



3 December 2024

[Redacted]
[Redacted]
[Redacted]

Dear [Redacted]

Thank you for your request made under the Official Information Act 1982 (OIA), received on 5 November 2024. You requested the following:

- 1. whether Inland Revenue has any data and/or statistics on tax compliance costs and administration costs;*
- 2. what analysis Inland Revenue carries out to quantify or estimate tax compliance costs and administration costs;*
- 3. the extent of data or statistics available on tax compliance costs and administration costs (e.g. in what areas are these costs measured or assessed; the year(s) the information is available);*
- 4. if no data or statistics are available, how Inland Revenue measures or estimates tax compliance costs and administration costs.*

Information being released

Inland Revenue has published several reports on our website detailing the results from compliance cost surveys of businesses. You can find these by visiting www.ird.govt.nz and searching for "Cost of compliance". Inland Revenue has recently completed a further survey in 2024, the findings of which have not yet been published. Please find a copy of the report *2024 study on the time and cost of doing business tax incurred by NZ small businesses* enclosed.

The reports detail the amount of time businesses need to meet their tax obligations, based on their own reporting, which is then combined with the estimated costs of staff required to complete these tasks and provides an estimated cost of compliance.

Inland Revenue has published survey results for the 2004, 2013, 2014, 2016, 2018, and 2021 years. These reports provide information on the types of businesses surveyed, and the number of businesses that provided responses. These can be found under the "other reports" section of the *Small and medium enterprises research and evaluation* page located by visiting Inland Revenue's website, www.ird.govt.nz, and searching for "cost of compliance".

Inland Revenue's annual reports contain information about initiatives to reduce the effort required from businesses to meet their obligations, such as Inland Revenue's business transformation. These can be found on Inland Revenue's website, www.ird.govt.nz, by searching for "Annual report". In the 2024 annual report, the "Our performance" section

beginning on page 45 outlines improvements Inland Revenue has achieved regarding time spent on tax compliance, in particular page 66.

Publishing of OIA response

We intend to publish our response to your request on Inland Revenue's website (ird.govt.nz) as this information may be of interest to other members of the public. This letter, with your personal details removed, may be published in its entirety. Publishing responses increases the availability of information to the public and is consistent with the OIA's purpose of enabling more effective participation in the making and administration of laws and policies and promoting the accountability of officials.

Thank you again for your request.

Yours sincerely



Chris Cullinan
Intelligence Leader - Intelligence & Insight



2024 study on the time and cost of doing business taxes incurred by NZ small businesses

SEPTEMBER 2024

Disclaimer

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

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

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



Crown copyright ©.

This paper by Inland Revenue is licensed under a Creative Commons Attribution 4.0 New Zealand Licence. Please note that the Inland Revenue emblem and logo may not be used in any way which infringes any provision of the Flags, Emblems, and Names Protection Act 1981 or would infringe such provision if the relevant use occurred within New Zealand. Attribution should be in written form and not by reproduction of this emblem.

If you publish, distribute or otherwise disseminate this work to the public without adapting it, the following attribution to Inland Revenue should be used: "Source: Inland Revenue and licensed by Inland Revenue for re-use under the Creative Commons Attribution 4.0 New Zealand Licence."

If you adapt this work in any way or include it in a wider collection, and publish, distribute or otherwise disseminate that adaptation or collection to the public, the following style of attribution to Inland Revenue should be used: "This work is [based on/includes] Inland Revenue's research and evaluation activities which [is/are] licensed by Inland Revenue for re-use under the Creative Commons Attribution 4.0 New Zealand Licence."

ISBN: 978-0-473-72553-2

Acknowledgements

Thank you to the following:

1. Small business owners who did the online survey, for donating their time and offering candid opinions and views on what it's like doing business taxes in a small business.
2. The Inland Revenue staff who contributed to the design and delivery of this research..

CONTENTS



04 ●
The 2024
compliance
cost survey



08 ●
The time
and cost of
compliance



14 ●
Perceptions
surrounding
tax compliance



23 ●
Appendix



● **05**
Summary



● **12**
Use of tax
intermediaries
and services



● **19**
Barriers,
enablers and
opportunities

The 2024 compliance cost survey

During April and May 2024, Inland Revenue conducted an online survey of 5,348 small businesses to estimate the time and cost of complying with tax requirements. One of the key commitments of Inland Revenue's Business Transformation (BT) was to reduce compliance costs for small business customers from 2013 levels. This survey has been carried out periodically since 2009 to measure Inland Revenue's progress towards delivering on this commitment and this report summarises the final survey of the series.

The target population

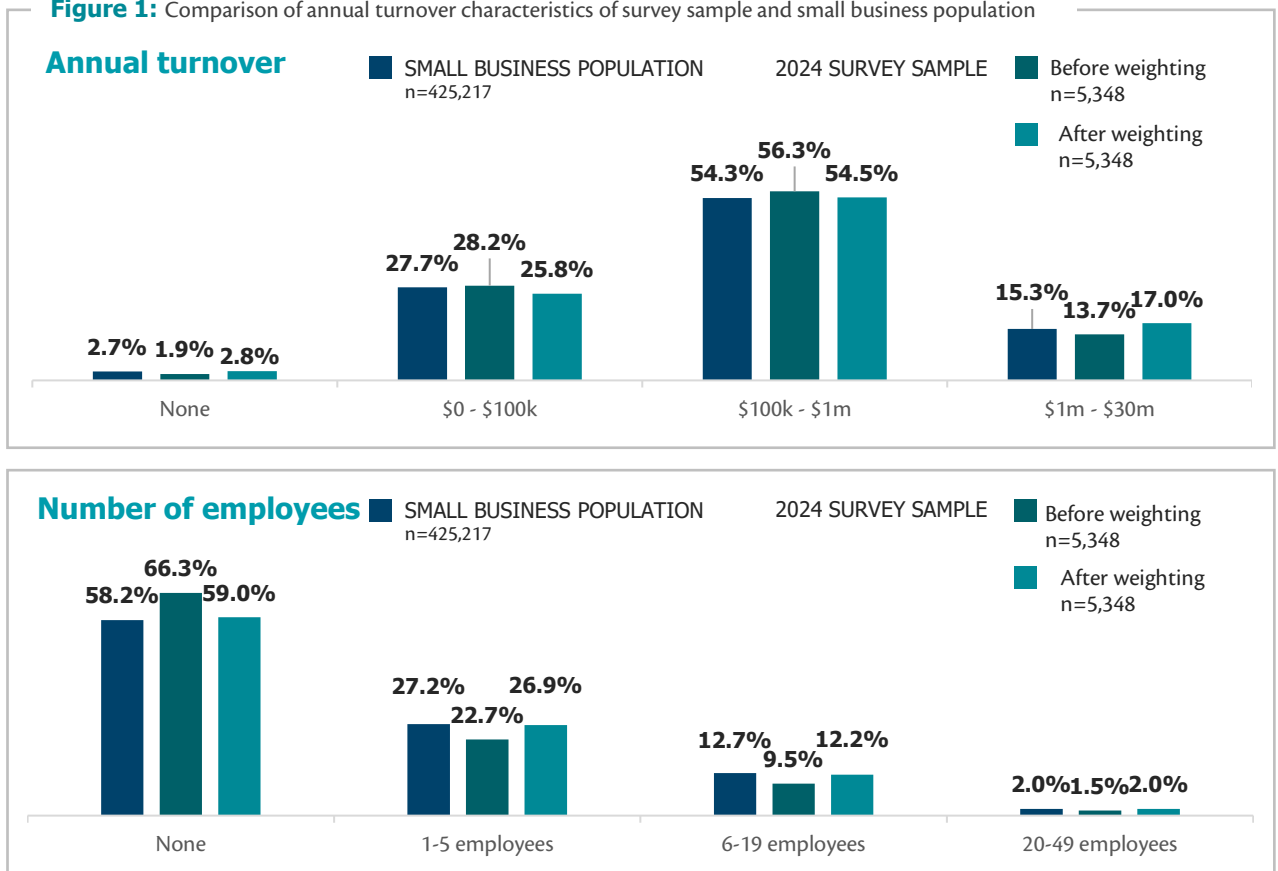
Inland Revenue defines small businesses as entities with annual turnover up to \$30 million and fewer than 50 employees. At the time of the 2024 survey, this population consisted of 425,217 entities.

The survey sample

A stratified, random sample of 50,000 businesses was drawn from the target population and 48,735 online survey invitations were successfully delivered to them. A total of 5,348 valid responses were received, achieving a response rate of 11%.

Figure 1 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 target population.

Figure 1: Comparison of annual turnover characteristics of survey sample and small business population




Other notes:


1. All survey data has been weighted to align it with the target population. Weighting adjusts for differences between the survey respondents and the population on key variables.
2. Further details about the methodology are contained in the appendix.

The 2021 compliance cost survey calculations

Two errors were identified in the 2021 calculations:



The first related to filing frequencies of FBT, KiwiSaver, and PAYE. These were recorded incorrectly for some respondents.



The second related to exclusion of all partial responses. Where no time estimates were provided these were incorrectly included as 0 rather than being excluded.

These have been rectified in the 2024 calculations and the 2021 results have been recalculated following the methodology for the 2024 data. Further details about the methodology are contained in the appendix.

Summary

Key findings

The median time that businesses spent in-house on tax compliance decreased from 36 hours in 2021 to 32 hours in 2024.



Following the introduction of payday filing in 2019, businesses reported PAYE was the most time-intensive tax type in the 2021 survey and this remains the case for the 2024 survey.



Recording information and calculating tax were the most time-intensive activities.



Key findings

While in-house time spent has decreased, the total median monetary cost of compliance has increased (see Figure 2).

2024
\$88.88
2021 ↑↑
\$74.89

A portion of this increase is attributable to inflationary salary increases. The median hourly value of time increased from \$74.89 in 2021 to \$88.88 in 2024 (see Table 4, pg.10).

91%

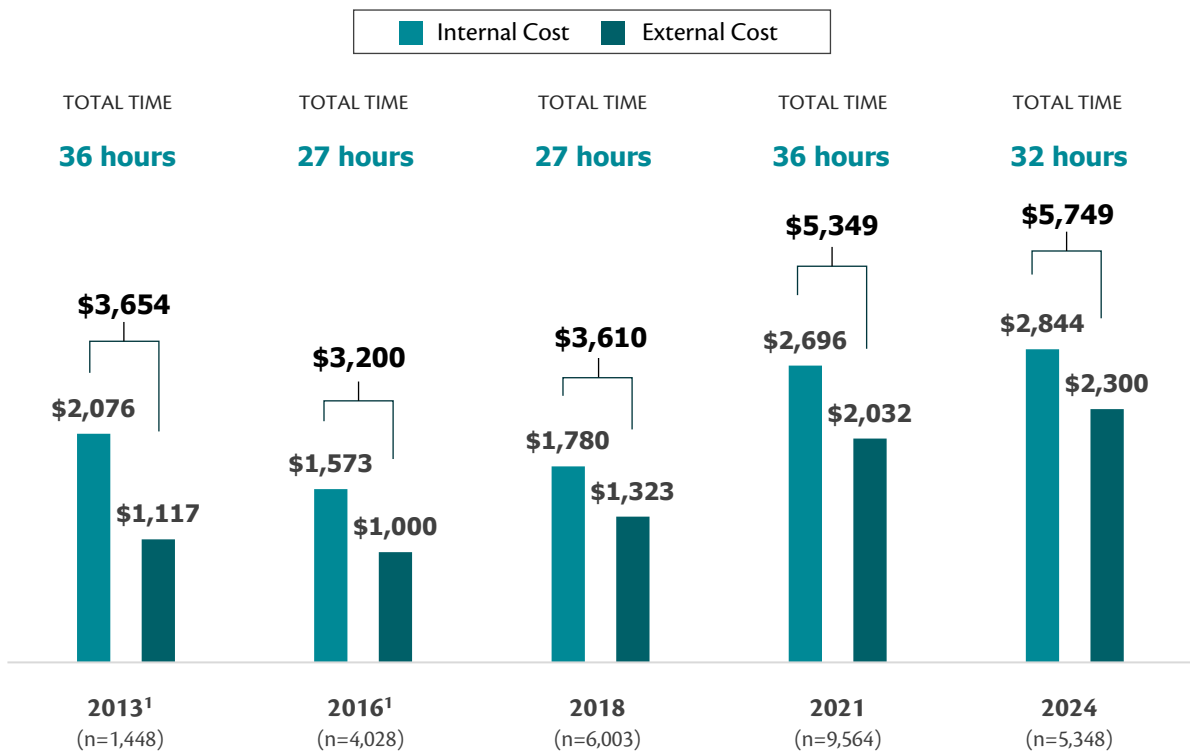
91% of businesses incurred external costs for professional services, with accountants and bookkeepers remaining the most used services.



External costs increasingly account for a larger proportion of total compliance costs for businesses (see Figure 2).



Figure 2: Annual median time and median costs incurred doing business taxes (2013 to 2024)



Base: All small businesses.

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

1. For 2013 and 2016, external costs and combined total costs exclude the cost of payroll services as this was not measured in the 2013 or 2016 surveys. To make a like-for-like comparison with 2013 external costs, payroll services costs would need to be excluded from the 2018, 2021 and 2024 external costs. This brings the 2024 external costs down to \$2,200, which is \$1,083 higher than the \$1,117 reported in 2013, and combined costs down to \$5,665, which is \$2,011 higher than the \$3,654 reported in 2013.



Key findings

Use of online tools and services continued to grow in 2024 with more than half of businesses now managing accounts or processing wages online. The proportion of businesses processing wages through online payroll services in 2024 has continued to increase to 41%, up from 35% in 2021.

Around two in three businesses agree that the time required to comply with taxes over the past year was acceptable. And most businesses (67%) reported that it was not stressful meeting their tax obligations during this time.

For businesses, tax can be just one of several compliance areas. In a wider business compliance context, the effort required for tax compliance is significantly less likely to have become harder for businesses when compared to other regulatory regimes that businesses commonly engage with.

One in five businesses reported that Inland Revenue had been directly responsible for making tax compliance easier in the last 12 months. Reasons for this increased ease were largely attributed to three key areas:



Improved responsiveness, particularly with web messages (myIR messages).



myIR improvements that made compliance activities quicker and easier.



Increased compatibility between Inland Revenue's digital tools/services/systems and accounting software.

However, a small proportion of businesses (17%) felt that meeting their tax obligations in the last 12 months had become harder. Reasons for increased difficulty centered around:



Keeping up with changing processes, systems and policies.



Excessive or repetitive compliance tasks.



Economic factors, such as cashflow and increasing costs.

The time and cost of compliance

The median time spent in-house on tax compliance has decreased from 2021

As shown in Table 1, in 2024 the median number of hours per year spent by small businesses doing their taxes was 32. PAYE is the most time-intensive tax type, followed by KiwiSaver and GST.

Table 1: Median hours spent annually on business taxes (2013 to 2024)

	2013 n=1,206	2016 n=4,028	2018 n=6,003	2021 n=9,564	2024 n=5,348
Goods and Services Tax (GST)	24	14	15	17	16
Income tax	12	6	6	7	7
PAYE	12	12	10 ²	28	26
KiwiSaver	9	9	12	18	17
Fringe Benefit Tax (FBT)	4	2	<1	2	2
TOTAL TIME	36	27	27	36	32

Base: All small businesses.

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

For example, businesses:

While 32 hours is the overall median, considerable variation exists by the size and the complexity of businesses. Further analysis of the 2024 survey findings illustrate that larger, and possibly more complex businesses, spend additional time in-house dealing with tax matters.

110 hours — with 20-49 employees spent 110 median annual hours in-house on tax.

76 hours — with an annual turnover of between \$1 million and \$30 million spent 76 median annual hours in-house on tax.

75 hours — in the Accommodation and Food Services industry spent 75 median annual hours in-house on tax. Across the industries measured, the Accommodation and Food Services industry is the most likely to be weekly payday filers and as such, has a high frequency of engagement with tax matters.

2. 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 5% in 2024), be monthly PAYE filers (75% versus 42%), be high users of online accounting software (86% versus 55%) and high users of online payroll software (66% versus 41%). These customers are still included in the total time estimate for 2018.

About a third of the total time businesses spend on tax compliance is spent 'recording information'

Overall, recording information and calculating tax were the most time-intensive tax activities in 2024 (see Table 2).

Table 2: Median hours spent annually on tax activities by filers of each tax type in 2024

	GST n=5,230	Income Tax n=4,800	PAYE n=1,582	KiwiSaver n=1,272	FBT n=452	ALL TAX TYPES n=5,348
Recording information	6.0	2.0	4.3	3.0	0.3	12.0
Calculating tax	3.0	0.5	8.7	6.0	0.1	6.2
Dealing with external tax advisers	0.8	1.0	*	*	0.2	3.0
Learning about new/ existing taxlaws and rules	*	*	*	*	*	1.0
Dealing with Inland Revenue	*	*	*	*	*	*
Advice about tax	*	*	*	*	*	*
Other activity	*	*	*	*	*	*
TOTAL TIME	16.0	7.0	26.0	16.7	1.7	32.0

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 asterisk (*) 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).

Table 3 shows time spent on compliance activities over time. To allow comparison across years, the median values have been apportioned by the percentage of time respondents indicated. While it's taking small businesses less time to record information compared to 2021, it remains the most time-consuming activity. Aside from 'Dealing with external tax advisers', time spent on most compliance activities has increased - most notably, calculating tax. The increase in time spent calculating tax can largely be attributed to PAYE and KiwiSaver.

Table 3: Apportioned annual hours of in-house time spent on tax activities (2013 to 2024)

	2013 n=1,206	2016 n=4,028	2018 n=6,003	2021 n=9,564	2024 n=5,348
Recording information	18.9	12.9	12.0	18.4	11.4
Calculating tax	7.2	6.1	5.7	5.9	9.1
Dealing with external tax advisers	4.4	3.3	3.1	4.8	3.6
Learning about new/ existing taxlaws and rules	2.4	2.2	2.5	2.6	2.9
Dealing with Inland Revenue	2.0	1.3	1.8	1.9	2.3
Advice about tax	0.9	0.9	1.1	1.2	1.3
Other activity	0.3	0.3	0.3	1.1	1.4
TOTAL TIME	36	27	27	36	32

Base: All small businesses.

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

While in-house hours spent on tax compliance has reduced for businesses since 2021, the hourly costs have increased

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's tax obligations.

The following hourly rates have been used to convert time spent into compliance costs for 2024:

\$96.39 Owners/partners/directors/trustees (inflation-adjusted from the 2021 value of \$81.69)

\$47.39 Paid employees (inflation-adjusted from the 2021 value of \$40.16)

\$57.35 Unpaid family members or friends (inflation-adjusted from the 2021 value of \$48.60).

In addition to inflation, movement in the total internal costs for complying with tax requirements since 2021 can be influenced by:



Changes in the amount of time businesses spend on activities for a specific tax type, and



Changes in the proportion of time that different staff spend on activities for a specific tax type. For example, the in-house cost would increase if higher paid staff spent a greater proportion of time on a tax type, even if the total hours spent on that activity remained unchanged.

Table 4 shows that Income Tax, GST and PAYE have the highest hourly in-house costs.

Table 4: Median hourly in-house cost of time by filers of each tax type (2013 to 2024)

	GST	Income Tax	PAYE	KiwiSaver	FBT	ALL TAX TYPES
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	\$74.24	\$81.71	\$72.41	\$69.12	\$58.57	\$74.89
2024	\$86.38	\$89.57	\$85.27	\$73.11	\$69.41	\$88.88

Base: All small businesses.

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

Total in-house costs showed a small increase in 2024

Table 5 shows the median annual cost of in-house time spent by tax type. These costs are based on the in-house hourly rates and time spent on each tax type. 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.³

Between 2021 and 2024 there was a \$148 increase to the total in-house cost of complying with tax requirements. The PAYE tax type had the largest increase (\$175) between 2021 and 2024.

Table 5: Median annual cost of in-house time spent by filers of each tax type (2013 to 2024)

	GST	Income Tax	PAYE	KiwiSaver	FBT	ALL TAX TYPES
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	\$1,225	\$572	\$2,042	\$1,264	\$82	\$2,696
2024	\$1,382	\$627	\$2,217	\$1,221	\$118	\$2,844

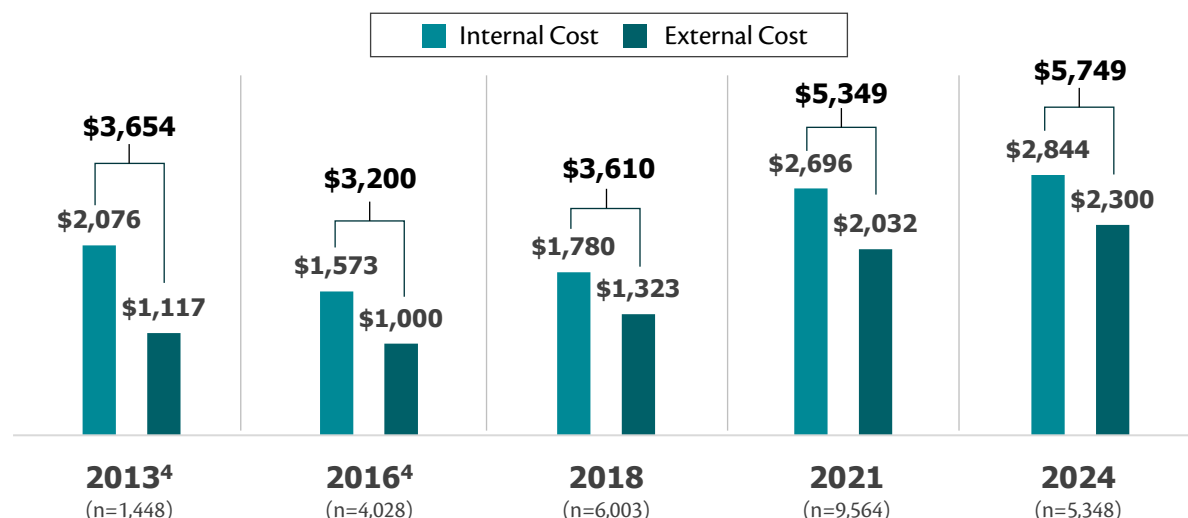
Base: All small businesses.

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

There has been a noticeable increase to external costs

91% of businesses incurred external costs through using professional services such as tax agents, accountants, tax lawyers and payroll services in 2024 (see Figure 4 on pg.12). Most of the increase in total costs in 2024 came from increased external costs, which continue to represent an increasingly larger proportion of total compliance costs.

Figure 3: Median annual costs incurred doing business taxes (2013 to 2024)



Base: All small businesses.

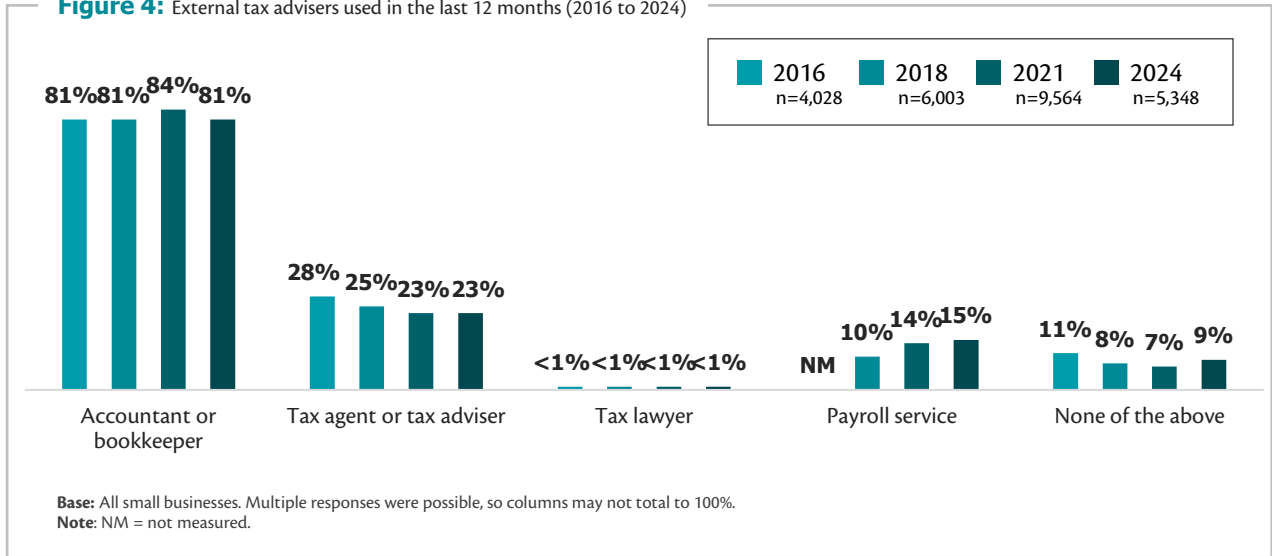
Note: As these are medians, the total hours do not equal the sum of the internal and external components.

- Included were respondents who were registered for that particular tax type, selected the tax type and completed the survey. Respondents may have chosen not to select a tax type they were registered for and any who selected the tax type but did not provide an answer were excluded.
- Cost of payroll services was not measured in the 2013 and 2016 surveys. For 2013 and 2016, external costs and combined total costs exclude the cost of payroll services as this was not measured in the 2013 or 2016 surveys. To make a like-for-like comparison with 2013 external costs, payroll services costs would need to be excluded from the 2018, 2021 and 2024 external costs. This brings the 2024 external costs down to \$2,200 which is \$1,083 higher than the \$1,117 reported in 2013, and combined costs down to \$5,665, which is \$2,011 higher than the \$3,654 reported in 2013.

Accountants and bookkeepers were the most used tax advisers

In 2024, around 8 in 10 businesses used accountants or bookkeepers to help meet tax responsibilities, while almost a quarter engaged a tax agent or adviser for this purpose.

Figure 4: External tax advisers used in the last 12 months (2016 to 2024)



Use of online accounting and payroll systems increased in 2024

Businesses were asked how they a) manage their accounts, and b) process staff wages. The use of paper-based systems to manage accounts had the biggest change, with a 5% decline since 2021, while uptake of online systems continued to grow.

Use of online accounting systems was more prevalent among businesses that:

- have an annual turnover more than \$100K, and/or,
- have more than five employees, and/or,
- were established within the last 10 years.

Table 6: Methods used for managing business accounts (2016 to 2024)

	2016 n=4,028	2018 n=6,003	2021 n=9,564	2024 n=5,348
Online system	31%	39%	51%	55%
In-house spreadsheets	29%	29%	32%	30%
Desktop software	33%	27%	25%	22%
Paper-based system	41%	25%	22%	17%
Other method	1%	1%	1%	1%
No system but keep records	6%	8%	7%	8%
Do not keep records	<1%	<1%	<1%	<1%
Do not know	1%	1%	<1%	<1%
None of the above	NM	<1%	<1%	<1%

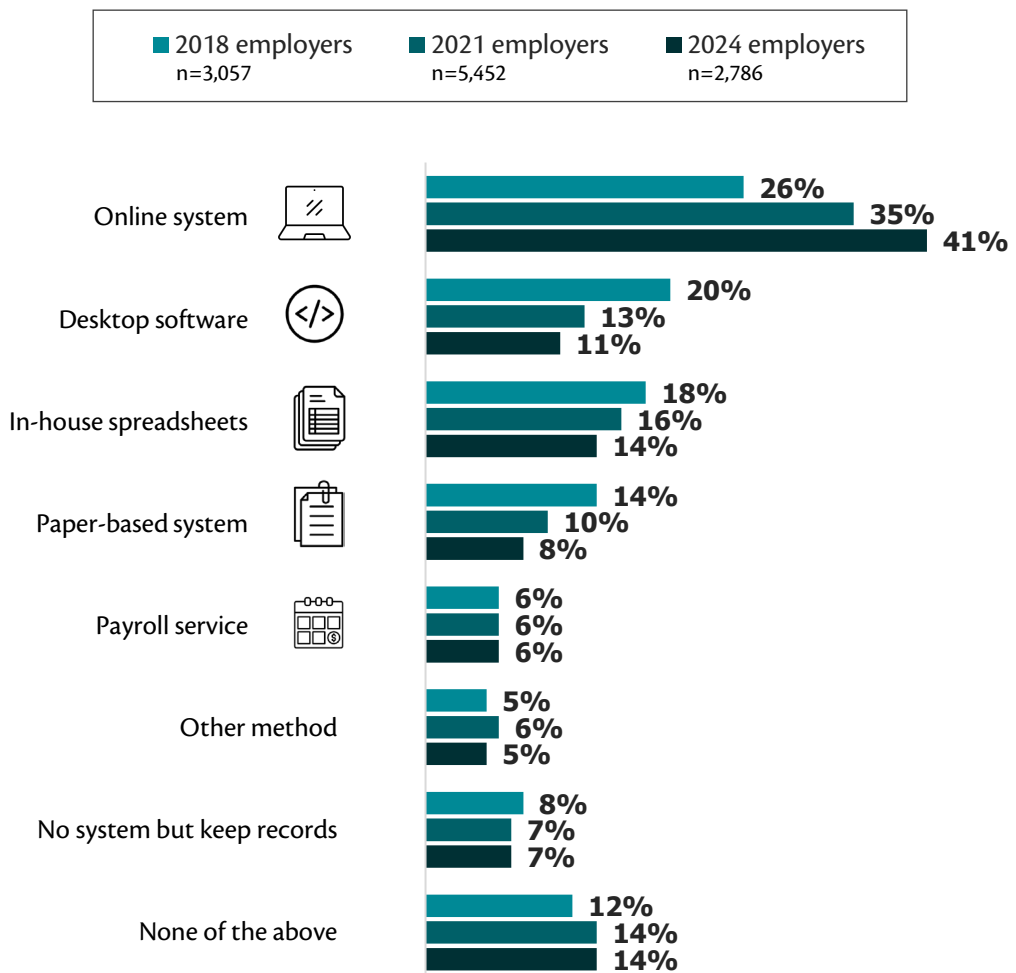
Base: All small businesses. Multiple responses were possible, so columns may not total to 100%.
Note: NM = not measured.

When it comes to processing wages, online systems remained the most widely used method and use continued to grow, with 41% of businesses using online systems in 2024. In contrast, the use of desktop software continued to decline and has almost halved over the last six years.

Use of online payroll systems were more prevalent among businesses that:

- have an annual turnover greater than \$1M, and/or,
- have more than five employees, and/or,
- were established within the last 10 years.

Figure 5: Methods used to process staff wages (2018 to 2024)



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

Perceptions surrounding tax compliance

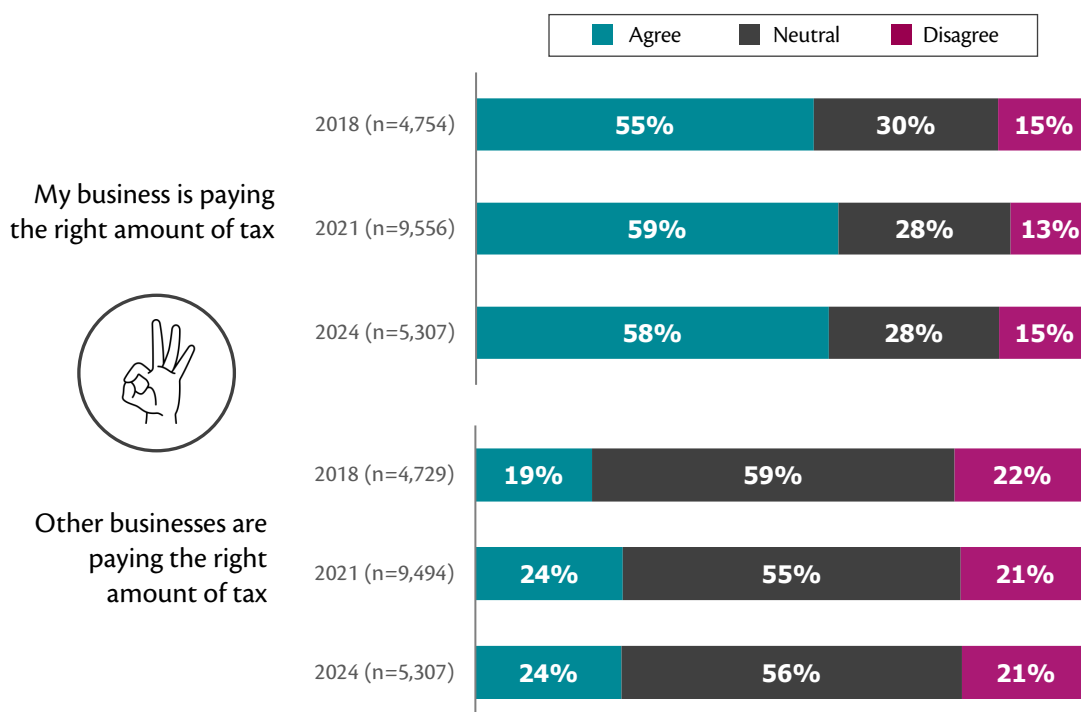
In addition to understanding the cost for businesses to comply with tax requirements, their views and opinions about tax compliance were also sought.

Inland Revenue's Business Transformation aimed to make it easier and more efficient for businesses to meet their tax responsibilities. Time and effort, customers' perceptions of complexity and feeling confident they're doing the right thing, are all factors that contribute to ease and efficiency. The 2024 survey included a range of questions to explore these factors.

Most small businesses feel they are paying the right amount of tax

Perceptions around the amount of tax that businesses pay remain largely unchanged since 2021. Most continue to feel that they are paying the right amount of tax while significantly less feel that other businesses are paying the right amount of tax.

Figure 6: Agreement with statements about business taxes



Base: All small businesses, excluding unanswered.

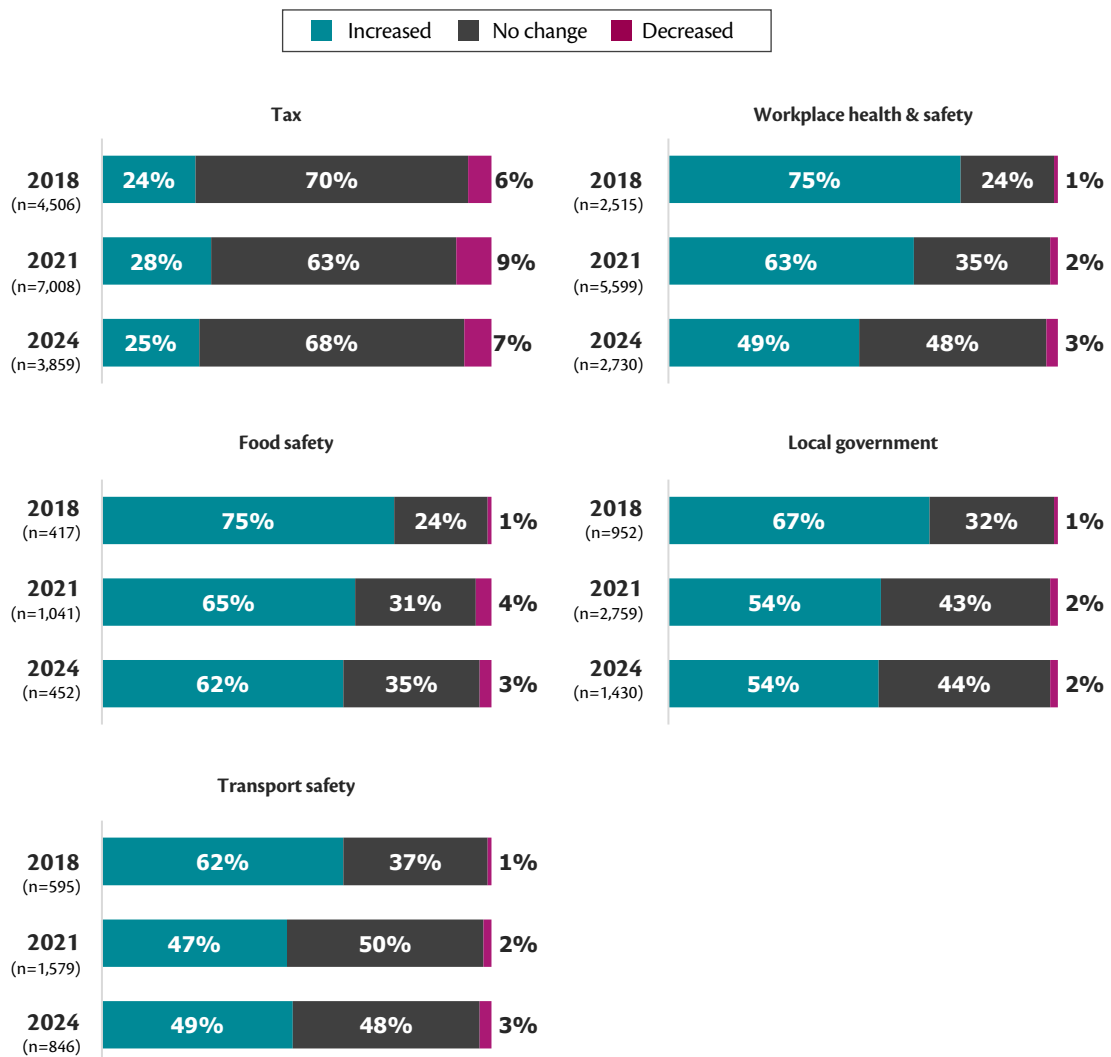
Note: These questions were first included in 2018. Due to rounding, percentages may not add up to 100%.

Amongst other regulatory regimes, effort for tax compliance is the least likely to have increased

To understand how businesses view tax in relation to other areas requiring effort for compliance, small businesses were asked whether they felt their required compliance efforts had changed. These questions were asked in relation to regulatory regimes (incl. tax) that businesses commonly have compliance requirements for.

Figure 7 shows that 25% of small businesses reported increased compliance efforts for tax in the last 12 months. This is significantly lower compared to the other four regulatory regimes that were measured. Most (68%) small businesses reported that tax compliance effort had remained stable over the past 12 months.

Figure 7: Perceived change in compliance effort compared to 12 months ago across different regulatory regimes

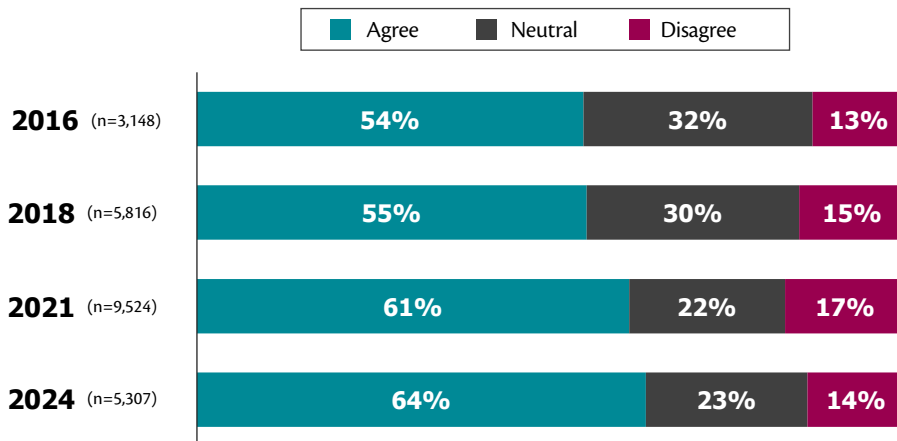


Base: Small businesses complying with each regulatory regime in the previous 12 months, excluding unanswered. Due to rounding, percentages may not add up to 100%.

More small businesses agreed that the time required to comply with taxes over the past year is acceptable

A reduction in the median in-house hours required by businesses to comply with taxes in the last 12 months coincides with an increase to the level of acceptability of the time required. Figure 8 shows that more businesses agreed (64%) that the time their business spends on tax matters is acceptable. Agreement that the time involved is acceptable has trended upwards since 2016.

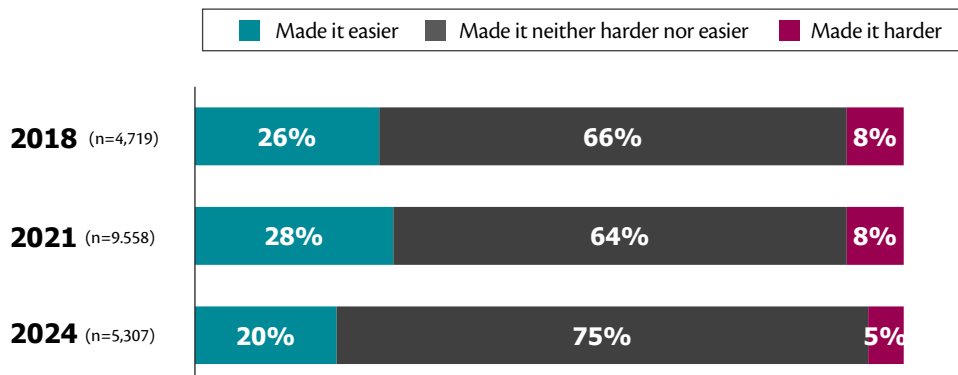
Figure 8: Change in acceptability of time spent on tax matters (2016 to 2024)



Base: All small businesses, excluding unanswered. Due to rounding, percentages may not add up to 100%.

Businesses were asked to think specifically about the time and cost of meeting their tax obligations and to tell us what impact they felt Inland Revenue had made to this. Figure 9 shows that very few small businesses felt that Inland Revenue had made it harder to be tax compliant in the last 12 months.

Figure 9: Perceived difference Inland Revenue is making to the time/cost of complying (2018 to 2024)



Base: All small businesses, excluding unanswered.

Improvements to Inland Revenue’s responsiveness and digital services are making compliance easier for some businesses

20% of businesses reported that Inland Revenue had made tax compliance easier in the last 12 months. Reasons for this increased ease were largely attributed to the three key areas outlined below:



myIR:

making the platform more user-friendly, saving businesses both time and effort. In particular, the pre-population of amounts and calculations during return filing.

“IR filling in details it has in the forms (pre-populating data) for income tax before I review which makes the process so much easier and faster.”

“myIR online portal has been very effective at saving time - filing is quicker, messaging any queries in the portals gets timely answers, reminders are helpful, dashboard showing GST/PAYE and Income Tax position is great.”



Compatibility with accounting software:

Inland Revenue’s digital services/tools/systems and their compatibility with external software/systems. Many also noted the usefulness of the online calculators on Inland Revenue’s website.

“I use [accounting service] for all of my tax responsibilities and they do a fantastic job of upholding my tax requirements. They take off my tax, student loan, ACC obligations before I am paid. It has been far easier for me to understand the process overall.”

“Being able to do everything straight from my accounting software is an absolute game-changer! I rarely have to input any data into IRD now as [accounting software] sends it straight there. The PAYE info going straight to IRD and IRD just calculating the amount of DED is so good!”



Responsiveness to web messages:

enabling timely resolution to non-urgent and straightforward issues.

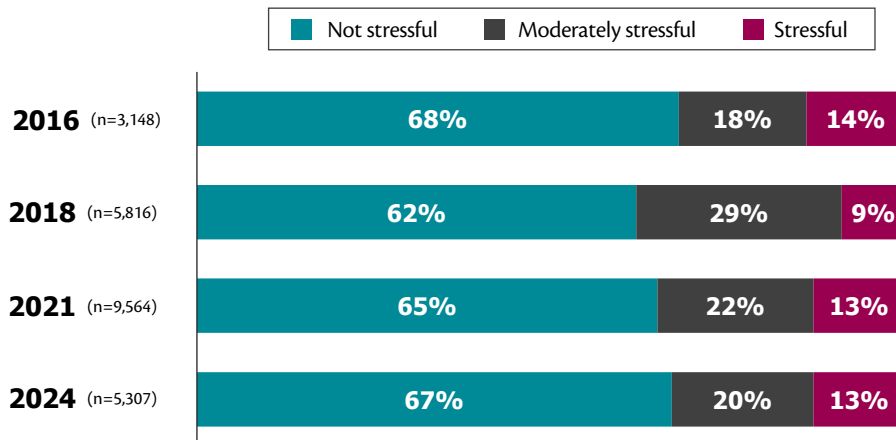
“Responsiveness from IRD using myIR is way more effective than trying to call, and the timeframes for responses are reasonable. This saves a lot of time trying to solve simple queries or issues.”

“The response time using the message function in myIR. This is way better than when it first came out and a far better and easier way to interact with IRD than calling and waiting in a queue.”

Most businesses did not find meeting their tax obligations stressful

The number of businesses that reported that it was stressful meeting tax obligations has not changed since 2021. More business reported meeting tax obligations was not stressful in 2024, driven by a slight decrease in those who reported this was moderately stressful.

Figure 10: Reported overall stress levels when meeting tax obligations (2016 to 2024)

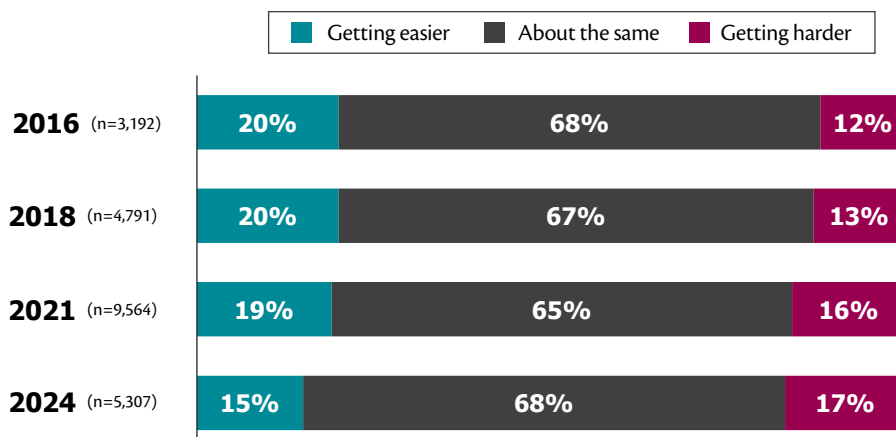


Base: All small businesses, excluding unanswered.

However, the proportion of businesses that found it harder to comply continues to trend upwards

Keeping up with changing policies, systems and processes, financial pressures and the volume of tasks required for compliance are cited as key reasons for it becoming more difficult. Businesses also noted factors external to Inland Revenue that added to the difficulty of being compliant. These included the current economic and financial climate and the unaffordability of tools and services that help make compliance easier.

Figure 11: Change in ease/difficulty to meet tax responsibilities (2016 to 2024)



Base: All small businesses, excluding unanswered.

What's happening internally that's making compliance harder?

The following section covers the barriers to compliance for the 17% of businesses who said that meeting their tax obligations had gotten harder in the last 12 months. Broadly, these barriers have been defined as internal (factors that Inland Revenue has some direct control over), or external (factors that Inland Revenue has little control over).

Internally, barriers fall within three categories; tax type-specific, service and operations, and policy.

Tax type-specific



Perceived excessive filing frequency requirements for GST & PAYE.

"We pay wages weekly - I would rather have to file the PAYE information once a month than every week. Or be given no penalties if filed a few days late. We know we have to pay monthly so I would prefer to file the information monthly."

"Requirement to file within 2 days of month's end when payment is not due till the 20th."

Provisional tax difficulties – meeting payment obligations, estimations, penalties for under-estimations.

"It's quite difficult to accurately forecast income and our cashflow doesn't allow us to liberally overestimate it. We were charged interest once and there's constant anxiety that that will happen again. That also feels unfair because we are honestly trying our best to follow all the rules and report income timely."

Service and Operations



Difficulty contacting Inland Revenue by phone when myIR messaging is not a suitable communication channel for their query.

"If you don't have a tax adviser, you have to email IRD (no way of speaking to a person) and wait 15 WORKING days for a response. That's 3 weeks before you get a reply - and if you still have follow-on questions, that's another 3 weeks."

"Making it harder to contact them. Decreasing levels of support...all the while hitting you with penalties while taking 3 weeks to respond to each message."

Keeping up with Inland Revenue's changes – e.g., changes to website and processes.

"The online form is different every time I complete it each 6 months and I have found the changes a bit confusing."

"Every time I go into myIR, there has been changes to the pages, this makes it harder for me as I am not really good with computers."

Keeping up with changing laws and regulations.

"IRD is always making changes to rules or inventing new ones. The tax return forms are a good example - they have got more complicated and longer over the years."

"There have been changes - especially with regards to 'money laundering' obligations that require understanding, more forms and reporting requirements."

Complex compliance requirements that get more complex and costly as businesses grow.

Policy



"Increased tax requirements and complexity as the business grows."

"We constantly have to pay an accountant to explain how tax works for our business. Why don't IRD provide clear information on how tax works so that business owners don't have to default everything to the accountant to do? Tax is super confusing even though I have run the business for over 10 years. As the business grows tax seems to become more baffling!"

Little tolerance for mitigating factors when penalties are incurred.

"When we ALWAYS pay on time and getting charged \$250 for every mistake is a real bug bear - when we explain we run these things late at night after work/family."

"There seems to be no tolerance for simple mistakes and little communication, just penalties."

What's happening externally that's making compliance harder?

Externally, barriers are primarily economic. When broken down further, they fall within three categories; economic climate, online software and professional tax advice and services.

Economic climate



A struggling economy and increased cost of living resulting in less business and cashflow issues.

“A slow down in the economy has made it much harder to meet financial obligations. What income we are getting is being used to cover overheads such as rent, wages, taxes, power etc. There is very little, if any, left to replenish stock.”

“A poor economy, a growing aged receivables list and slowing of business on top of it makes cash flow pressures hard on a small business. The tax obligations are hard to meet when there is no cash coming in.”

Online software



Unaffordability and functional limitations of accounting and payroll software.

“...unbearably expensive monthly online software subscription fees.”

“I've made the decision not to buy software. I did enquire, but the things I looked at were too expensive for my business.”

“It isn't possible to have the annual tax return completed via [accounting software]...GST returns are completed here, so the annual return should just be an extension of this, you already see all of the income via GST returns, so the requirement to use an accountant as well seems redundant.”

Professional tax advice/services



Increasing costs for professional tax advice and services.

“The increased accounting costs of our accountant to now use software to assist with preparation of our accounts.”

“Accountants cost going up steadily despite our accounts person putting in more time each year to streamline our process.”

“We have a very competent accountant - however each time we ask advice and guidance there is a cost involved.”

Tax Type Summaries

This section focusses on the tax types with the highest median compliance costs (PAYE, KiwiSaver and GST on pg.22). It outlines some tax type-specific enablers of compliance, barriers to compliance and some customer suggestions to optimise compliance.

Summary of PAYE and KiwiSaver



Barriers:

- **Frequency of payday filing** is challenging to remember/find time to file within two days of payday and particularly frustrating when the employee information does not change.
- **Online payday filing is not intuitive** as employee information from the last pay does not pre-populate to allow for faster, simpler filing.
- **Late filing penalties** are seen as punitive by many businesses, and they feel that these should only be applied if relevant filing is not submitted by the payment due date.

“Unless payroll is filed within 2 days of paying employee, a penalty is given. As a small business it is not always possible to remember to do this in time. Surely as long as it is filed within the week of payment would be okay?? .”

“Filing PAYE returns weekly...having to file the same information each week every week is annoying when there could be a system in place to repeat or edit the information that was last filed. And if you are late, being fined. Every week I get stressed out finding the time to file.”

“Penalties should not be applied unless PAYE returns are not filed before the 20th of the month following. Never going to pay it!!!.”



Enablers:

- **Payroll software and services** are making it easier for businesses to meet their PAYE filing and payment obligations.
- **Notifications and alerts** support businesses and intermediaries in meeting their PAYE compliance requirements.

“Using an online payroll service like [payroll service] is a life saver in that your taxes are collected immediately, and you never have to worry about paying your PAYE to IRD.”

“myIR has made it easier to calculate EMP, add and edit employees. The alert system has made it easier to ensure our accountant and our bookkeeper have everything ready to file in accordance to deadlines.”



Opportunities suggested by businesses:

- **The ability to streamline payment options in myIR** to reduce time and effort required to meet PAYE obligations.
- When payday filing in myIR, **populate the Employee Information** from the last submission and allow for editing and resubmission to save time and effort.

“myIR would be even better if we could setup defaults for payment methods and dates. E.g., I’ll always select 20th of next month and will always pay by Direct Debit. Why can’t I set up these things as defaults for my business? Also, the PAYE summary doesn’t show that I’ve arranged a Direct Debit on a certain date, but GST and FBT do show that. I want reassurance that I selected the correct 20th.”

Tax Type Summaries

Summary of Income Tax



Barriers:

- **Poor cashflow and increasing operational costs** are making it hard to budget for and make GST payments. This is even more difficult when receiving certain types of income, such as commission.
- **Time and effort required for GST tasks** such as staying on top of record-keeping and two-monthly filing and payments takes a lot of time and effort.
- **Frequent GST reviews and audits** add stress and frustration.

“GST and keeping that aside. Being on commission so some weeks/months nothing, then when you do get paid you feel like you’re chasing payments from weeks or months before. Hence find hard to hold GST.”

“Cost of doing business, materials cost increase, minimum wage increase. These things combined with a more competitive market and a recession make it extremely difficult to find the money to pay GST.”

“Move to 2 monthly GST from 6 monthly and the demand for more regular information on transactions.”

“New tax app means separate coding and GST payment systems for revenue received via apps and other revenue. Causing extra time spent per day on transactions.”

“The audit locked up the GST returns and I had difficulty contacting someone and this put me under financial stress.”



Enablers:

- **Upgrades to myIR and accounting software** have made GST filing much quicker and easier.
- **Flexibility with GST payment options** (e.g., instalment arrangements to pay in advance) are helping businesses stay on top of obligations.

“IRD’s online services made doing my GST much easier. Now I am with [accounting software]/tax agent, it’s even easier.”

“Allowing the business to pay GST by instalments, which took some pressure off and has allowed me the breathing space to work on increasing revenue and decreasing costs.”



Opportunities suggested by businesses:

- **Make it easier for businesses to change their GST filing frequency.** Some businesses reported difficult or drawn-out processes to change their GST filing frequency.
- **Make wages a GST claimable** business expense.
- **Only charge GST on income above the GST income threshold.**
- Have **consistent due dates** for GST.

“Finally got the GST period to 6 monthly (instead of 2 monthly).”

“Was harder to keep track of when GST payments were due. Not sure exactly why. Would be useful if they were the same date of the month each time payments were due.”

Appendix

Survey methodology

Between 17 April and 19 May 2024, Inland Revenue conducted an online survey of New Zealand small businesses about doing their business taxes. The 2024 survey is the latest in a regular cycle of Inland Revenue investigations of the tax compliance experience of New Zealand small businesses.

Inland Revenue defines small businesses as entities that:

- Have an annual turnover up to \$30 million and fewer than 50 employees.
- Are “actively trading” – defined as having filed for Income Tax or GST or having made a PAYE/employer information submission with Inland Revenue between 1 April 2023 and 31 March 2024.
- Are not ‘not for profit’ entities.
- Are not non-trading trusts.
- Are not “passive” individuals whose only income is from investments.

At the time the survey was done in 2024 the size of this population was 425,217 entities.

For the sample frame, the population was further reduced to exclude those that Inland Revenue did not have a valid email address for, and those that had been selected for Inland Revenue surveys in the previous six months. At the time the survey was done, the total number of entities in the sample frame was 340,378.

A stratified random sample of 50,000 was drawn from the sample frame. A total of 48,735 invitations to the online survey were successfully delivered to the random sample and 5,348 valid responses were received – a response rate of 11%.

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 topic of the survey is demanding on respondents’ memory and mental calculation abilities, so estimation and measurement errors are likely to be present.

Appendix

2024 Survey calculations

Inflation-adjusted hourly rate

The following dollar amounts have been used to convert time spent into compliance costs for 2024:

- \$96.39 – owners/partners/directors/trustees (inflation-adjusted from the 2021 value of \$81.69)
- \$47.39 – paid employees (inflation-adjusted from the 2021 value of \$40.16)
- \$57.35 – unpaid family members or friends (inflation-adjusted from the 2021 value of \$48.60).

These rates were calculated using the Reserve Bank of New Zealand's general CPI inflation calculator, with the inflation rate between 2021 Q2 and 2024 Q2 being 18% as at 30 July 2024.

Partial responses

All partial responses have been excluded from survey calculations.

Filing frequency

The correct filing frequencies have been recorded for each tax type across each respondent.

- The correct PAYE and FBT filing frequencies have been applied to all results and these filing frequencies used to calculate annualised estimates.
- KiwiSaver: unlike the other account types, KiwiSaver respondents were asked to provide time estimates based on the last time they dealt with their business's KiwiSaver obligations and not an estimate based on filing frequency. To produce an annual estimate for each activity, an annual frequency was needed for each.
 - The activity "Calculating tax, completing and returning tax forms, paying tax" used the respondent's payday filing frequency to calculate an annual estimate.
 - The other six activities used a frequency of 12 to calculate annual estimates, as this is the method used in prior surveys before the introduction of payday filing.