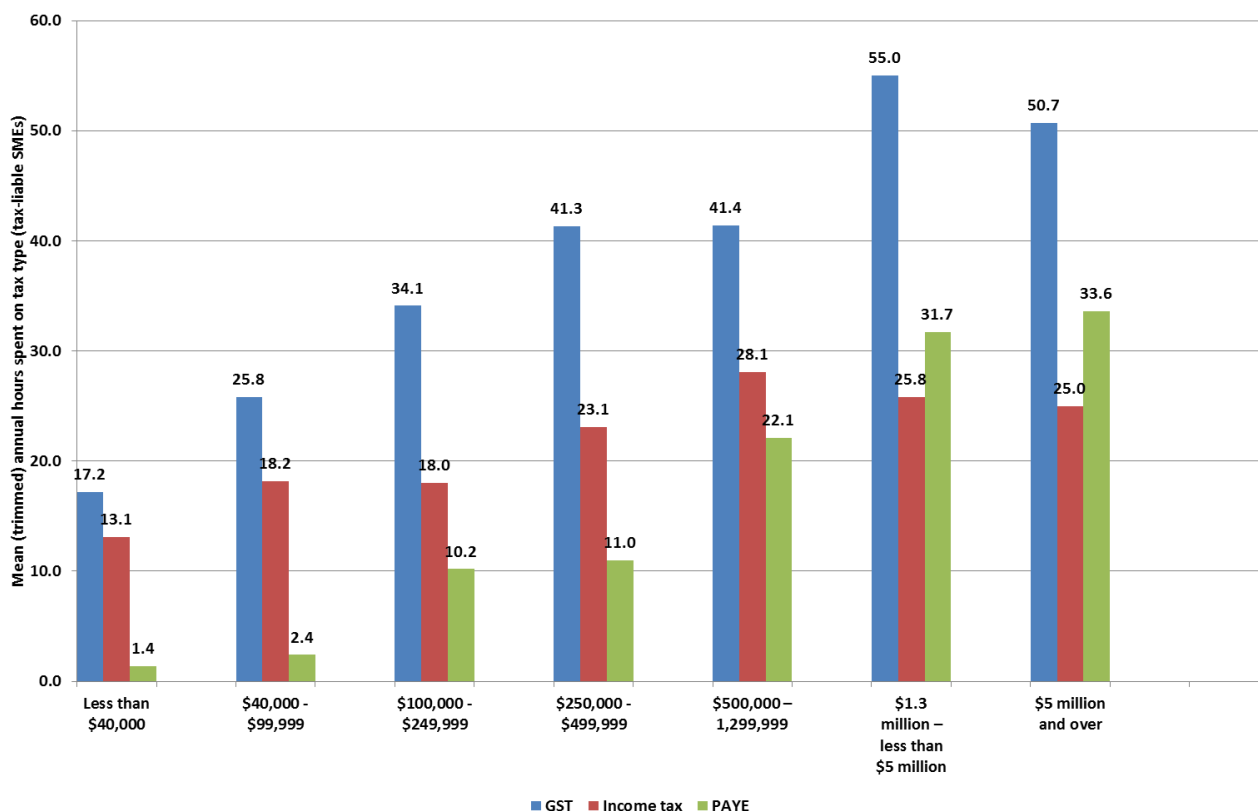
Table 13.2 summaries the annual mean (trimmed) internal hours by tax type and business size as determined by annual turnover. While there are the odd exceptions, the overall trend is for an increase in the average annual hours as annual turnover increases (as graphically represented for the three main taxes in Figure 13.2). The exception to this is in relation to GST, with businesses having annual turnovers of between \$250,000 and \$499,999 reporting similar hours as those with annual turnovers of between \$500,000 and \$1,299,999.

**Table 13.2: Summary of mean (trimmed) annual hours of internal time spent on all tax activities by tax type and business size (number of employees)**

Business size (turnover)	GST	Income tax	PAYE	KiwiSaver	FBT	All tax types
Less than \$40,000 (mean in turnover range = \$34,445.76)	17.2 (112)	13.1 (113)	1.4 (114)	0.3 (116)	0.2 (116)	42.6 (113)
\$40,000 - \$99,999 (mean in range = \$64,901.75)	25.8 (172)	18.2 (166)	2.4 (174)	0.5 (177)	0.2 (177)	59.6(174)
\$100,000 - \$249,999 (mean in range = \$160,719.72)	34.1 (184)	18.0 (178)	10.2 (187)	2.4 (186)	0.2 (189)	74.8 (187)
\$250,000 - \$499,999 (mean in range = \$354,418.44)	41.3 (135)	23.1 (130)	11.0 (137)	3.7 (137)	1.0 (137)	81.7 (138)
\$500,000 – 1,299,999 (mean in range = \$805,792.03)	41.4 (166)	28.1 (168)	22.1 (170)	8.2 (166)	1.3 (167)	101.2 (170)
\$1.3 million – less than \$5 million (mean in range = \$2,218,756.12)	55.0 (94)	25.8 (96)	31.7 (100)	7.0 (98)	3.0 (102)	147.9 (96)
\$5 million and over (mean in range = \$13,882,938.54)	50.7 (276)	25.0 (277)	33.6 (287)	12.9 (294)	6.4 (290)	139.6 (279)

Base: All respondents (excluding those who indicated 'don't know or 'not applicable') regardless of whether they pay/file a particular tax type. Source: long survey questionnaire Q1, Q4 and Q13b; short questionnaire Q5a, Q5b and Q5c.

Figure 13.2: Mean annual hours of internal time for main tax types by business size (turnover)



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

As shown in Table 13.4, the mean combined tax compliance cost across all tax types and for all SMEs is \$5,861. This compares with a median cost of \$3,834 (Table 13.5).

Overall, mean combined tax compliance costs increase as business size increases, ranging from \$4,534 for those SMEs with no employees through to \$12,512 for those with 20 or more employees. This also holds for individual tax types.

Figure 13.3 overleaf directly compares the main tax compliance costs for each tax type by business size. GST and income tax costs are the greatest contributors to the overall mean tax compliance costs, followed by PAYE.

Figure 13.3: Combined mean tax compliance costs (internal plus external) by size of business

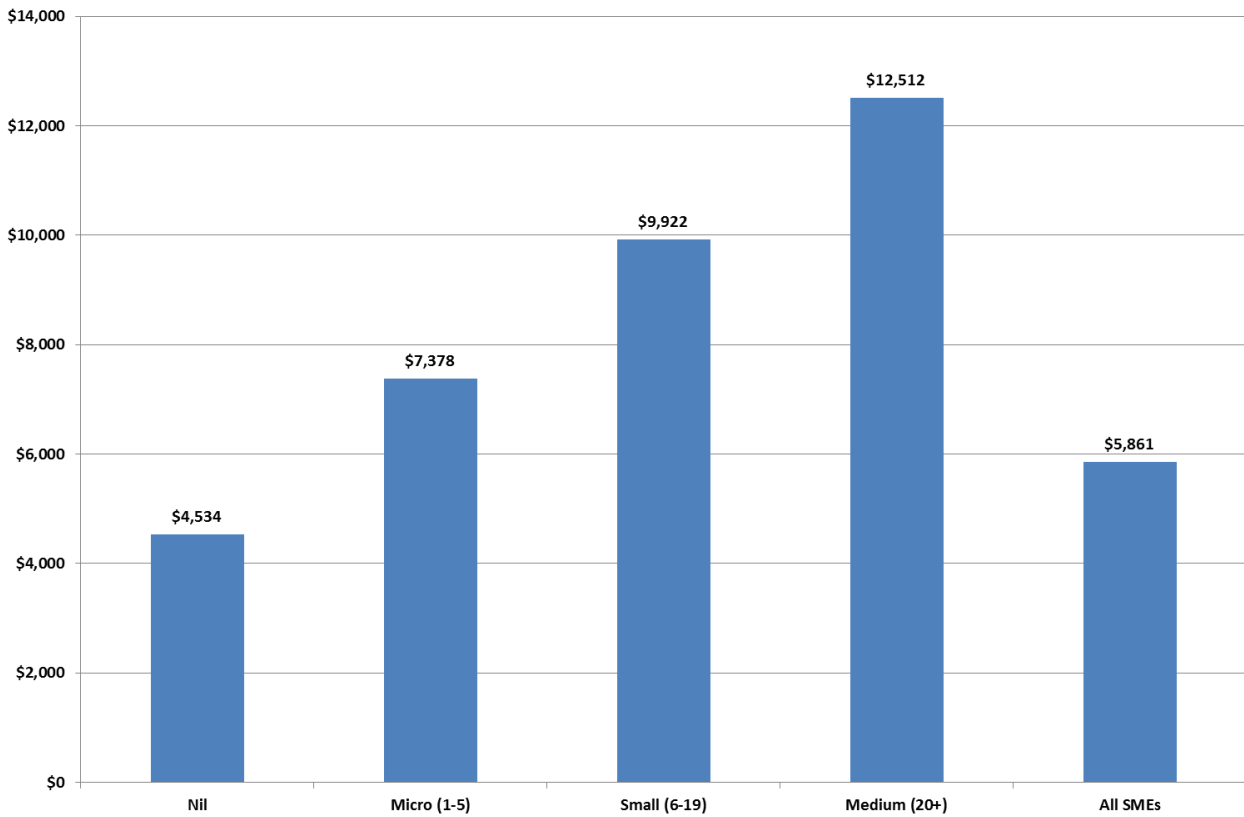


Figure 13.4: Comparison of overall internal and external tax compliance costs for the three main tax types

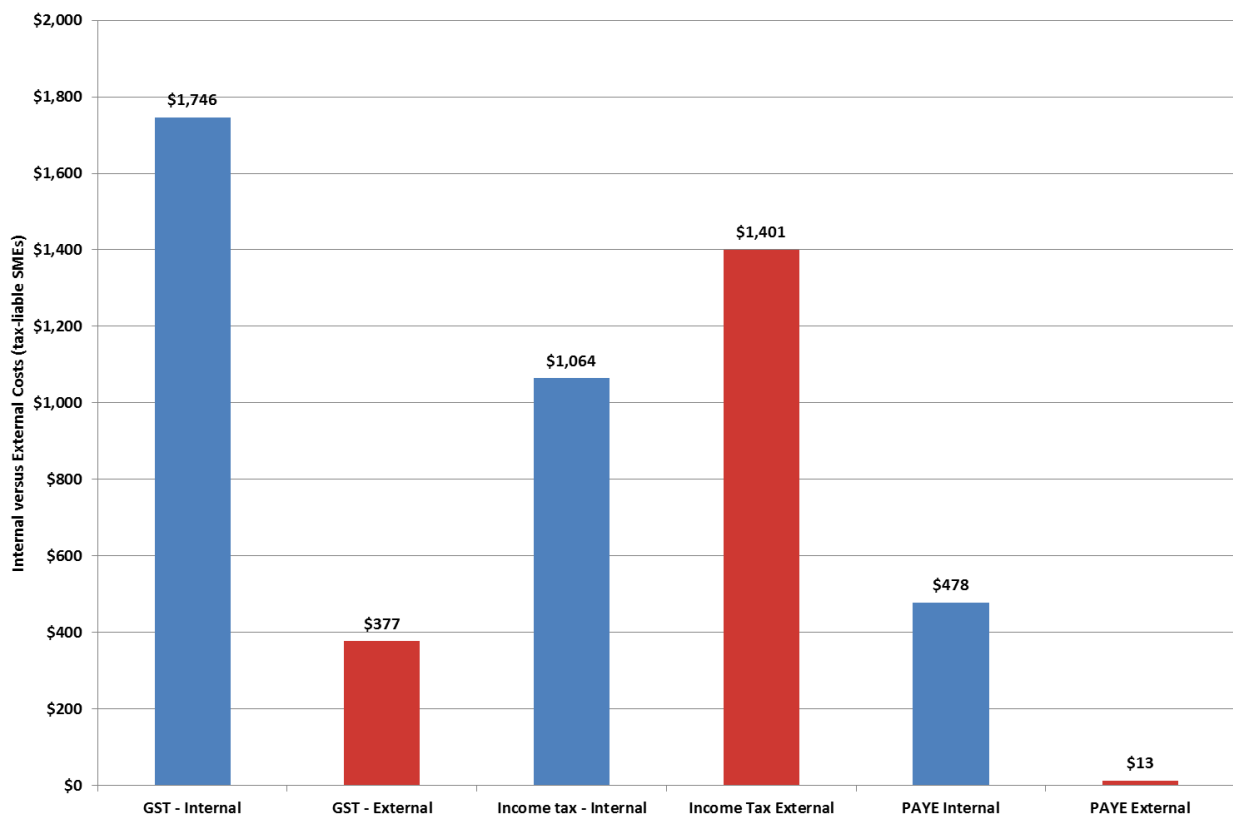




Table 13.4: Summary of mean (trimmed) annual tax compliance costs by business size (number of employees)

		Nil	Micro (1-5)	Small (6-19)	Medium (20+)	All SMEs
GST	Internal	\$1,460 (358) +/- \$198	\$2,207 (370) +/- \$261	\$2,465 (251) +/- \$392	\$2,275 (178) +/- \$528	\$1,746 (1,158) +/- \$148
	External	\$293 (362) +/- \$53	\$469 (380) +/- \$62	\$665 (257) +/- \$116	\$843 (175) +/- \$189	\$377 (1175) +/- \$39
	Overall	\$1,788 (348) +/- \$208	\$2,799 (369) +/- \$286	\$3,207 (246) +/- \$432	\$3,403 (175) +/- \$629	\$2,194 (1,139) +/- \$157
Income tax	Internal	\$1,045 (358) +/- \$149	\$1,016 (370) +/- \$141	\$1,287 (252) +/- \$288	\$1,469 (183) +/- \$337	\$1,064 (1,164) +/- \$105
	External	\$1,090 (363) +/- \$150	\$1,727 (379) +/- \$219	\$2,349 (257) +/- \$396	\$3,667 (179) +/- \$723	\$1,401 (1179) +/- \$117
	Overall	\$2,445 (349) +/- \$300	\$2,971 (365) +/- \$312	\$3,803 (250) +/- \$552	\$5,474 (170) +/- \$900	\$2,743 (1,135) +/- \$214
PAYE	Internal	---	\$1,139 (371) +/- \$169	\$1,770 (258) +/- \$293	\$1,730 (185) +/- \$388	\$478 (1,182) +/- \$51
	External	---	\$28 (374) +/- \$6	\$37 (256) +/- \$9	\$55 (179) +/- \$14	\$13 (1,177) +/- \$2
	Overall	---	\$1,240 (354) +/- \$175	\$1,933 (249) +/- \$310	\$1,939 (183) +/- \$437	\$519 (1,142) +/- \$53
KiwiSaver	Internal	---	\$295 (374) +/- \$63	\$533 (258) +/- \$95	\$541 (185) +/- \$102	\$132 (1,187) +/- \$19
	External	---	\$1 (383) +/- \$1	\$2 (258) +/- \$1	\$6 (185) +/- \$3	\$1 (1196) +/- \$0
	Overall	---	\$300 (370) +/- \$64	\$546 (255) +/- \$96	\$553 (182) +/- \$102	\$134 (1,177) +/- \$19
FBT	Internal	\$8 (369) +/- \$7	\$53 (379) +/- \$25	\$139 (260) +/- \$63	\$286 (187) +/- \$81	\$35 (1,196) +/- \$9
	External	\$0 (369) +/- \$1	\$4 (378) +/- \$3	\$14 (260) +/- \$11	\$50 (187) +/- \$27	\$3 (1,195) +/- \$1
	Overall	\$8 (369) +/- \$7	\$57 (376) +/- \$26	\$153 (260) +/- \$65	\$351 (184) +/- \$90	\$39 (1,190) +/- \$10
All tax types	Internal	\$2,868 (352) +/- \$379	\$4,989 (376) +/- \$562	\$6,512 (252) +/- \$944	\$6,579 (179) +/- \$1,204	\$3,778 (1,160) +/- \$295
	External	\$1,413 (362) +/- \$187	\$2,268 (381) +/- \$284	\$3,225 (258) +/- \$540	\$4,956 (178) +/- \$965	\$1,842 (1,180) +/- \$148
	Overall	\$4,534 (347) +/- \$492	\$7,378 (377) +/- \$661	\$9,922 (251) +/- \$1158	\$12,512 (179) +/- \$1,902	\$5,861 (1,155) +/- \$373

All respondents regardless of whether they pay/file a particular tax type (excluding outliers). Source: long survey questionnaire Q4, Q9a, Q13b and Q13c; short survey questionnaire Q3, Q5b, Q5c.

As presented in Table 13.5, the overall median tax compliance cost for all SMEs is \$3,834 with median values ranging from \$2,995 for those SMEs with no employees to \$10,440 for 'small' businesses (6-19 employees). Generally, the median combined internal and external tax compliance costs for individual tax types increase with business size.

GST and Income tax are the only tax types where the median value for external costs is always greater than internal.

Also of note are the median external costs for both KiwiSaver and FBT, which are always below zero, regardless of business size.

**Table 13.5: Summary of median annual tax compliance costs by business size (number of employees)**

		Nil	Micro (1-5)	Small (6-19)	Medium (20+)	All SMEs
GST	Internal	\$734 (369)	\$1,467 (384)	\$1,467 (262)	\$1,467 (190)	\$1,039 (1,206)
	External	\$130 (369)	\$291 (384)	\$440 (262)	\$448 (190)	\$170 (1,206)
	Overall	\$1,100 (369)	\$2,022 (384)	\$2,323 (262)	\$2,469 (190)	\$1,467 (1,206)
Income tax	Internal	\$734 (369)	\$550 (384)	\$734 (262)	\$841 (190)	\$673 (1,206)
	External	\$736 (369)	\$1,285 (384)	\$1,729 (262)	\$2,454 (190)	\$838 (1,206)
	Overall	\$1,546 (369)	\$2,201 (384)	\$2,683 (262)	\$4,291 (190)	\$1,791 (1,206)
PAYE	Internal	\$0 (369)	\$589 (384)	\$1,177 (262)	\$1,177 (190)	\$0 (1,206)
	External	\$0 (369)	\$13 (384)	\$21 (262)	\$22 (190)	\$0 (1,206)
	Overall	\$0 (369)	\$630 (384)	\$1,196 (262)	\$1,235 (190)	\$0 (1,206)
KiwiSaver	Internal	NA	\$0 (384)	\$336 (262)	\$336 (190)	\$0 (1,206)
	External	NA	\$0 (384)	\$0 (262)	\$0 (190)	\$0 (1,206)
	Overall	NA	\$0 (384)	\$340 (262)	\$336 (190)	\$0 (1,206)
FBT	Internal	NA	\$0 (384)	\$0 (262)	\$28 (190)	\$0 (1,206)
	External	NA	\$0 (384)	\$0 (262)	\$0 (190)	\$0 (1,206)
	Overall	NA	\$0 (384)	\$0 (262)	\$39 (190)	\$0 (1,206)
All tax types	Internal	\$1,670 (369)	\$3,308 (384)	\$4,401 (262)	\$5,833 (190)	\$2,201 (1,206)
	External	\$972 (369)	\$1,750 (384)	\$2,500 (262)	\$3,504 (190)	\$1,150 (1,206)
	Overall	\$2,955 (366)	\$5,623 (381)	\$8,069 (261)	\$10,440 (189)	\$3,834 (1,198)

All respondents regardless of whether they pay/file a particular tax type (excluding outliers). Source: long survey questionnaire Q4, Q9a, Q13b and Q13c; short survey questionnaire Q3, Q5b, Q5c

As Figure 13.7 indicates, combined mean tax compliance costs as a percentage of turnover decreases as annual turnover increases. While compliance costs account for 11.6 percent of annual turnover for businesses with an annual turnover of less than \$40,000, they represent less than one tenth of one percent of annual turnover for businesses with an annual turnover of more than \$5 million.

Table 13.6 overleaf summarises mean internal, external and combined costs for each tax type by business size as determined by annual turnover. The table also includes  $\pm$  dollar ranges for each mean cost, based upon each cost's margin of error. As detailed in the table, there is a clear relationship between annual turnover and combined tax compliance costs for the three main taxes paid by most SMEs (i.e. GST, Income Tax and PAYE). This is also the case for KiwiSaver and FBT, though the incremental increases by annual turnover are much less marked than can be observed in the three main taxes.

Table 13.7 indicates median tax compliance costs by annual turnover. As might be expected given the relationship between size of business (as measured by annual turnover) and mean tax compliance costs, the untrimmed median tax compliance cost increases the greater the annual turnover. Overall, median tax compliance costs for businesses with an annual turnover of less \$40,000 were \$2,445, while the median tax compliance costs for businesses with an annual turnover of greater than \$5 million were \$9,193.

Notably, the median compliance costs in 2013 for all SMEs for PAYE, KiwiSaver and FBT were below zero dollars.

**Figure 13.7: Overall tax compliance costs as a percentage of turnover**

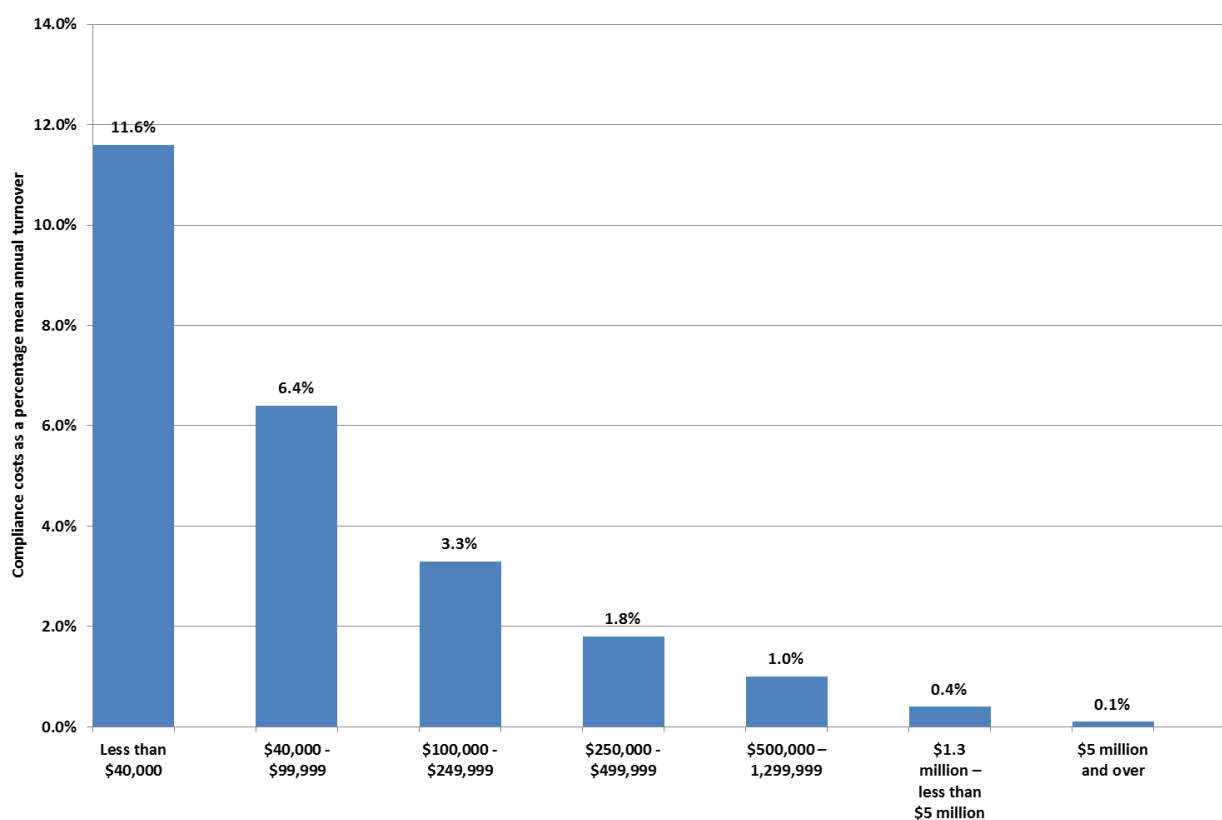


Table 13.6: Summary of mean annual tax compliance costs by business size (annual turnover)

		Less than \$40,000 (mean in range=\$31,255.28)	\$40,000 - \$99,999 (mean in range=\$65,030.46)	\$100,000 - \$249,999 (mean in range=\$175,475.71)	\$250,000 - \$499,999 (mean in range=\$358,404.31)	\$500,000 - \$1,299,999 (mean in range=\$8,57,789.27)	\$1.3 million – less than \$5 million (mean in range=\$2,643,111.97)	\$5 million and over (mean in range=\$14,416,954.68)
GST	Internal	\$1,005 (114) +/- \$223	\$1,521 (173) +/- \$301	\$1,917 (183) +/- \$350	\$2,251 (136) +/- \$518	\$2,132 (168) +/- \$356	\$2,592 (96) +/- \$788	\$2,343 (283) +/- \$485
	External	\$238 (114) +/- \$85	\$216 (177) +/- \$61	\$317 (190) +/- \$58	\$448 (136) +/- \$109	\$672 (168) +/- \$125	\$955 (102) +/- \$417	\$774 (283) +/- \$179
	Overall	\$1,283 (112) +/- \$249	\$1,830 (167) +/- \$321	\$2,303 (183) +/- \$357	\$2,596 (133) +/- \$543	\$2,881 (167) +/- \$411	\$4,020 (96) +/- \$980	\$3,301 (276) +/- \$498
Income tax	Internal	\$752 (114) +/- \$174	\$1,054 (172) +/- \$226	\$988 (186) +/- \$238	\$1,278 (135) +/- \$322	\$1,471 (170) +/- \$321	\$1,223 (98) +/- \$396	\$1,085 (285) +/- \$225
	External	\$890 (115) +/- \$256	\$792 (178) +/- \$166	\$1,223 (190) +/- \$209	\$1,633 (136) +/- \$312	\$2,477 (169) +/- \$469	\$2,793 (102) +/- \$815	\$3,387 (284) +/- \$808
	Overall	\$1,709 (109) +/- \$331	\$2,159 (169) +/- \$428	\$2,446 (182) +/- \$421	\$3,230 (135) +/- \$603	\$4,015 (166) +/- \$576	\$4,369 (98) +/- \$1146	\$5,042 (271) +/- \$904
PAYE	Internal	\$60 (116) +/- \$22	\$131 (175) +/- \$53	\$551 (188) +/- \$138	\$570 (138) +/- \$170	\$1,035 (170) +/- \$178	\$1,511 (101) +/- \$480	\$1,332 (289) +/- \$244
	External	\$3 (115) +/- \$2	\$5 (179) +/- \$3	\$10 (187) +/- \$4	\$14 (139) +/- \$6	\$31 (165) +/- \$8	\$33 (100) +/- \$13	\$43 (287) +/- \$10
	Overall	\$64 (112) +/- \$23	\$138 (170) +/- \$55	\$595 (180) +/- \$146	\$609 (132) +/- \$177	\$1,156 (162) +/- \$188	\$1,617 (99) +/- \$497	\$1,492 (282) +/- \$262

Table 13.6: Summary of mean annual tax compliance costs by business size (annual turnover) (cont.)

		Less than \$40,000 (mean in range=\$31,255.28)	\$40,000 - \$99,999 (mean in range=\$65,030.46)	\$100,000 - \$249,999 (mean in range=\$175,475.71)	\$250,000 - \$499,999 (mean in range=\$358,404.31)	\$500,000 - \$1,299,999 (mean in range=\$8,57,789.27)	\$1.3 million – less than \$5 million (mean in range=\$2,643,111.97)	\$5 million and over (mean in range=\$14,416,954.68)
KiwiSaver	Internal	\$12 (116) +/- \$7	\$31 (177) +/- \$27	\$133 (189) +/- \$51	\$144 (137) +/- \$49	\$356 (170) +/- \$80	\$326 (99) +/- \$126	\$461 (294) +/- \$129
	External	\$0 (116) +/- \$0	\$0 (179) +/- \$0	\$1 (191) +/- \$1	\$0 (140) +/- \$0	\$1 (170) +/- \$0	\$1 (101) +/- \$1	\$3 (294) +/- \$1
	Overall	\$12 (116) +/- \$7	\$31 (175) +/- \$27	\$134 (189) +/- \$52	\$145 (136) +/- \$49	\$360 (169) +/- \$80	\$336 (96) +/- \$127	\$466 (291) +/- \$129
FBT	Internal	\$10 (116) +/- \$10	\$11 (178) +/- \$14	\$12 (192) +/- \$9	\$29 (138) +/- \$26	\$55 (170) +/- \$25	\$135 (103) +/- \$102	\$237 (294) +/- \$99
	External	\$0 (116) +/- \$0	\$1 (179) +/- \$1	\$2 (191) +/- \$3	\$2 (139) +/- \$2	\$6 (168) +/- \$5	\$11 (104) +/- \$10	\$28 (293) +/- \$16
	Overall	\$11 (116) +/- \$11	\$11 (178) +/- \$14	\$14 (192) +/- \$10	\$31 (137) +/- \$27	\$61 (169) +/- \$27	\$147 (101) +/- \$106	\$269 (292) +/- \$101
All tax types	Internal	\$2,145 (111) +/- \$576	\$2,973 (171) +/- \$521	\$3,979 (186) +/- \$729	\$4,424 (137) +/- \$857	\$4,985 (170) +/- \$744	\$6,715 (96) +/- \$1,866	\$6,155 (284) +/- \$1,130
	External	\$1,165 (114) +/- \$301	\$1,066 (178) +/- \$218	\$1,558 (190) +/- \$244	\$2,112 (137) +/- \$382	\$3,288 (169) +/- \$618	\$3,983 (103) +/- \$1,215	\$4,299 (284) +/- \$975
	Overall	\$3,619 (112) +/- \$867	\$4,135 (168) +/- \$557	\$5,793 (189) +/- \$957	\$6,476 (136) +/- \$1,010	\$8,657 (165) +/- \$951	\$11,160 (100) +/- \$2,379	\$11,449 (281) +/- \$1,424

All respondents regardless of whether they pay/file a particular tax type (excluding outliers). Source: long survey questionnaire Q9a, Q13b and Q13c; short survey questionnaire Q3, Q5b, Q5c. Inland Revenue data was supplied for the purposes of calculating the mean turnover figures.

Table 13.7: Summary of median annual tax compliance costs by business size (annual turnover)

		Less than \$40,000	\$40,000 - \$99,999	\$100,000 - \$249,999	\$250,000 - \$499,999	\$500,000 - \$1,299,999	\$1.3 million – less than \$5 million	\$5 million and over)	All SMEs
GST	Internal	\$367 (114)	\$978 (173)	\$1,100 (183)	\$1,467 (136)	\$1,467 (168)	\$1,406 (96)	\$1,345 (283)	\$1,040 (1,158)
	External	\$0 (114)	\$85 (177)	\$212 (190)	\$320 (136)	\$453 (168)	\$424 (102)	\$425 (283)	\$171 (1,175)
	Overall	\$734 (112)	\$1,238 (167)	\$1,424 (183)	\$1,896 (133)	\$2,272 (167)	\$3,200 (96)	\$2,399 (276)	\$1,467 (1,139)
Income tax	Internal	\$367 (114)	\$734 (172)	\$611 (186)	\$550 (135)	\$856 (170)	\$734 (98)	\$673 (285)	\$673 (1,164)
	External	\$620 (115)	\$626 (178)	\$994 (190)	\$1,320 (136)	\$1,722 (169)	\$2,499 (102)	\$2,199 (284)	\$838 (1,179)
	Overall	\$1,234 (109)	\$1,525 (169)	\$1,884 (182)	\$2,489 (135)	\$3,215 (166)	\$3,503 (98)	\$3,467 (271)	\$1,884 (1,135)
PAYE	Internal	\$0 (116)	\$0 (175)	\$0 (188)	\$0 (138)	\$611 (170)	\$589 (101)	\$897 (289)	\$0 (1,182)
	External	\$0 (115)	\$0 (179)	\$0 (187)	\$0 (139)	\$14 (165)	\$0 (100)	\$22 (287)	\$0 (1,177)
	Overall	\$0 (112)	\$0 (170)	\$0 (180)	\$0 (132)	\$725 (162)	\$626 (99)	\$1,024 (282)	\$0 (1,142)
KiwiSaver	Internal	\$0 (116)	\$0 (177)	\$0 (189)	\$0 (137)	\$61 (170)	\$0 (99)	\$196 (294)	\$0 (1,187)
	External	\$0 (116)	\$0 (179)	\$0 (191)	\$0 (140)	\$0 (170)	\$0 (101)	\$0 (294)	\$0 (1,196)
	Overall	\$0 (116)	\$0 (175)	\$0 (189)	\$0 (136)	\$86 (169)	\$0 (96)	\$224 (291)	\$0 (1,177)

**Table 13.7: Summary of median annual tax compliance costs by business size (annual turnover)**

		Less than \$40,000	\$40,000 - \$99,999	\$100,000 - \$249,999	\$250,000 - \$499,999	\$500,000 - \$1,299,999	\$1.3 million – less than \$5 million	\$5 million and over)	All SMEs
FBT	Internal	\$0 (116)	\$0 (178)	\$0 (192)	\$0 (138)	\$0 (170)	\$0 (103)	\$0 (294)	\$0 (1,196)
	External	\$0 (116)	\$0 (179)	\$0 (191)	\$0 (139)	\$0 (168)	\$0 (104)	\$0 (293)	\$0 (1,195)
	Overall	\$0 (116)	\$0 (178)	\$0 (192)	\$0 (137)	\$0 (169)	\$0 (101)	\$0 (292)	\$0 (1,190)
All tax types	Internal	\$1,284 (111)	\$1,834 (171)	\$2,201 (186)	\$3,301 (137)	\$3,668 (170)	\$4,157 (96)	\$3,636 (284)	\$2,201 (1,160)
	External	\$880 (114)	\$800 (178)	\$1,200 (190)	\$1,768 (137)	\$2,500 (169)	\$3,000 (103)	\$3,000 (284)	\$1,166 (1,180)
	Overall	\$2,445 (112)	\$2,955 (168)	\$4,393 (189)	\$5,262 (136)	\$7,369 (165)	\$8,811 (100)	\$9,193 (281)	\$3,967 (1,155)

All respondents regardless of whether they pay/file a particular tax type (excluding outliers). Source: long survey questionnaire Q9a, Q13b and Q13c; short survey questionnaire Q3, Q5b, Q5c.

## Section 14. Psychological tax compliance costs

This section details the psychological tax compliance costs that businesses experience in meeting their compliance obligations. Specifically, they were asked to rate how stressful they found it was to meet Inland Revenue requirements during the last 12 months (excluding the issue of finding the money).

This section also draws together the reported stress levels associated with meeting requirements for each of the individual tax types (as reported in earlier sections of this report). However, it should be noted that the stress question relating to each of the individual tax types also included any stress involved in finding the money. Therefore, the data pertaining to individual tax types are not purely psychological compliance costs as they are usually defined.

Table 14.1 summarises the percentage of respondents filing a particular tax type and reporting each level of stress on a seven-point scale, where 1=not at all stressful and 7=extremely stressful.

Figure 14.1 presents the same data, in relation to as Table 14.1, but grouped into three bands:

- *Less than moderately stressful* (rating of 1-4)
- *Moderately stressful* (rating of 4)
- *More than moderately stressful* (rating of 5-7).

The majority of respondents reported that meeting their overall tax obligations in the last 12 months (excluding the issue of finding the money) was *less than moderately stressful* (62 percent), while at the other extreme, three percent reported that doing so was *extremely stressful* (rating of “7”).

Within each tax type, at least 55 percent reported that meeting their tax obligations for that particular tax was *less than moderately stressful*, with such responses by tax type ranging from 55 percent for KiwiSaver to 79 percent for FBT.

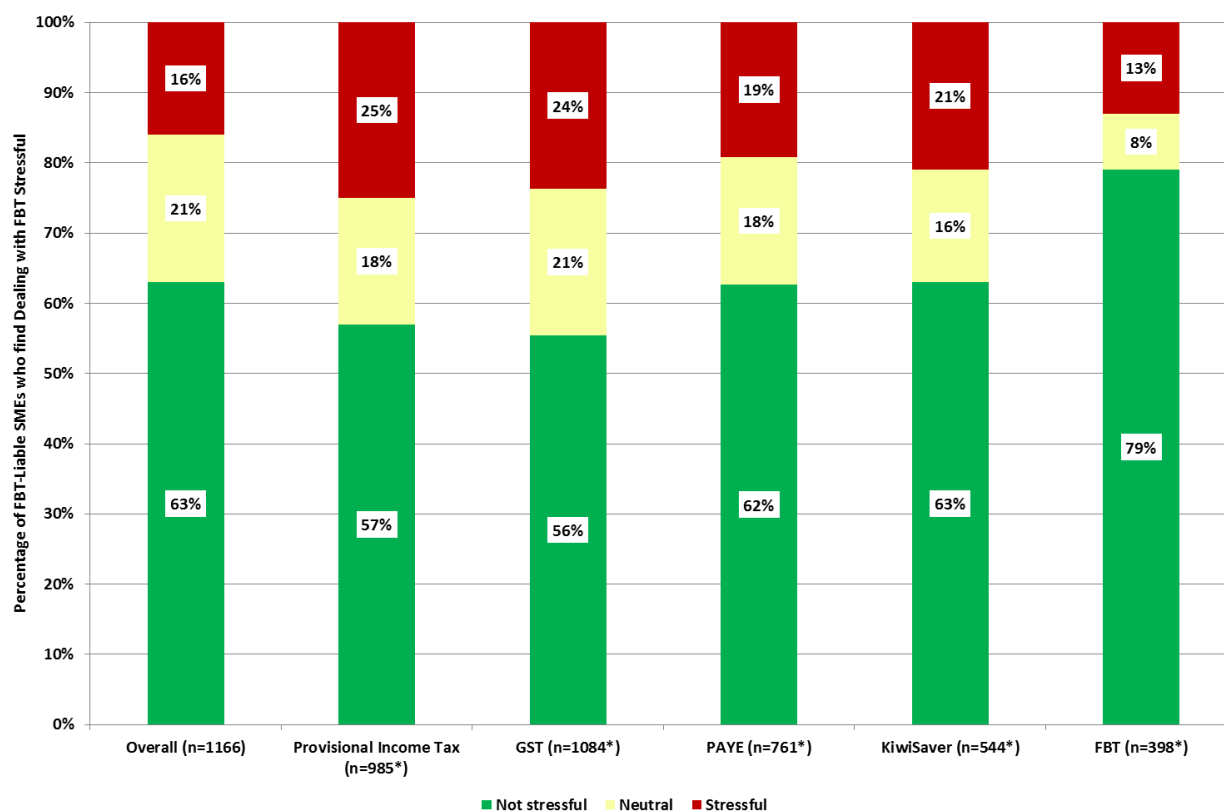
**Table 14.1: Overall psychological tax compliance costs and reported stress levels by tax type**

Level of reported stress	Overall tax requirements (n=1,166) %	GST (n=1,035) %	Income tax (n=1,113) %	PAYE (n=778) %	KiwiSaver (n=551) %	FBT (n=282) %
1 (not at all stressful)	18	19	19	13	12	13
2	24	23	24	24	25	27
3	20	20	20	19	18	21
4 (moderately stressful)	21	21	21	23	25	18
5	9	9	9	11	11	16
6	5	5	5	8	7	3
7 (extremely stressful)	3	3	3	3	2	2

Base: All respondents who filed/paid specific taxes (excluding those who indicated ‘not applicable’). Source: long survey questionnaire Q21-Q26; short survey questionnaire Q12 and Q13.



Figure 14.1 Percentage of respondents reporting banded levels of stress related to each tax type



Base: All respondents who filed/paid income tax (excluding those who indicated 'not applicable'). Source: long survey questionnaire Q21-Q26; short survey questionnaire Q12 and Q13.

Table 14.2 summarises the levels of overall reported stress (scale of 1 to 7) by business size as a measure of overall psychological costs. These data are grouped into three bands in Figure 14.2.

Overall, SMEs with 1-5 employees were less likely to report that meeting their tax obligations overall was *less than moderately stressful* (53 percent).

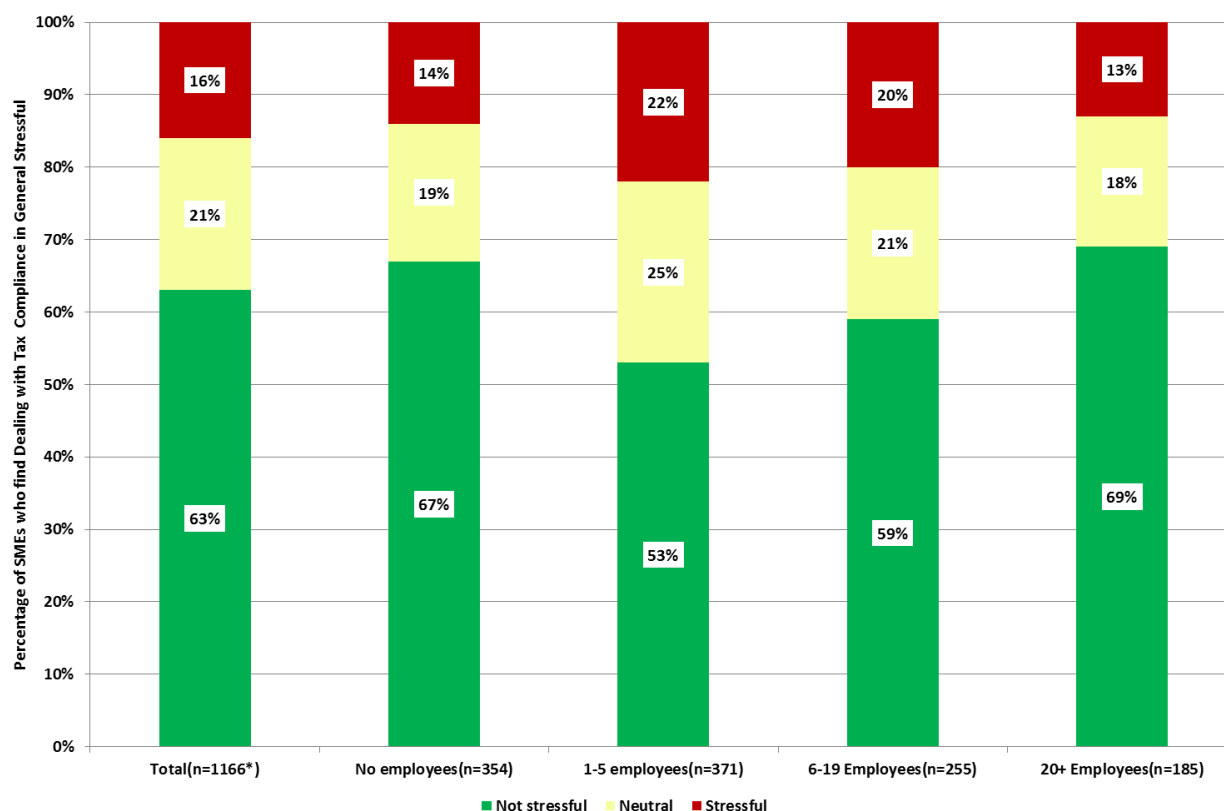
Generally, the reported stress levels of SMEs with no employees and those with 20 plus employees were similar, and both groups were also more likely to report that meeting their tax obligations overall was *less than moderately stressful*.

In contrast, while the percentages of SMEs with 1-5 or 6 to 19 employees in each of the different stress bands were similar, they were more likely to report that meeting their tax obligations was more than moderately stressful, when compared with SMEs with no or 20 plus employees.

**Table 14.2: Overall psychological tax compliance costs and reported stress levels by business size (number of employees)**

Level of reported stress	Nil employees (n=354) %	Micro (1-5) (n=371) %	Small (6-19) (n=255) %	Medium (20+) (n=185) %	All (n=1,166) %
1 (not at all stressful)	21	13	14	27	18
2	23	26	28	18	24
3	23	14	17	23	20
4 (moderately stressful)	19	25	21	18	21
5	8	11	12	7	9
6	3	8	6	4	5
7	3	3	2	2	3

Base: All respondents who filed/paid income tax (excluding those who indicated 'not applicable'). Source: long survey questionnaire Q20, Q21-Q26; short survey questionnaire Q12 and Q13.

**Figure 14.2 Percentage of respondents reporting banded levels of stress related to meeting IRD requirements overall (ignoring finding the money) by business size**

Base: excludes respondents where no stress rating or business size information was provided.

## Section 15. Current methods and preferred ways of filing and paying taxes

This section of the report summarises the results to questions which measured the frequencies with which SMEs file and pay different types of tax; the methods they used to file or pay these taxes; and their preferred methods of doing so.

### Frequency of filing and paying different tax types

Table 15.1 details the mean (trimmed) number of times respondents filed different types of tax returns by business size in the last 12 months, and Table 15.2 describes the mean (trimmed) number of times SMEs paid these taxes.

As noted in Table 15.1, The most frequently filed tax type reported by SMEs was PAYE, filed  $\bar{x}$  =13.0 times on average per annum for all PAYE-liable SMEs. Similarly, the most frequently paid tax by SMEs is PAYE.

**Table 15.1: Mean (trimmed) number of times SMEs file different types of tax returns by business size**

Business size (number of employees)	GST (trimmed means)	Income tax	PAYE (including KiwiSaver)	RWT	FBT
Nil employees	4.9 (266)	1.7 (239)	--- (18)	0.9 (83)	1.7 (8)
Micro (1-5)	6.1 (355)	2 (294)	11.5 (326)	1.8 (166)	2.1 (51)
Small (6-19)	6.9 (241)	2.3 (202)	12.7 (242)	2.5 (128)	3 (75)
Medium (20+)	6.8 (179)	2 (149)	16.7 (180)	5.1 (114)	3.1 (113)
All SMES	5.5 (1,042)	1.8 (884)	13 (766)	1.5 (491)	2.4 (247)

Base: All respondents who filed (excluding those who indicated 'don't know or 'not applicable'). Source: long survey questionnaire Q16b; short survey questionnaire Q6a.

**Table 15.2: Mean (trimmed) number of times SMEs pay different types of tax returns by business size**

Business size (number of employees)	GST	Income tax	PAYE (including KiwiSaver)	RWT	FBT
Nil employees	4.8 (265)	2.2 (220)	--- (26)	1.4 (84)	1.7 (6)
Micro (1-5)	5.8 (354)	2.8 (295)	11.6 (326)	1.7 (149)	2.1 (49)
Small (6-19)	6.8 (244)	2.8 (195)	12.8 (244)	2.6 (127)	2.8 (74)
Medium (20+)	6.3 (174)	2.7 (146)	16.7 (180)	4 (118)	3 (108)
All SMES	5.3 (1,038)	2.4 (857)	13 (776)	1.7 (478)	2.3 (237)

Base: All respondents who filed (excluding those who indicated 'don't know or 'not applicable'). Source: long survey questionnaire Q17a; short survey questionnaire Q7a.

### Frequency of filing and paying different tax types electronically

As follow-up questions, respondents were asked how many of their filings and payments were done electronically. Table 15.3 details what percentage of SMEs, who filed different types of tax returns in the last 12 months, did so electronically, and Table 15.4 details the percentage of tax payments that were done electronically as well.

As detailed in Table 15.3, respondents most frequently filed GST electronically (98 percent), followed by PAYE (96 percent) and FBT (88 percent). In comparison, fewer SMEs reported filing their RWT returns electronically (32 percent), although at 78 percent, “medium” businesses are significantly more likely to report having done so.

Table 15.4 shows that the percentages of tax filing/paying SMEs who reported paying their taxes electronically are similar to the proportions filing electronically.

**Table 15.3: Percentage of SMEs’ filings done electronically by tax type and business size**

Business size (number of employees)	GST %	Income tax %	PAYE (including KiwiSaver) %	RWT %	FBT %
Nil employees	97 (n=273)	81 (n=313)	79 (n=21)	20 (n=155)	100 (n=8)
Micro (1-5)	98 (n=360)	95 (n=299)	98 (n=335)	54 (n=153)	81 (n=51)
Small (6-19)	99 (n=247)	92 (n=207)	99 (n=247)	47 (n=126)	90 (n=76)
Medium (20+)	97 (n=182)	94 (n=150)	96 (n=185)	78 (n=113)	87 (n=115)
All SMES	98 (n=1063)	85 (n=969)	96 (n=788)	32 (n=547)	88 (n=250)

Base: All respondents who filed a particular tax type (excluding those who indicated ‘don’t know or ‘not applicable’). Source: long survey questionnaire Q16b and Q16c; short survey questionnaire Q6a.

**Table 15.4: Percentage of SMEs’ tax payments done electronically by tax type and business size**

Business size (number of employees)	GST %	Income tax %	PAYE (including KiwiSaver) %	RWT %	FBT %
Nil employees	96 (n=272)	75 (n=300)	79 (n=31)	14 (n=168)	70 (n=7)
Micro (1-5)	96 (n=365)	83 (n=311)	97 (n=337)	37 (n=181)	66 (n=55)
Small (6-19)	97 (n=249)	77 (n=209)	98 (n=250)	38 (n=141)	80 (n=78)
Medium (20+)	94 (n=179)	90 (n=154)	97 (n=183)	64 (n=123)	85 (n=110)
All SMES	96 (n=1,066)	78 (n=975)	94 (n=801)	23 (n=613)	73 (n=250)

Base: All respondents who filed a particular tax type (excluding those who indicated ‘don’t know or ‘not applicable’). Source: long survey questionnaire Q17a and Q17b.; short survey questionnaire Q7a.

### Preferred methods for filing and paying different tax types

Respondents were asked their preferred method(s) for filing and paying different tax types. Table 15.5 details their preferences for filings different types of tax returns, while Table 15.6 details their preferences for making different types of tax payments

As detailed in Table 15.5, while the majority of SMEs reported filing their GST electronically (98 percent), smaller proportions reported that this was their preferred filing method (50 percent), with 36 percent preferring to file by post.

Similarly, while the majority of SMEs reported paying their GST electronically (96 percent), smaller proportions reported that this was their preferred paying method (60 percent), with 32 percent preferring to pay by post.

This pattern is reflected in the current methods and preferences for filing and paying all other tax types as well.

**Table 15.5: Preferred methods for filing different tax types**

Filing method	GST % (n=1,063)	Income tax % (n=1,016)	PAYE (including KiwiSaver %) (n=791)	RWT % (n=593)	FBT % (n=257)
Electronically	50	33	55	33	44
By post	36	17	37	23	25
Through a tax advisor	16	53	10	46	32

Base: All respondents who filed tax type. Source: long survey questionnaire Q16d; short survey questionnaire Q6b.

**Table 15.6: Preferred methods for paying different tax types**

Filing method	GST % (n=1,064)	Income tax % (n=1,032)	PAYE (including KiwiSaver %) (n=785)	RWT % (n=577)	FBT % (n=254)
Electronically	60	56	67	50	68
By post	32	27	29	23	18
Through a tax advisor	9	20	5	28	18

Base: All respondents who paid. Source: long survey questionnaire Q17d; short survey questionnaire Q7b.

## Section 16. Concluding comments

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This report reflects the self-reported tax compliance costs of small and medium businesses in New Zealand as defined in the Glossary at the beginning of the report.

It draws together survey data from New Zealand's small and medium businesses and their tax agents, alongside information from Inland Revenue's administrative records, to create a detailed picture of how much it costs SMEs to meet their tax requirements.

An accompanying publication provides comparisons between 2009 and 2004 SME tax compliance costs. These two reports collectively address the research objectives of measuring SME tax compliance costs in 2013 and measuring the change in SME tax compliance costs since 2004.

# Appendices

## A. Population and sample strata

This section shows the strata sizes for the overall SME population and selected samples.

**Table A.1: Population distribution income tax only**

Income only	Total
Company (IR 4)	21,002
Individual (IR 3)	15,001
Partnership (IR 7)	12,381
Trust (IR 6)	4,447
Total	48,778

**Table A.2: Population distribution multi-tax – KiwiSaver**

Number of employees	Nil Turnover	<100k	100k-1.3m	1.3m +	Total KiwiSaver
No employees	0	0	0	0	0
Small (1-5)	8	8	143	51	210
Medium (6-19)	2	4	130	218	354
Large (20 +)	26	1	10	438	475
Total	36	13	283	707	1,039

**Table A.2: Population distribution multi-tax – Non-KiwiSaver**

Number of employees	Nil Turnover	<100k	100k-1.3m	1.3m +	Total Non-KiwiSaver
No employees	0	139,770	87,704	3,359	230,833
Small 1-5	1,918	23,218	82,462	4,566	112,164
Medium (6-19)	742	863	22,950	8,269	32,824
Large 20 +	290	92	1,710	6,004	8,096
Total	2,950	163,943	194,826	22,198	383,917



## B1. Sample profile –weighted data

## B2. Sample profile – unweighted data

**Table B.1: Sample profile by business size (number of employees) – unweighted data**

	Nil employees %	Micro (1-5) %	Small (6-19) %	Medium (20+) %	All %
<b>Number of owners working in the business</b>					
0	9	5	10	17	9
1	38	39	30	26	34
2	30	47	42	26	38
3+	2	8	18	29	12
Missing information	21	1	0	1	7
<b>Business size – Number of employees (full-time and part-time combined)</b>					
Nil	100	0	0	0	31
Micro (1-5) employees	0	100	0	0	32
Small (6-19 employees)	0	0	100	0	22
Medium (20+ employees)	0	0	0	100	16
Missing information	0	0	0	0	0
<b>Business size – turnover</b>					
Nothing	3	1	1	0	1
\$1 - \$19,999	7	1	1	0	3
\$20,000 - \$39,999	15	3	0	1	6
\$40,000 - \$59,999	15	4	1	0	6
\$60,000 - \$99,999	20	7	1	0	9
\$100,000 - \$249,999	22	26	3	1	16
\$250,000 - \$499,999	11	20	7	1	11
\$500,000 - \$1,299,999	4	22	24	5	14
\$1.3 million - \$1,999,999	1	7	21	7	8
\$2 million - \$4,999,999	1	6	26	24	12
\$5 million - \$9,999,999	0	2	9	24	6
\$10 million - \$23,999,999	0	0	3	27	5
\$24 million - \$49,999,999	0	0	1	7	1
\$50 million - \$99,999,999	0	0	1	2	1
\$100 million or more	0	0	0	1	0
Missing information	1	1	2	1	1

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

	Nil employees %	Micro (1-5) %	Small (6-19) %	Medium (20+) %	All %
<b>Length of time in business</b>					
Less than six months	2	1	2	1	1
1 – 2 years	8	6	5	3	6
3 – 5 years	19	16	8	5	13
6 – 10 years	23	20	18	10	19
> 10 years	49	56	66	80	60
Missing information	1	1	1	1	1
<b>Use of tax advisor</b>					
Don't use a tax advisor	21	15	20	14	18
Use a tax advisor	79	84	79	85	81
Missing information	0	1	1	1	1
<b>Main business activity</b>					
Agriculture	19	26	12	8	18
Mining	0	0	0	1	0
Manufacturing	1	5	14	21	8
Electricity, gas, water supply	2	1	0	1	1
Construction, landscape, building repair	7	10	8	12	9
Wholesale trade	2	5	12	12	7
Retail trade	4	13	12	7	9
Accommodation, café, restaurant	5	3	7	5	5
Transport, storage	4	2	4	3	3
Communication services	3	4	3	5	4
Finance, insurance	5	3	2	2	3
Property and business services	35	12	9	11	18
Education	2	1	4	3	2
Health and community services	4	6	7	4	6
Cultural and recreational services	1	0	2	1	1
Personal and other services	5	6	2	2	4
Other	2	1	2	1	1
Missing information	0	0	0	1	0
<b>Industry sector groupings</b>					
Primary production	19	26	11	8	18
Industrial	7	15	22	34	17
Distribution	8	7	8	9	8
Business and finance	42	20	23	25	28
Service	22	31	34	23	28
Missing information	1	2	2	2	2

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

	Nil employees %	Micro (1-5) %	Small (6-19) %	Medium (20+) %	All %
<b>Legal entity</b>					
Company					
Individual	84	100	100	100	95
Partnership	6	0	0	0	2
Trust	4	0	0	0	1
Missing information	6	0	0	0	2
<b>Tax type</b>					
Income	97	95	94	96	96
GST	79	99	100	100	93
PAYE	10	93	99	100	70
KiwiSaver	2	53	78	88	48
FBT	3	19	33	65	24
<b>Tax type combination (main types)</b>					
Income only					
Income, GST	22	0	0	0	7
Income, GST, PAYE	68	6	1	0	23
Income, GST, PAYE, FBT	8	32	13	4	16
Income, GST, PAYE, KiwiSaver	1	6	8	7	5
Income, GST, PAYE, KiwiSaver, FBT	1	39	47	26	27
Retail trade	1	15	31	63	22
<b>Survey completed</b>					
Multi-tax (long)	80	100	100	100	94
Short	20	0	0	0	6
<b>Number of respondents (unweighted)</b>	1,206	369	384	262	190
<b>SME population (calculated using weighted base sizes)</b>	434,796	280,319	112,374	33,178	8,571

Source: Long questionnaire Q3, Q4, Q9a, Q19, Q20, Q28; short questionnaire Q3, Q9, Q10 Q11; and IR database data.

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

	GST %	Income Tax %	PAYE %	KiwiSaver %	FBT %	All %
<b>Number of owners working in the business</b>						
0	10	9	9	11	16	9
1	37	35	33	33	30	35
2	40	38	41	38	33	38
3+	13	12	16	18	21	12
Missing information	1	7	1	1	1	7
<b>Business size – Number of employees (full-time and part-time combined)</b>						
Nil	26	31	4	1	3	30
Micro (1-5) employees	34	32	42	35	25	32
Small (6-19 employees)	23	22	31	35	30	22
Medium (20+ employees)	17	16	23	29	42	16
Missing information	0	0	0	0	0	0
<b>Business size – turnover</b>						
Nothing	1	1	1	1	0	1
\$1 - \$19,999	2	2	1	0	0	3
\$20,000 - \$39,999	4	6	2	1	2	6
\$40,000- \$59,999	5	6	2	1	0	6
\$60,000 - \$99,999	8	9	4	2	2	9
\$100,000 - \$249,999	16	16	13	9	5	16
\$250,000 - \$499,999	12	11	12	11	6	12
\$500,000 - \$1,299,999	15	14	18	21	12	14
\$1.3 million - \$1,999,999	9	8	11	12	10	8
\$2 million - \$4,999,999	12	12	16	18	22	12
\$5 million - \$9,999,999	7	7	9	11	15	6
\$10 million - \$23,999,999	5	5	7	9	17	5
\$24 million - \$49,999,999	1	1	2	2	5	1
\$50 million - \$99,999,999	1	1	1	1	2	1
\$100 million or more	0	0	0	0	0	0
Missing information	1	1	1	1	0	1
<b>Length of time in business</b>						
Less than six months	6	6	5	6	3	6
1 – 2 years	13	14	12	11	6	13
3 – 5 years	19	19	17	16	15	19
6 – 10 years	60	60	64	66	76	60
> 10 years	1	1	0	1	0	1
Missing information						
<b>Use of tax advisor</b>						
Don't use a tax advisor	17	16	16	17	13	18
Use a tax advisor	82	83	83	82	86	82
Missing information	1	0	1	1	1	1

**Table B.2: Sample profile by business size (number of employees) (cont.) – unweighted data**

	GST %	Income Tax %	PAYE %	KiwiSaver %	FBT %	All %
<b>Main business activity</b>						
Agriculture	18	18	18	13	8	18
Mining	0	0	0	0	0	0
Manufacturing	9	9	12	14	21	8
Electricity, gas, water supply	1	1	1	1	1	1
Construction, landscape, building repair	9	9	10	10	10	9
Wholesale trade	7	7	9	10	18	7
Retail trade	9	9	11	11	9	9
Accommodation, café, restaurant	4	5	5	4	2	5
Transport, storage	3	3	3	3	3	3
Communication services	4	4	4	5	6	4
Finance, insurance	3	3	3	2	2	3
Property and business services	17	18	10	10	13	18
Education	2	2	3	2	1	2
Health and community services	5	6	6	7	3	6
Cultural and recreational services	1	1	1	1	0	1
Personal and other services	4	4	4	4	3	4
Other	1	1	1	1	1	1
Missing information	0	0	0	0	0	0
<b>Industry sector groupings</b>						
Primary production	18	17	17	13	8	18
Industrial	18	17	22	24	31	17
Distribution	8	8	8	9	9	8
Business and finance	27	28	21	23	32	28
Service	27	27	30	30	19	28
Missing information	2	1	2	1	1	2
<b>Legal entity</b>						
Company	100	95	100	100	100	95
Individual	0	2	0	0	0	2
Partnership	0	1	0	0	0	1
Trust	0	2	0	0	0	20
Missing information	0	0	0	0	0	0
<b>Survey completed</b>						
Multi-tax (long)	80	100	100	100	100	94
Short	20	0	0	0	0	6
<b>Number of respondents (unweighted)</b>	369	384	262	190	1,206	369
<b>SME population (calculated using weighted base sizes)</b>	280,319	112,374	33,178	8,571	434,796	280,319

Source: Long questionnaire Q3, Q4, Q9a, Q9b, Q19, Q20, Q28; short questionnaire Q3, Q9, Q10 Q11; and IR database data.

## C. Internal time – excludes those who spent zero hours

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

**Table C1: Mean (trimmed) annual hours of internal time spent on tax activities by tax type**

Activity	GST	Income Tax	PAYE	KiwiSaver	FBT	All
Recording information	25.6 (881)	15.1 (610)	16.1 (606)	7.6 (490)	7.3 (193)	43 (980)
Calculating tax, completing and filing returns, paying tax	12.5 (767)	8.6 (525)	11.6 (574)	6.4 (430)	5.7 (197)	24.4 (884)
Dealing with IRD	6.3 (380)	4.9 (269)	6.7 (325)	5.2 (180)	4.6 (55)	9.1 (561)
Tax planning	9.3 (104)	8.4 (201)	7.6 (48)	NA	4.8 (23)	12.7 (244)
Dealing with tax advisors (including providing information)	8.7 (440)	7.9 (601)	6.9 (213)	6 (115)	4.5 (79)	14.8 (724)
Learning about tax laws (new or existing)	5.1 (507)	5 (421)	4.9 (408)	4.3 (303)	4.3 (160)	12.6 (647)
Other	10.5 (18)	10.1 (30)	6.2 (16)	9.6 (14)	9.4 (6)	16.4 (46)
<b>All activities</b>	<b>42.2 (958)</b>	<b>28.3 (849)</b>	<b>35 (719)</b>	<b>16.8 (544)</b>	<b>13.1 (255)</b>	<b>89.2 (1,091)</b>

Base: All respondents who filed/paid the particular tax type in question (excluding missing information and outliers). Source: long questionnaire Q13a; short questionnaire Q5a.

**Table C.2: Mean (trimmed) annual hours of internal time spent by personnel on all tax activities by tax type**

Personnel	GST	Income Tax	PAYE	KiwiSaver	FBT	All
Owners/partners/directors/trustees	35.3 (683)	23.2 (695)	24.5 (408)	12.5 (259)	6.8 (112)	62.5 (857)
Paid employees	41.4 (400)	25.9 (324)	33.8 (397)	17.3 (334)	12.4 (187)	105.6 (443)
Unpaid friends and relatives	26.3 (35)	19.6 (32)	45.6 (17)	-	25.5 (2)	44.4 (46)
<b>All personnel</b>	<b>40.4 (959)</b>	<b>27.1 (840)</b>	<b>32.3 (692)</b>	<b>16 (525)</b>	<b>13 (248)</b>	<b>74.9 (1,162)</b>

Base: All respondents who filed/paid the particular tax type in question (excluding missing information and outliers). Source: long questionnaire Q13b; short questionnaire Q5b.

## D. External costs based on tax obligations

Table D.1 presents external compliance costs by tax type and business size. The amounts under each tax type relate to the mean (trimmed) payment made for external advice in regard to that tax type among business that file that tax type, regardless of whether or not they pay for external advice. Those who do not pay for external tax services relating to that tax type, but file/pay that tax type, have been given a value of zero and included in these calculations.

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

**Table D.1: Annual external mean (trimmed) compliance costs by tax type and business size (number of employees)**

Business size (number of employees)	GST	Income Tax	PAYE	KiwiSaver	FBT	All
Nil employees	\$367 (281)	\$1,139 (347)	---	---	\$18 (10)	\$1,413 (362)
Micro (1-5)	\$479 (372)	\$1,837 (357)	\$31 (344)	\$2 (202)	\$28 (67)	\$2,268 (381)
Small (6-19)	\$669 (256)	\$2,506 (241)	\$38 (252)	\$3 (199)	\$63 (84)	\$3,225 (258)
Medium (20+)	\$844 (174)	\$3,817 (171)	\$55 (178)	\$7 (161)	\$96 (119)	\$4,956 (178)
<b>All SMEs</b>	\$437 (1,084)	\$1,472 (1,117)	\$33 (808)	\$3 (570)	\$41 (280)	\$1,842 (1,180)

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

Source: Long questionnaire Q4, Q9a, Q9 b and Q9d; tax advisors sub-survey Q4.

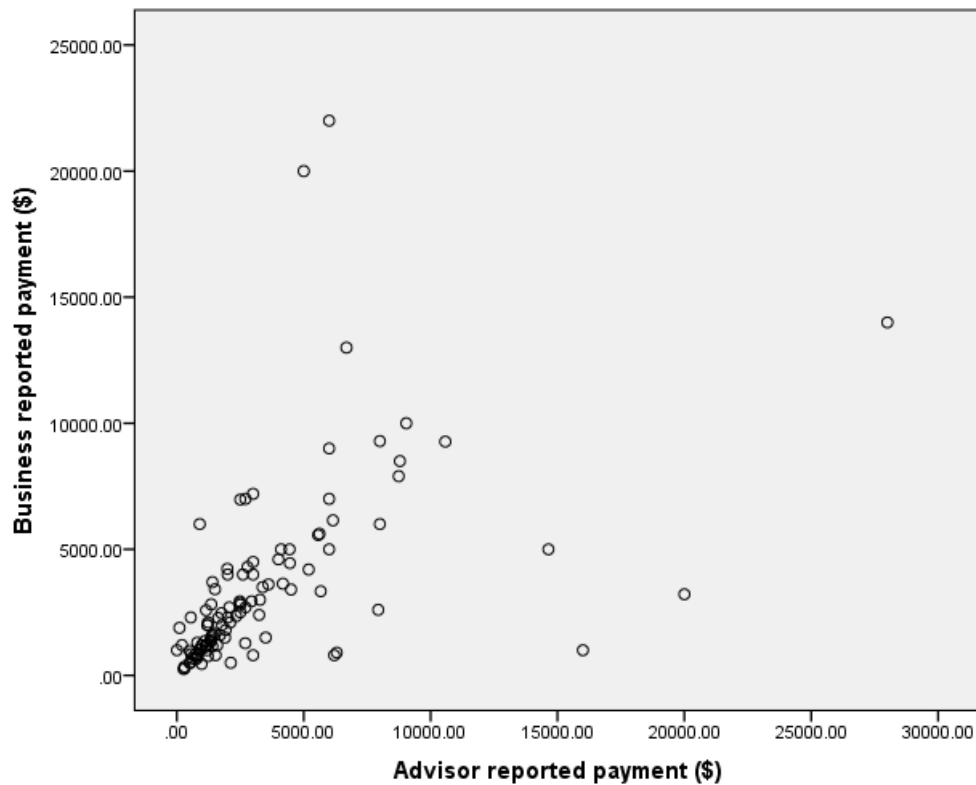


## E. Payment for external tax services – comparison of tax advisor and business survey data

Of the 174 tax advisors who completed questionnaires, there were 109 responses where both the advisor and the SME had reported a dollar value of external costs. The comparison below in Figure E.1 uses those 109 instances. In the other 65 cases a comparison cannot be made because either the advisor or the SME did not provide a dollar value.

Comparing the 109 instances where both the SME and the advisor reported external costs, 23 percent are within \$100 of each other. In 53 percent of comparisons, SMEs reported higher costs than did their advisors.

**Figure E.1: All SMEs (n=109, r=0.51)**



## F. Analysis by sector

This section provides an analysis of internal time spent sector

**Table F1: Mean (trimmed) annual hours of internal time spent on tax activities by sector**

Activity	Primary produce	Industrial	Distribution	Business and Finance	Service	All sectors
Recording information	38.2 (203)	50.6 (190)	34.3 (88)	27.6 (310)	41.2 (311)	36.4 (1,121)
Calculating tax, completing and filing returns, paying tax	14.7 (200)	28.3 (203)	17.2 (89)	13 (320)	16.7 (320)	16.4 (1,151)
Dealing with IRD	3.1 (202)	6.2 (198)	3.7 (92)	2.4 (331)	3.7 (324)	3.4 (1,165)
Tax planning	2.3 (209)	2.6 (205)	2.5 (95)	1.1 (334)	2.5 (330)	2 (1,191)
Dealing with tax advisors (including providing information)	7.9 (203)	16.5 (198)	7.7 (94)	6.2 (329)	9.2 (313)	8.5 (1,155)
Learning about tax laws (new or existing)	3.9 (208)	8.6 (206)	9.1 (94)	4.8 (333)	5.3 (330)	5.4 (1,190)
Other	0.6 (210)	0.3 (206)	0.2 (95)	0.9 (334)	0.6 (331)	0.6 (1,195)
<b>All activities</b>	<b>72.2 (208)</b>	<b>142.9 (198)</b>	<b>92.6 (92)</b>	<b>62.9 (319)</b>	<b>93.2 (321)</b>	<b>83.8 (1,156)</b>

Base: All respondents who filed/paid the particular tax type in question (excluding missing information and outliers). Source: long questionnaire Q13a and Q29; short questionnaire Q5a and Q10.

**Table F.2: Mean (trimmed) annual hours of internal time spent by personnel on all tax activities by Sector**

Personnel	Primary produce	Industrial	Distribution	Business and Finance	Service	All sectors
Owners/partners/directors/trustees	57.3 (208)	64.9 (201)	47.9 (92)	42.8 (333)	59.6 (329)	52.5 (1,184)
Paid employees	10.3 (204)	40.6 (200)	13.9 (93)	10.9 (326)	19.3 (320)	16.5 (1,164)
Unpaid friends and relatives	2 (212)	6.8 (206)	1.5 (93)	0.6 (338)	3 (333)	2.3 (1,203)
<b>All personnel</b>	<b>68.3 (209)</b>	<b>107.1 (195)</b>	<b>80.9 (93)</b>	<b>59.6 (324)</b>	<b>86.8 (320)</b>	<b>74.9 (1,162)</b>

Base: All respondents who filed/paid the particular tax type in question (excluding missing information and outliers). Source: long questionnaire Q13b; short questionnaire Q5b.

**Table F1: Mean (trimmed) annual hours of internal time spent on all tax activities for each tax type by sector**

Tax type	Primary produce	Industrial	Distribution	Business and Finance	Service	All sectors
GST	36.9 (195)	45.7 (185)	31.2 (90)	31 (281)	44.6 (284)	37.1 (1,053)
Income tax (including provisional tax)	19.1 (194)	25.7 (184)	19.7 (89)	18.6 (298)	23 (291)	20.6 (1,070)
PAYE (including child support, student loans, ACC levy, but excluding KiwiSaver)	23.8 (141)	29.6 (177)	22.1 (67)	23.4 (168)	28.9 (236)	25.8 (805)
KiwiSaver	14.5 (71)	18.5 (133)	12.4 (49)	13.5 (126)	15.1 (166)	14.9 (553)
FBT	11 (18)	15.7 (83)	11.7 (25)	8.5 (85)	11.5 (53)	11.4 (268)
<b>All tax types</b>	<b>68.3 (209)</b>	<b>1,07.1 (195)</b>	<b>80.9 (93)</b>	<b>59.6 (324)</b>	<b>86.8 (320)</b>	<b>74.9 (1,162)</b>

Base: All respondents who filed/paid the particular tax type in question (excluding missing information and outliers). Source: long questionnaire Q13b and Q29; short questionnaire Q5a and Q10.

## G. Analysis by age of business and turnover

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

**Table G1: Mean (trimmed) annual hours of internal time spent on income tax by age of business and business turnover**

Tax type	Less than 12 months	1-2 years	3-5 years	6-10 years	10 years +	All sectors
Less than \$40,000	0.6 (2)	23.7 (12)	16.1 (29)	7.7 (21)	13.3 (39)	13.9 (105)
\$40,000 to less than \$100,000	15.6 (2)	17.1 (14)	25.3 (28)	12.7 (35)	19.7 (79)	19 (159)
\$100,000 to less than \$250,000	3.1 (2)	11.7 (13)	18.9 (34)	21.6 (43)	18.6 (74)	18.7 (170)
\$250,000 to less than \$500,000	33 (1)	7.6 (6)	15.2 (17)	32.6 (22)	25 (74)	23.8 (122)
\$500,000 to less than \$1.3 million	27 (1)	50.7 (9)	37.8 (22)	24.1 (31)	28.9 (92)	30.2 (158)
\$1.3 million to less than \$5 million	7.2 (2)	28 (1)	17.6 (6)	39.5 (19)	28.8 (53)	29.1 (86)
\$5 million and up	6 (1)	25.9 (9)	24.8 (9)	31.6 (29)	25.6 (216)	26.2 (268)
All	9.7 (12)	19.9 (64)	21.3 (145)	19.3 (200)	21.5 (628)	20.6 (1,070)

Base: All respondents who filed/paid income tax (excluding missing information and outliers). Source: long questionnaire Q13b, Q19 and Q20; short questionnaire Q5, Q9c and Q10.

**Table G2: Mean (trimmed) annual hours of internal time spent on GST by age of business and business turnover**

Tax type	Less than 12 months	1-2 years	3-5 years	6-10 years	10 years +	All sectors
Less than \$40,000	13.7 (4)	20.2 (8)	32.5 (16)	21.6 (17)	28.9 (28)	26.5 (74)
\$40,000 to less than \$100,000	14.3 (3)	47.7 (14)	33.1 (25)	21.3 (33)	30.9 (70)	30.2 (147)
\$100,000 to less than \$250,000	5.8 (3)	30.8 (14)	37.4 (33)	39 (44)	36.7 (76)	36.2 (175)
\$250,000 to less than \$500,000	45.5 (2)	56 (7)	36.5 (19)	45.3 (23)	49.1 (73)	45.2 (128)
\$500,000 to less than \$1.3 million	27 (1)	67 (9)	35.9 (23)	41.1 (30)	44.8 (96)	43.3 (162)
\$1.3 million to less than \$5 million	5.9 (2)	70 (1)	87.2 (7)	41.4 (19)	62.6 (61)	55 (94)
\$5 million and up	13 (1)	63.9 (8)	72.2 (9)	60.2 (33)	48.9 (218)	52.3 (273)
All	13.6 (16)	39.9 (61)	36.8 (132)	33.6 (199)	39.9 (622)	37.1 (1,053)

Base: All respondents who filed/paid GST (excluding missing information and outliers). Source: long questionnaire Q13b, Q19 and Q20; short questionnaire Q5, Q9c and Q10.

**Table G1: Mean (trimmed) annual hours of internal time spent on PAYE by age of business and business turnover**

Tax type	Less than 12 months	1-2 years	3-5 years	6-10 years	10 years +	All sectors
Less than \$40,000	38 (2)	15.4 (2)	15.6 (6)	8.6 (5)	7.4 (10)	11.7 (25)
\$40,000 to less than \$100,000	0 (1)	21.6 (4)	18.3 (7)	6.7 (10)	14.2 (24)	13.4 (46)
\$100,000 to less than \$250,000	146.2 (2)	14.7 (8)	36.3 (24)	20.9 (25)	18 (42)	26.5 (105)
\$250,000 to less than \$500,000	22.8 (2)	17.3 (7)	28 (15)	36.6 (14)	19.9 (55)	22.2 (97)
\$500,000 to less than \$1.3 million	27 (1)	49.2 (8)	24.1 (24)	26.5 (29)	28.3 (89)	28 (154)
\$1.3 million to less than \$5 million	(0)	48 (1)	105.3 (6)	50.4 (20)	29.8 (62)	39.8 (93)
\$5 million and up	15 (1)	34.8 (10)	46.6 (8)	33 (31)	35.2 (230)	35.2 (284)
All	61 (9)	24.8 (40)	30.6 (90)	25.1 (134)	24.3 (512)	25.8 (805)

Base: All respondents who filed/paid PAYE(excluding missing information and outliers). Source: long questionnaire Q13b, Q19 and Q20; short questionnaire Q5, Q9c and Q10.

**Table G2: Mean (trimmed) annual hours of internal time spent on FBT by age of business and business turnover**

Tax type	Less than 12 months	1-2 years	3-5 years	6-10 years	10 years +	All sectors
Less than \$40,000	11 (1)	12.8 (2)	6.4 (1)	10.5 (2)	8.2 (2)	9.1 (6)
\$40,000 to less than \$100,000	(0)	(0)	(0)	12 (1)	5 (3)	7 (4)
\$100,000 to less than \$250,000	(0)	(0)	4.9 (4)	3.9 (3)	8.1 (5)	5.4 (12)
\$250,000 to less than \$500,000	(0)	(0)	(0)	22.5 (5)	6.3 (9)	12.3 (18)
\$500,000 to less than \$1.3 million	(0)	6 (2)	1 (2)	11.5 (5)	8.9 (22)	8.3 (31)
\$1.3 million to less than \$5 million	(0)	(0)	24 (1)	6.6 (4)	14.7 (21)	12.1 (28)
\$5 million and up	7 (1)	16.4 (4)	19.5 (3)	22.1 (14)	16.6 (146)	17.4 (169)
All	9.9 (2)	11.6 (8)	6.2 (11)	13.7 (34)	11.8 (208)	11.4 (268)

Base: All respondents who filed/paid FBT (excluding missing information and outliers). Source: long questionnaire Q13b, Q19 and Q20; short questionnaire Q5, Q9c and Q10.

## H. 2013 Multi-tax questionnaire