The time, money and effort it takes SMEs to comply

Findings from the 2016 survey of SMEs’ compliance costs

Introduction

The 2016 survey of SMEs’ compliance costs continued a time series established in 2004 and carried out in 2009 and 2013. The findings below offer a quick look at how much time, money and effort SMEs spend meeting their tax obligations. The survey (n=4,028) was supported by focus groups, to investigate the drivers of compliance. A series of snapshots of the results and a full report of the focus group and survey results are available.

Key survey findings

- The median time it takes SMEs to meet their tax obligations; down from 36 hours in 2013
- The median value of that time was $1,573; down from $2,076 in 2013
- Almost half of SMEs say meeting their tax obligations isn’t stressful; slightly more than in 2013
- Most SMEs say it requires about the same amount of effort or less than it did the year before

- The most time-consuming tax takes SMEs a median of 14 hours annually; down from 24 hours in 2013
- Although it has reduced, recording information is the most time-consuming tax compliance activity; the same as in 2013
- Most SMEs use tax agents or accountants to help them with tax; few sought specialist advice
- Most SMEs use digital methods like Excel spreadsheets and PC-based and web-based software to maintain their books

Additional insights

The median time it takes SMEs to meet their tax obligations has reduced since 2013, continuing the trend established in 2009. This indicates that IR’s efforts to improve its service offerings for SMEs have already had a positive effect but the uptake of time-saving technologies should not be overlooked. A much larger proportion of SMEs use software to organise and operate their businesses than they did in 2013, and this makes meeting their tax obligations easier:

“Some of the questions re time spent on compiling tax information seem irrelevant as we have to enter creditor invoices in our accounting package for sorting bills to pay etc., and all the tax info is automatically generated from there. Same with PAYE. Once the employee is set up, we are only entering time data for wages which again generates the relevant tax info.” – Microbusiness owner
**Key focus group findings**

**SMEs’ perception of compliance costs**
Focus group participants said compliance costs were comprised mainly of their tax agents’ fees and the time spent undertaking compliance activities (such as recording information).

Most participants were confident they manage their tax obligations effectively, with processes or support services in place, and felt mistakes were likely to be minor. Most feel the current obligation workload is reasonable, meaning calls for major changes are muted.

Compliance costs were seen to have reduced since 2013, due to better service from IR, less paperwork, and improved online interfaces.

**Factors contributing to higher compliance costs**
Higher compliance costs were associated with:

1. More staff; casual workforce with varying hours; staff with fines, tax arrears, and WINZ interactions
2. The type of business (e.g., exporting and importing adds complexity)
3. A higher number of transactions within the business
4. Business owners/managers with low tax knowledge and low ICT ability (some still struggle with new technology and are reluctant to change)
5. Cost of tax agents (and varying level of use)
6. Finding completing and filing returns stressful

**Factors contributing to lower compliance costs**
Lower compliance costs were associated with:

1. Using accounting software
2. Good systems and processes within the business
3. Using IR’s digital channels to file returns
4. Better customer service from IR
5. Better accounts interfaces with suppliers and banks
6. Keeping tax rule changes to a minimum

**Other factors that influence SMEs’ compliance costs**

**Changes observed and still sought**
All participants felt that there had been positive changes when dealing with IR since 2013, and that these reduced their compliance costs:

1. A more ‘customer service’ focus
2. Less paperwork and a move to digital filing (with direct reference to GST automation)
3. An improved online portal, although many suggested further improvements to these services (particularly bringing different tax return systems together in one)
4. Few changes to tax rules and regulations during this time

**Tax agents and peace of mind**
Almost all participants used tax agents and accountants to ensure their returns are processed correctly and tax obligations were minimised (in particular, their Income Tax return). Use and fees charged varied across the groups.

Some participants perceived tax returns submitted by agents are less likely to be reviewed by IR, and this also gave them peace of mind.
Opportunities for IR

Raise awareness of the low cost of accounting software

There is opportunity to promote the benefits of using accounting software, particularly its relatively low cost, especially to the self-employed. This could reduce SMEs’ compliance costs in terms of their time and tax agents’ fees, improve business information, reduce their likelihood to fail, improve the timeliness and accuracy of their tax compliance, and generally contribute to integrity of the tax system.

Promoting IR’s reminder system

There is demand for IR to provide email and text reminders; and not just before tax is due, but also when the due dates have passed and returns have not been received.

This is a service the Department already offers; promoting it could improve uptake of online accounts, the timeliness of SMEs’ compliance, and minimise penalties and interest for those who tend to be late or are late from time-to-time.

Acknowledging payments received, by email

Participants wanted IR to acknowledge receipt of returns and payments submitted. Providing email acknowledgements offers SMEs certainty and could prevent further contact through more expensive service channels.

Improve content and functionality on ird.govt.nz

Participants suggested a range of improvements to IR’s website: simplified language; better search function; videos explaining processes; bringing all the filing functions into one platform; and live chat support.

Improving the website is a perennial goal, to enable compliance and prevent further contact through more expensive service channels.

Method

Survey of SMEs

The 2016 survey of SMEs’ compliance costs continued a time series established in 2004 and carried out in 2009 and 2013. The eligible SME population was n=372,296, and the stratified simple random sample was n=28,746. Invitations and reminders to complete the survey were emailed or posted to survey candidates during May-July 2016.

Focus groups with SMEs

Research provider UMR was contracted to undertake four focus groups with SME owners who had responded to the survey. All participants were based in Auckland, where the focus groups were held.

A full report of the survey and focus group findings is available on our Internet site.

Who we are

The Research & Evaluation Unit has conducted other studies about the various aspects of the programmes and services Inland Revenue administers.

Find out more online at: www.ird.govt.nz/aboutir/research-tax-stats/

Kia ora to

The survey respondents and focus group participants, for giving their time for this study.