



2021 study on the time and cost of doing business taxes incurred by NZ small businesses

Survey undertaken April – June 2021

CUSTOMER INSIGHT & EVALUATION SUMMARY REPORT

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ISBN

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Summary

The 2021 cost of compliance survey

During mid-2021, Inland Revenue conducted an online survey of 14,063 small businesses to estimate the time and cost of complying with tax requirements. The survey provides an up-to-date snapshot and can be compared with previous surveys that have been carried out periodically since 2009.

Businesses have faced challenging trading conditions between the 2018 and 2021 surveys. Local lockdowns and border closures associated with the COVID-19 pandemic, have disrupted revenue streams and access to migrant labour for many businesses in the hospitality and tourism sectors or involved in primary production. Globally, the pandemic has affected freight transport, with flow-on consequences for regular supply chains into the country and for exports to offshore markets. Accessing Government assistance for businesses negatively affected by the pandemic has required verification of reduced revenue. Dealing with overheads and ongoing regulatory compliance and reporting responsibilities continued, against a backdrop of uncertainty about prospects for the future.

These conditions prompted the decision to postpone the 2020 survey. However, many of the effects of the pandemic on business trading conditions were still present at the time the 2021 survey was carried out.

Inland Revenue's Business Transformation

Inland Revenue is undergoing transformation. This is a multi-stage programme to modernise our tax system, streamline our processes and policies, upgrade our online services, and make it easier for customers to pay their tax and receive their entitlements. At the time of this survey four releases of the transformation had been implemented, the latest being in April 2021.

In analysing the responses for this survey, we have principally compared findings with the 2013, 2016, and 2018 waves. We took this approach because the 2013 wave was the most recent one carried out before our Business Transformation commenced. It therefore acts as a pre-transformation baseline.

Key survey findings

Findings show that after remaining stable between 2016 and 2018, the time small businesses spend doing taxes has increased in 2021.

- The median time businesses spent in-house on tax in 2021 was 31 hours, which is higher than the 27 hours a year reported in the 2018 survey, but lower than the 36 hours a year reported in the 2013 survey.
- Small business owners' views about the amount of time they spend doing their business taxes has stayed consistent since 2016¹ – a majority (60%) agreed they spend an acceptable amount of time on tax matters in 2021 (54% agreed 2016, 55% in 2018). Just under two-thirds (65%) say Inland Revenue has not made a difference to the time and cost of complying over the last year (66% in 2018).

Overall costs have also increased. This is due to the increase in time spent doing business taxes as well as inflationary increases in staff salaries and increases in external costs.

1. Not measured in the 2013 survey.

- The value of time has increased from \$63.55 an hour in 2018 to \$73.42 an hour in 2021.
- The median internal cost of doing business taxes in 2021 is \$2,258 a year; this is \$478 higher than the \$1,780 reported in the 2018 survey, and \$182 higher than the \$2,076 reported in the 2013 survey.
- The median cost of using external advisers and software/online service providers for tax purposes in 2021 is \$1,794 a year; this is \$471 higher than the \$1,323 reported in the 2018 survey. To make a like-for-like comparison with 2013 external costs, payroll services costs need to be excluded from the 2021 external costs². This brings the 2021 external costs down to \$1,700 which is \$583 higher than the \$1,117 reported in the 2013 survey.
- Use of external advisers, such as accountants and tax advisers, is at the same level as 2018. There's been a significant increase in uptake of online accounting and online payroll services, and online services are now the most common method used for managing business accounts and processing staff wages.

Table 1: Comparison of annual median time and median costs incurred doing business taxes (2013 to 2021)

	2013 ³	2016 ³	2018	2021
	n=1,448	n=4,028	n=6,003	n=12,167
TOTAL TIME	36 hours	27 hours	27 hours	31 hours
Internal cost	\$2,076	\$1,573	\$1,780	\$2,258
External cost	\$1,117	\$1,000	\$1,323	\$1,794
COMBINED COST	\$3,654	\$3,200	\$3,610	\$4,495

Base: All small businesses

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

Views about the ease of doing taxes has not changed since 2018. Increased used of online accounting and payroll software may be a contributing factor. The findings also suggest that Inland Revenue's digital improvements may have contributed:

Most small businesses (65%) still feel Inland Revenue has made no difference to how easy or hard it is meeting their tax responsibilities, but a quarter feel it is easier mainly due to improvements to Inland Revenue's website and online services, and compatibility between their business software and Inland Revenue systems.

A small proportion of businesses (8%) say Inland Revenue has made things harder. Customers most commonly mentioned difficulties around payday filing.

"Linking GST to Xero accounting software has saved me a lot of time and calculations. EOY taxes are made easy with Xero."

"I find the website a great source of information. Anything I need to research is pretty easy to find so overall, it has been quite straightforward keeping up to date with all our tax obligations"

"I have to do PAYE every week, for two employees and previously it was something I did just once a month. This has literally quadrupled the time required to fulfil my IRD PAYE obligations. GST has not changed and requires my time only every two months - not weekly."

2. The cost of payroll services was not measured in the 2013 survey.

3. External costs and combined total costs exclude the cost of payroll services, which was not measured in the 2013 or 2016 surveys.

- Some small businesses (17%) feel meeting their tax responsibilities has got harder over the past year, and they cite difficult trading conditions and reduced cashflow due to the COVID-19 pandemic as the main reasons.

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

- For all regulatory regimes except tax, more small businesses believe the compliance effort has increased than decreased compared to 12 months ago.
- An increase in effort over the last 12 months was reported by those complying with Food Safety (64%), Workplace Health and Safety (63%), Local Government (54%), and Transport Safety (48%) rules and regulations.
- In contrast, 29% of small business customers say their tax compliance effort has increased, and 63% say it has not changed in the last 12 months.

The aims of Inland Revenue's Business Transformation programme are making it easier for New Zealand's small businesses to meet their tax responsibilities and reducing tax compliance effort. A significant change to the tax system occurred when payday filing became mandatory for all employers in April 2019. There has been some increase in compliance times since 2018 but overall, annual compliance time is lower than 2013.

While the COVID-19 pandemic has had a negative effect on cashflow and trading conditions for some, most small businesses believe the ease of meeting their tax responsibilities is the same as a year ago and the time involved is acceptable. Improvements to the digital experience when dealing with Inland Revenue are continuing to be noticed and match the trend of more businesses adopting software and online services that support their business operations.

The 2021 compliance cost survey

During mid-2021, Inland Revenue conducted an online survey of 14,063 small businesses to estimate the time and cost of complying with tax requirements. The survey provides an up-to-date snapshot and can be compared with previous surveys carried out in 2013, 2016, and 2018.

The target population

Inland Revenue defines small businesses as entities with annual turnover up to \$30 million and fewer than 50 employees. At the time of the survey the size of this population was 398,111 entities.

The survey sample

A stratified random sample of 60,000 businesses was drawn from this population, and 14,063 valid responses were received. The survey achieved a final response rate of 23%. This is higher than in 2018 (17%).

Table 2 below provides a profile of the target population by annual turnover and employee size bands, and a profile of businesses that responded to the survey. The survey sample provides a close representation of the population.

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

	SMALL BUSINESS POPULATION	2021 SURVEY SAMPLE	
		Before weighting	After weighting
	398,111	n=14,063	n=14,063
Annual turnover	%	%	%
None	2.7	1.6	2.7
\$0 - \$100k	27.7	28.3	27.7
\$100k - \$1m	54.3	57.0	54.3
\$1m - \$30m	15.3	13.1	15.3
TOTAL	100.0	100.0	100.0
Number of employees			
None	58.2	59.2	57.7
1-5 employees	27.2	27.1	27.5
6-19 employees	12.7	12.0	12.8
20-49 employees	2.0	1.7	2.0
TOTAL	100.0	100.0	100.0

Other notes

1. The results presented in this report have a maximum margin of random sampling error of ± 6.5 percentage points at the 95% confidence level.
2. All survey data have been weighted to align it with the target population. Weighting adjusts for differences between the survey sample and the population on key variables.
3. Further details about the methodology are contained in the appendix.

The time and cost of compliance

The median time spent in-house on tax has increased since 2018

As can be seen in Table 3, in 2018 the median number of hours per year spent by small businesses doing their taxes is 31 – higher than it was in 2018 and but still lower than 2013.

Consistent with previous surveys, GST remains the most time-consuming tax. Internal times spent on PAYE⁴ and GST has increased since 2018. Internal times spent on Income Tax, KiwiSaver, and FBT have not changed since 2018.

Increased internal time spent on PAYE may be influenced by increased filing frequency for many employers. When payday filing replaced Employer Monthly Schedules (EMS) in 2019, the frequency of filing PAYE went from monthly to a higher frequency for over three quarters of employers⁵.

Table 3: Median hours a year spent on business taxes (2013 to 2021)

	2013 n=1,206	2016 n=4,028	2018 n=6,003	2021 n=12,167
Goods and Services Tax (GST)	24	14	15	16
Income tax	12	6	6	6
PAYE	12	12	10	12
KiwiSaver	9	9	12	12
Fringe Benefit Tax (FBT)	4	2	<1	<1
TOTAL TIME	36	27	27	31

Base: All small businesses

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

While 31 hours is the overall median, considerable variation exists by the size and the complexity of businesses. Further analysis of the 2021 survey findings illustrates that, as may be expected, larger and possibly more complex businesses spend more time in-house dealing with tax matters.

For example, businesses:

- with 20-49 employees spent 118 median annual hours in-house on tax.
- with an annual turnover of between \$1 million and \$30 million spent 60 median annual hours in-house on tax.
- that used a tax lawyer in the past 12 months spent 66 median annual hours in-house on tax.

4. The internal time for PAYE shown for 2018 is the median for the combination of the 2,034 employers who were filing by Employer Monthly Schedules. A small number of businesses had voluntarily started payday filing in 2018. For ease of comparison, we have omitted time spent on payday filing in 2018 from this table. Employers doing payday filing voluntarily in 2018 were atypical of small businesses, as they were more likely to have large workforces (15% with 20-50 staff versus 4% in 2021), be filers of four or more taxes (82% versus 8%), be monthly PAYE filers (75% versus 24%), be high users of online accounting software (86% versus 63% in 2021) and high users of online payroll software (66% versus 46% in 2021). These customers are still included in the total time estimate for 2018.

5. In 2021, only 24% of employers pay their staff monthly – the rest pay their staff on a higher frequency (for example, 30% pay weekly and 17% pay fortnightly).

Recording information remains the most time-consuming compliance activity

Overall, recording information and calculating tax remain the most time-intensive tax activities (see Table 4), with GST, PAYE, and KiwiSaver being the most time-intensive tax types.

Table 4: Median hours a year spent on tax activities by filers of each tax type in 2021

	GST n=12,018	Income Tax n=11,031	PAYE n=4,732	KiwiSaver n= 3,434	FBT n=1,397	ALL TAX TYPES n=12,167
Recording information	6.0	2.0	1.0	3.0	*	9.0
Calculating tax	3.0	0.3	3.0	2.0	*	4.0
Dealing with external tax advisers	0.7	1.0	*	*	*	3.0
Learning about new/ existing taxlaws and rules	*	*	*	*	*	0.5
Dealing with Inland Revenue	*	*	*	*	*	*
Advice about tax	*	*	*	*	*	*
Other activity	*	*	*	*	*	*
TOTAL TIME	16.0	6.0	12.0	12.0	0.3	31.0

Base: : Small businesses registered for each tax type

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

Comparing time spent on compliance activities over time (see Table 5⁶) shows that time spent recording information and dealing with external tax advisers has increased since 2018. Increased PAYE filing frequency may have contributed to this change. On the other hand, time spent calculating tax has consistently decreased since 2013. The decrease between 2018 and 2021 coincides with the increased use of online accounting and payroll software (see pages 12-13).

Table 5: Apportioned annual hours of in-house time SMEs spent on tax activities (2013 to 2021)

	2013 n=1,206	2016 n=4,028	2018 n=6,003	2021 n=12,167
Recording information	18.9	12.9	12.0	15.4
Calculating tax	7.2	6.1	5.7	5.2
Dealing with external tax advisers	4.4	3.3	3.1	4.3
Learning about new/existing tax laws and rules	2.4	2.2	2.5	2.3
Dealing with Inland Revenue	2.0	1.3	1.8	1.7
Advice about tax	0.9	0.9	1.1	1.1
Other activity	0.3	0.3	0.3	1.0
TOTAL TIME	36	27	27	31

Base: : All small businesses

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

6. To allow comparison across years, the median values have been apportioned by the percentage of time respondents indicated.

Internal costs have increased since 2016

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

The following dollar amounts have been used to convert time spent into compliance costs for 2021:

- **\$81.69** – owners/partners/directors/trustees (inflation-adjusted from the 2013 value of \$61.13)
- **\$40.16** – paid employees (inflation-adjusted from the 2013 value of \$28.03)
- **\$48.60** – unpaid family members or friends (inflation-adjusted from the 2013 value of \$38.69).

In addition to inflation, increases and decreases in the total internal costs for complying with tax requirements since 2018 can be influenced by:

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

Table 6 provides the hourly cost of time for each tax type after factoring in both inflation and the proportion of time spent on each tax type by different people associated with the business. Except for KiwiSaver, hourly costs have increased for all tax types. PAYE hourly costs have increased the most (by \$17.37), due to more time spent by internal staff on this tax type and a higher proportion of owners/directors doing this work⁷.

Table 6: Median hourly in-house cost of time by filers of each tax type (2013 to 2021)

	GST	Income Tax	PAYE	KiwiSaver	FBT	ALL TAXTYPES
2013	\$53.15	\$54.72	\$49.86	\$41.15	\$44.58	\$52.40
2016	\$56.61	\$58.70	\$55.77	\$54.94	\$50.08	\$56.47
2018	\$61.04	\$66.02	\$50.66	\$61.44	\$50.89	\$63.55
2021	\$72.50	\$74.83	\$68.03	\$61.25	\$66.67	\$73.42

Base: : All small businesses

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

7. In 2021, the internal time spent on PAYE is a median of 2 hours more than it was in 2018. In 2021 owner/directors accounted for 71% of PAYE hours, compared to 59% in 2018.

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

Since 2013 there has been an estimated \$182 increase total in-house cost of complying with tax requirements. The picture is more mixed when broken down by tax type. Increases in the estimated in-house cost of dealing with PAYE and KiwiSaver have been offset by smaller decreases in the estimated in-house costs of dealing with Income Tax, FBT, and GST.

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

	GST	Income Tax	PAYE	KiwiSaver	FBT	ALL TAXTYPES
2013	\$1,223	\$734	\$505	\$184	\$178	\$2,076
2016	\$848	\$318	\$706	\$426	\$69	\$1,573
2018	\$964	\$388	\$593	\$667	\$47	\$1,780
2021	\$1,152	\$449	\$817	\$735	\$20	\$2,258

Base: All small businesses

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

External costs have increased since 2016

This study considers using tax professionals – a tax agent, accountant, and/or tax lawyer – to help meet tax responsibilities as a cost external to the respondent's business. In 2021, 94% of businesses used a tax professional to help meet their tax responsibilities (see Table 9 on page 12).

As can be seen in Table 8, external costs represent a substantial component of the value of the combined compliance costs and are higher than the external costs reported in 2018 (up by \$414). A like-for-like comparison with 2013 shows median external costs have increased by \$583⁸.

Table 8: Median annual costs incurred doing business taxes (2013 to 2021)

	2013 ⁹ n=1,146	2016 ⁹ n=4,028	2018 n=6,003	2021 n=12,167
Internal cost	\$2,076	\$1,573	\$1,780	\$2,258
External cost	\$1,117	\$1,000	\$1,380	\$1,794
COMBINED COST	\$3,654	\$3,200	\$3,630	\$4,495

Base: All small businesses

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

8. To make a like-for-like comparison with 2013 external costs, payroll services costs need to be excluded from the 2021 external costs. This brings the 2021 external costs down to \$1,700 which is \$583 higher than the \$1,117 reported in 2013, and combined costs down to \$4,441 which is \$787 higher than the \$3,654 reported in 2013.
9. Cost of cost of payroll services was not measured in the 2013 or 2016 surveys.

Use of tax intermediaries and services

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

Most businesses use external advisors

We asked businesses which of a range of services they had used for tax purposes in the previous 12 months. As can be seen in Table 9, the use of some sort of external adviser has increased consistently since 2016 – use now stands at 94%.

With the introduction of payday filing for employers (voluntary in April 2018, compulsory in April 2019), use of payroll services has grown significantly from 10% in 2018 to 16% in 2021. Use of payroll services is more common among businesses with larger workforces and multiple payroll-related tax responsibilities.

Table 9: External tax advisers used in the last 12 months (2016 to 2021)

	2016 n=4,028	2018 n=6,003	2021 n=14,064
Accountant or bookkeeper	81%	81%	85%
Tax agent or tax adviser	28%	25%	22%
Tax lawyer	<1%	<1%	<1%
Payroll service	NM	10%	16%
None of the above	11%	8%	6%

Base: All small businesses

Use of online accounting and online payroll services has increased significantly

We then asked businesses how they a) manage their accounts, and b) process staff wages. As can be seen in Table 10, since 2016 the use of online accounting systems has increased significantly, and they are now used by half of all small businesses overall.

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

	2016 n=4,028	2018 n=6,003	2021 n=14,063
Online system	31%	39%	51%
In-house spreadsheets	29%	29%	29%
Desktop software	33%	27%	25%
Paper-based system	41%	25%	21%
Other method	1%	1%	1%
No system but keep records	6%	8%	8%
Do not keep records	<1%	<1%	<1%
Do not know	1%	1%	1%
None of the above	NM	<1%	<1%

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

Table 11 below shows that since 2018 use of online systems for processing wages has increased significantly. In 2021 the use of online payroll systems is most common among small businesses with larger workforces and multiple payroll-related tax responsibilities.

Table 11: Methods used to process staff wages (2018 to 2021)

	2018 employers n=3,057	2021 employers n=8,686
Online system	26%	42%
Desktop software	20%	16%
In-house spreadsheets	18%	16%
Paper-based system	14%	9%
Payroll service	6%	8%
Other method	5%	5%
No system but keep records	8%	5%
Do not know	-	-
None of the above	12%	9%

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

Perceptions surrounding tax compliance

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

The goal of Inland Revenue’s Business Transformation programme is to make it easier and more efficient for business to meet their tax responsibilities. Time and effort are factors that contribute to customer ease and efficiency. Other factors could include the perceived complexity of the tax requirements and how confident customers feel that they’re doing the right thing. The 2021 survey included a range of questions to explore these factors.

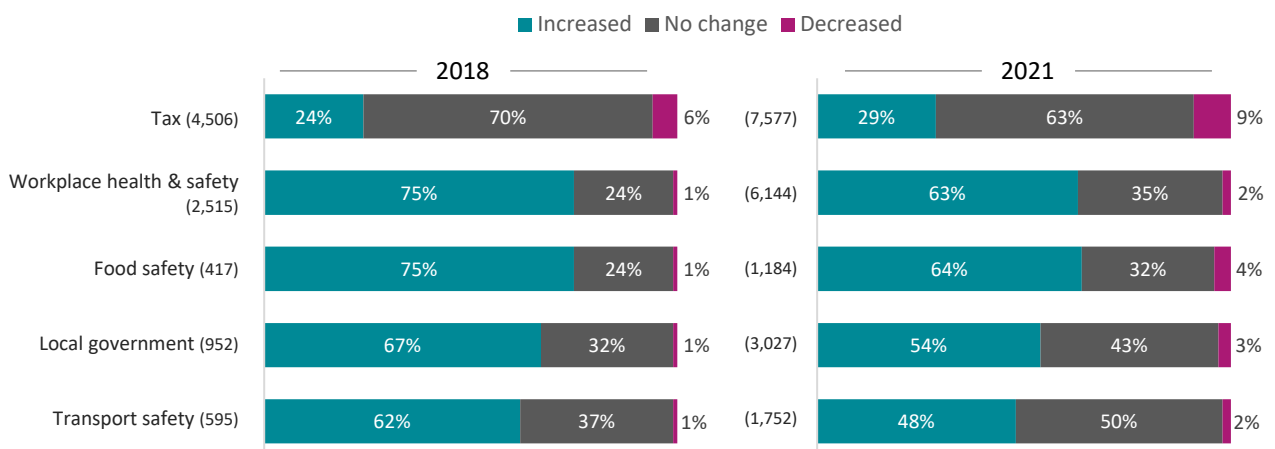
Tax compliance compares favourably to other regulatory regimes

To understand how businesses view tax in relation to some of the other areas requiring time and effort for compliance, we asked small businesses whether they felt the effort required to comply had increased, decreased, or stayed the same, for four regulatory regimes their business had complied with over the previous 12 months. We also asked this question for tax.

As can be seen in Figure 1, more small businesses believe the compliance effort has increased than decreased compared to 12 months ago, for all regulatory regimes except tax. A majority of small businesses still feel there’s been no change in the tax compliance effort over the past 12 months.

This overall pattern was the same in 2018. However, the percentage of small businesses that feel tax compliance effort has increased over the last 12 months has grown significantly from 24% in 2018 to 29% in 2021. This change is consistent with the results showing there has been an increase in the time required to comply since 2018 (see Table 3, page 8).

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



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

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

Although time involved in compliance has increased, the acceptability of time spent on tax has improved since 2018, and a majority of businesses still feel Inland Revenue has made it neither easier nor harder for them to comply.

As can be seen in Table 12, more small business owners agree (60%) that the time their business spends on tax matters is acceptable to them than disagree (17%). The percentage agreeing that the time is acceptable has significantly increased since 2018.

Table 12: Change in acceptability of time spent on tax matters (2016 to 2021)

	2016 n=3,148	2018 n=5,816	2021 n=10,301
Agree	54%	55%	60%
Neutral	32%	30%	23%
Disagree	13%	15%	17%

Base: : All small businesses, excluding unanswered.

We asked businesses to think specifically about the time and cost of complying, and to tell us whether they felt Inland Revenue has made a difference to this over the previous 12 months. Table 13 shows the percentage feeling Inland Revenue has made it neither harder nor easier has not really changed since 2018.

Table 13: Perceived difference Inland Revenue is making to the time/cost of complying (2018 to 2021)

	2018 n=4,719	2021 n=10,369
Made it easier	26%	27%
Made it neither harder nor easier	66%	65%
Made it harder	8%	8%

Our digital services and integration are making things easier

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

The key themes from the 2,567 who said Inland Revenue is making it easier, reflect improvements in customers' digital experiences:

- 62% mentioned improved Inland Revenue online services and myIR functionality
- 23% mentioned compatibility/integration of software with Inland Revenue systems/software allows online filing directly to Inland Revenue
- 11% mentioned Inland Revenue website/information/navigation/newsletters.

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

“Online portal is efficient to use once you understand the way it works. Having outstanding amounts due helps with ensuring payment due dates are not missed. Variable Direct Debit is fantastic and simple to use.”

“Linking GST to Xero accounting software has saved me a lot of time and calculations. EOY taxes are made easy with Xero.”

“Being able to log in to MyIR - I can access information quickly and do my GST returns easily. Sending e-mail correspondence from here has also been handy.”

“The online filing and myIR makes it much easier to keep on top of tax obligations. Much less time spent on hold. Generally Inland Revenue experience is significantly better than 10 years ago.”

“I find the website a great source of information. Anything I need to research is pretty easy to find so overall, it has been quite straightforward keeping up to date with all our tax obligations”

Some customers are struggling to deal with recent changes

For the 734 customers who said Inland Revenue is making it harder, the key themes were adjusting to payday filing and problems with payments or filing returns

- 42% mentioned payday filing
- 20% mentioned difficulties sorting out mistakes or penalties related to payments or returns
- 12% mentioned Inland Revenue’s website or online services not functioning well
- 10% mentioned changes to tax laws or regulations.

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

“I have to do PAYE every week, for two employees and previously it was something I did just once a month. This has literally quadrupled the time required to fulfil my IRD PAYE obligations. GST has not changed and requires my time only every two months - not weekly.”

“Have attempted to contact IRD several times to try and sort out a payment arrangement for overdue PAYE but no one has come back to me despite phone calls and emails via myIR and all I can see is the bill growing constantly.”

“Understanding changes to legislation, what can be claimed and what cant. Feel the changes in taxation is currently unclear and changing.”

“They changed the system and so you have to learn to use new systems, then you have to wait weeks to get answers to any queries. When you make a payment, it still shows up that there is a balance owing a month later - with today's technologies this should not be occurring. People get frustrated with the long wait periods that adds to their frustrations, particularly when the book work is done on a non-paid basis, late at nights fitting in between day jobs and children.”

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

The need to deal with change to regulations or process is one possible reason why customers report a higher sense of stress relating to compliance. While a majority (64%) say tax compliance is not stressful, this has decreased since 2016 (down from 68%). Over the same period, the percentage saying tax compliance is stressful has increased steadily.

Table 14: Reported overall stress levels (2016 to 2021)

	2016 n=3,148	2018 n=5,816	2021 n=10,391
Not stressful	68%	62%	64%
Moderately stressful	18%	29%	22%
Stressful	14%	9%	14%

Base: : All small businesses, excluding unanswered.

Ease has declined slightly but digital improvements are making compliance easier

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

Table 15 shows that since 2016 most small business owners feel the ease of meeting tax responsibilities is about the same as the previous 12 months, but the percentage has gradually declined. Over the same period, the percentage feeling it has got harder in the last 12 months has grown, with a significant increase between 2018 (13%) and 2021 (17%).

Table 15: Change in effort required to meet tax responsibilities (2016 to 2021)

	2016 n=3,192	2018 n=4,791	2021 n=10,387
Getting easier	20%	20%	18%
About the same	68%	67%	65%
Getting harder	12%	13%	17%

Base: : All small businesses, excluding unanswered.

Meeting tax responsibilities - what's making things easier?

We asked small business owners what was making it easier or harder to meet their tax responsibilities. For the 65% of businesses who said it was getting easier, common themes were Inland Revenue's efforts to improve the digital experience:



22%

mentioned benefits of using IR's digital platform



14%

specifically mentioned integration of their accounting software and Inland Revenue's systems



22%

mentioned using accounting software



13%

mentioned improved skill or experience of their business at tax matters



13%

mentioned using an accountant or tax agent.

Below is a selection of verbatim responses from small business owners who said it was getting easier to meet their tax responsibilities:

"Ability to file returns electronically make payment on due date, regardless of when the return is filed. Online notifications of when a file is available for filing for the month due, the email notification for a bi-monthly GST payment allows me to not lose track of GST. I can work my accounts as and when I have time to do this, and I file as soon as I have completed it & set the payment to go on the due date."

" The IRD has automated a lot of its systems and reporting. These tie in directly with Xero which in turn, has cut my tax compliance work drastically."

"Becoming more organised and efficient in how we do our admin. The business is established and there are no surprises now. For example, we know about provisional tax, PAYE obligations and we bank the funds rather than paying our obligations from cash flow."

"Easy to use accounting software linked directly to bank account. Properly set up chart of accounts, with easy daily transaction reconciliations with the bank. Able to calculate all taxes through software. IRD's myIR service - excellent linkages between myIR and accounting software."

"I have engaged my accountant to handle my GST as well as annual return, reducing my stress levels. I've also become better organized at paying provisional tax in advance, relieving the pressure of finding large lump sums."

Meeting tax responsibilities - what's making things harder?

For the 17% of businesses who said it was getting harder, the most common theme was changes to trading conditions and cash flow difficulties:



40%

mentioned business difficulties – particularly increases in the minimum wage and changes in trading conditions that affect cashflow – and 32% specifically mentioned the impact of COVID-19 on income and cashflow



36%

mentioned increased or changed regulations and requirements, particularly around payday filing.

Below is a selection of verbatim responses from small business owners who said who said it was getting harder to meet their tax responsibilities:

“Everything costs my business more because of the higher minimum wage. It’s hard to put my price list up and I can’t afford to hire staff during Covid-19 time, that makes me feel stressful and don’t want to work really hard anymore.”

“Having to make changes to my business model in the last 14 months due to COVID meant my business income dropped dramatically, I had the stress of rethinking so many things as well as innovating new pathways forward, and I had to ask the IRD for payment arrangements to make my GST payments over time. To be honest, the very terse and brief responses I got to my queries, which didn’t seem to include much human warmth or empathy for the stress of diminished income, actually increased the stress I was already feeling. I was already embarrassed at having to ask for help, and a little kindness would have gone a long way.”

“My clients’ spending patterns have changed. Instead of consistent months you get quiet months and then months that are too busy and it’s hard to do it all. It can be very tiring having a wall of work arrive yet the previous month hardly anything (mental stress and uncertainty). Also, the clients are uncertain and hold off spending. Then there will be more work needed when they finally arrive.”

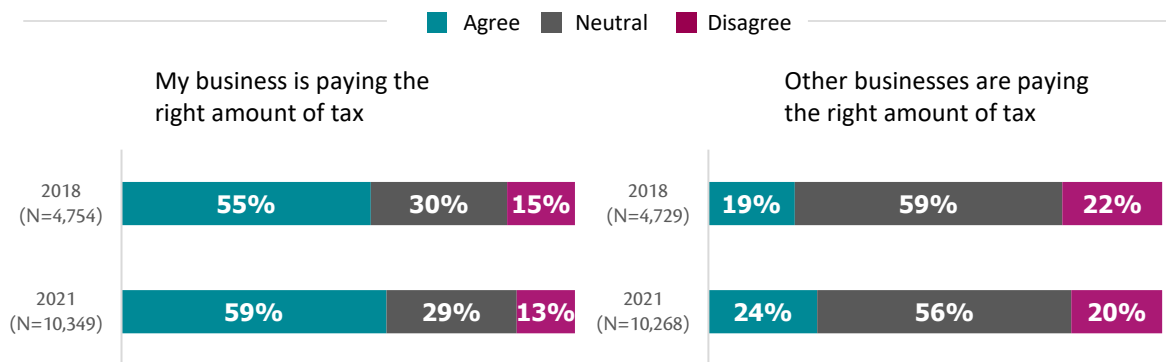
“The additional Payday filing requirements. I’m not able to find a real estate payroll software program that has the features we require to provide salespeople with detail they should have on their commissions, thus meaning I produce their commission slips on spreadsheets and then manually file their tax details for payday filing twice a month. Despite reminders, I seem to fail to push the final “post” button in XERO when making a pay run for admin staff on a frustratingly frequent basis, meaning I have late fees all too often.”

Small business owners are confident they're paying the right amount of tax

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

Changes designed to make tax simpler and straightforward appear to be giving small business owners greater confidence that they, and others, are doing the right thing. As can be seen in Figure 3, the percentage who agree they're paying the right amount of tax has significantly increased since 2018 (59% up from 55%), as has the percentage that agree other businesses are paying the right amount of tax (24% up from 19%).

Figure 3: Agreement with statements about business taxes



Base: All small businesses, excluding unanswered.

Appendix

Survey methodology

Between 22 April and 6 June 2021, Inland Revenue conducted an online survey of New Zealand small businesses about doing their business taxes. The 2021 survey is the latest in regular cycle of Inland Revenue investigations of the tax compliance experience of New Zealand small businesses¹⁰.

Inland Revenue defines small businesses as entities with annual turnover up to \$30 million and fewer than 50 employees. At the time the survey was done in 2021 the size of this population was 398,111 entities.

The sample frame for the survey was entities that were actively trading, and that Inland Revenue had valid email and postal contact details for. “Active trading” was defined as having filed an Income Tax, GST, or made a PAYE/employer information submission with Inland Revenue between 1 April 2019 and 31 March 2020. Entities excluded from the sample frame were those selected for Inland Revenue surveys in the previous 6 months, not for profits and non-trading trusts, and “passive” individuals whose only income is from investments. At the time the survey was done, the total number of entities in the sample frame was 340,177 entities.

A stratified random sample of 60,000 was drawn from the sample frame. A total of 46,282 invitations to the online survey were successfully delivered to the random sample, and 14,063 valid responses were received – a response rate of 23%.

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

The maximum margin of random sampling error associated with a sample of this size is ± 6.5 percentage points at the 95% confidence level. The topic of the survey is demanding on respondents’ memory and mental calculation abilities, so estimation and measurement errors are likely to be present.

10. Previous surveys have been conducted every two years in 2013, 2016, and 2018. Plans to conduct a survey in 2020 were disrupted by the COVID-19 pandemic, which would have made it difficult to attribute observed changes in compliance effort. Therefore, the survey was run in 2021.