

Large Enterprises Tax Compliance Costs

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We asked large enterprises (LEs) about their tax compliance costs in 2010. This sheet summarises the research results.

What we explored

We explored LEs' costs of complying with their tax obligations, including KiwiSaver. We wanted to find out:

How do LEs view tax compliance costs?

What is the size of LEs' tax compliance costs, including for KiwiSaver?

Number of LE groups

Twenty-eight LE groups were interviewed face-to-face on their views of tax compliance costs. Ten of the 28 took up the invitation to participate in a prototype survey to measure actual tax costs.

We chose a case study approach because people with expert knowledge of LEs told us that, due to LEs' tax complexities, we needed to conduct in-depth qualitative interviews to understand LEs' views of tax costs.

The case study approach is appropriate for in-depth qualitative research. It does **NOT** provide statistically significant results that can be generalised to the LE population. The case study results could be used to design a full-scale tax compliance cost survey in future if required.

Key findings

General tax compliance costs

- LEs are widely varied in their size by employee numbers (the 28 LEs in the Case studies ranged from under 50 employees to over 10,000), and their involvement in particular tax activities. These variations produce wide ranges in tax compliance costs.
- LEs stated that there were a number of underlying factors driving their tax costs such as; the complexity of tax legislation, the frequency of tax legislation changes, the shift of payroll tax activities onto businesses, and sorting out employees' tax matters.

- Income Tax was the most costly tax type followed by PAYE, GST and FBT, but FBT costs were proportionally high considering the tax revenue paid.
- The four tax activities that were both relatively costly and more common were; interpreting and keeping up to date with tax law, accommodating changes to tax legislation, managing tax risk reviews, and tax planning.
- Most LEs believed that psychological stress needed to be included as part of tax compliance costs. Some of the causes of stress mentioned by LEs were; audits, time pressures, and uncertainty (e.g. tax interpretations).

KiwiSaver

- KiwiSaver compliance costs vary considerably between organisations. Levels of compliance costs appear to be influenced by the number of employees, the number of KiwiSaver members, staff turnover, having a variety of pay periods, and having multiple collective employment agreements and non-KiwiSaver schemes. Legislative and operational issues also seem to influence compliance costs.
- Meeting KiwiSaver requirements is moderately stressful, with LEs experiencing a mid-range level of stress (psychological cost) for fulfilling their obligations.
- The dollar value of LEs' KiwiSaver employer contributions differs greatly between organisations. Overall, KiwiSaver has had little effect on either LEs' remuneration practices, or non-KiwiSaver workplace superannuation schemes.
- LEs consider that, while KiwiSaver has benefits for employees, it has little in the way of benefits for employers as it is available through all organisations.

What's next

Should Inland Revenue wish to build on this research and gather statistically generalisable measures of LEs' actual compliance costs, a full-scale survey using the knowledge gained from conducting this research is recommended. This survey would cover a wide sample of LEs, but would need to focus on a set of key compliance costs rather than covering all compliance costs.

It is also recommended that Inland Revenue senior management consider the issues raised in the 2010 research. Some of these issues can be addressed readily, while others need to be understood in more detail through supplementary research.