Better for customers: SMEs’ compliance costs in 2016

November 2016
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Acknowledgements

The participants, for sharing their time and views; UMR, for conducting the focus groups and the initial analysis; and Valmai Copeland, Virginia Burns, Simon Leong and Martyn Knottenbelt from Inland Revenue’s Research & Evaluation Unit, for turning data into actionable insights.
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Overview

Median time spent in-house on tax continues to reduce

In 2016 the median annual time SMEs spent within their business meeting their tax obligations was 27 hours.

This is 25% less time than in 2013 (36 hours), which in turn was 25% less time than in 2009.

Median hourly value of that time holds steady

In 2016 the median hourly value of that time was $56.47/hour, similar to the value in 2013 ($52.40/hour). But because SMEs are spending less time overall, the median value of their in-house costs has reduced by 24% since 2013.

Median value of external costs also reduces

Using tax professionals – tax agents, accountants, and tax lawyers – external to their business contributes to SMEs’ overall compliance costs. In 2016, most SMEs used tax agents and/or accountants to help them meet their tax obligations.

In 2016, the median annual value of SMEs’ use of tax professionals was $1,000. This is a little lower (10% less) than in 2013.

Overall stress levels are low

In 2016, almost half of SMEs said meeting their tax obligations caused little or no stress; and the majority (88%) said it required about the same or less effort as it did the year before.

More detail about the time, money and effort SMEs said they spent on meeting their tax obligations in 2016 is available in the following chapter, Survey Results.
Four focus groups supported the 2016 survey of SMEs’ compliance costs. The participants were a mix of high, medium and low compliance cost customers; half were employers, and half worked by themselves. The findings below offer insights into the underlying factors affecting the time, money and effort SMEs spend meeting their tax obligations.

**SMEs’ perception of compliance costs: reasonable, and improved**

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.

They perceived compliance costs to have reduced since 2013 due to IR’s better customer service, less paperwork and more use of digital filing, and improved online services.

**Factors contributing to compliance costs...**

**...higher compliance costs:**

1. More staff; casual workforce with varying hours; staff with fines, tax arrears, and interactions with other agencies
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. Find completing and filing returns stressful

**...lower compliance costs:**

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

**Opportunities for IR to further reduce compliance costs**

1. Raise awareness of the low cost of accounting software, especially amongst the self-employed
2. Promote our reminder service that notifies customers when their filing and payment dates have passed
3. Acknowledging all returns and payments received, preferably by email
4. Improve content and functionality on ird.govt.nz, like simplifying language and offering step-by-step videos, and one platform for all returns
Executive summary

Compliance costs are a key measure of how well Inland Revenue is meeting its goal of making it easier and more efficient for businesses to meet their tax obligations.

Key survey findings

The time SMEs spend within their business on tax compliance continues to reduce
In 2016 the median annual number of in-house hours spent on tax by SMEs was 27 (a reduction of 25% from 36 hours in 2013).

48% of these hours were spent on recording information (53% in 2013). This was the most time-consuming activity across all tax types covered (GST, Income Tax, PAYE, KiwiSaver, and FBT).

GST was the most time-consuming tax type, accounting for a median 14 annual hours in 2016 (compared to a median 24 hours a year in 2013).

The hourly cost of SMEs’ time is similar, but the overall cost to SMEs has reduced
SME owners undertake the bulk of tax compliance activities undertaken within their businesses. Adjusting for inflation, the value of SME owners’ time in 2016 is similar to that in 2013 ($71/hour vs $61/hour).

The combined median internal and external annual cost of compliance to SMEs is $3,200; a reduction of 12% from $3,654 in 2013.

The median annual cost of in-house compliance activities is $1,573 (compared with $2,076 in 2013), bringing it back to below 2004 levels. The internal cost to SMEs has reduced by 24% due to all staff spending less time in-house on compliance activities.

Stress levels are low
In 2016, almost half (49%) of SMEs considered meeting their tax obligations to cause little or no stress, and the majority (86%) reported it was not at all stressful to moderately stressful (84% in 2013).

Growing use of tax professionals, digital accounting and digital payroll systems
In 2016, 89% of SMEs used a tax agent, accountant and/or tax lawyer to help meet their tax obligations. Three quarters (76%) of SMEs used digital methods of accounting and 60% of Employer SMEs used digital payroll systems (i.e., Excel spreadsheets, or PC-based and web-based software).

Importance of these findings for business transformation
Although the median hours spent within and external to their business have reduced since 2004, the cost of compliance to SMEs is still an important consideration for Inland Revenue’s business transformation programme. Designing and delivering services and systems that facilitate compliance in a customer-centric manner remains a priority for Inland Revenue.
Focus group findings

Four focus groups supported the survey, to offer insights into the factors affecting the time, money and effort SMEs spend meeting their tax obligations.

Participants identified their tax agents’ fees and the time spent undertaking compliance activities (such as recording information) as their primary compliance costs. Most felt the current obligation workload is reasonable, as they have appropriate processes and systems in place to manage it effectively.

SMEs’ compliance costs since 2013 were seen to have reduced due to better customer-centred service from Inland Revenue, less paperwork and more use of Inland Revenue’s digital service channels, and improvements to Inland Revenue’s online services.

Specific characteristics of the businesses were associated with higher compliance costs:

- having more staff; casual workforce with varying hours; staff with fines, tax arrears, and interactions with other government agencies;
- businesses that import and export, and/or have high number of transactions;
- business owners/managers with low tax knowledge and low ICT ability, using high-cost tax agents, and find completing and filing returns stressful.

Participants used tax agents and accountants to ensure their returns are correct and tax obligations were minimised (in particular, their Income Tax return). Some perceived tax returns submitted by agents as less likely to be reviewed by Inland Revenue, and this also gave them peace of mind.

Opportunities for Inland Revenue

In addition, the following opportunities for Inland Revenue were identified:

- Raise awareness of the benefits and low cost of accounting software, particularly amongst self-employed business individuals.
- Promote Inland Revenue’s customer reminder system, as it includes reminders of dates missed.
- Acknowledging all returns and payments received, preferably by email.
- Improve content and functionality on ird.govt.nz, particularly video and other visual step-by-step guides explaining processes and bringing all returns into one platform.

This report

The following chapters present the results and findings of the survey and the focus groups in detail, followed by a brief Conclusion that reiterates the opportunities for Inland Revenue to make further meaningful changes that will reduce SMEs’ compliance costs.
Survey results

In 2016 Inland Revenue conducted a survey of n=4,028 Small-to Medium-sized Enterprises (SMEs). This chapter presents the survey results, using the median value (half are higher and half are lower) rather than the mean (average), to best reflect the diversity of SMEs.

Population

The definition of the 2016 population of SMEs is available in the Appendix: Methodology.

The eligible survey population was 372,296. Using the Kish allocation procedure, endorsed by Statistics New Zealand, the drawn sample was 28,746. The achieved survey population was 4,028; a response rate of 14%.

Respondent characteristics

Table 1: Proportion of SME population and survey respondents by number of employees (2016)

<table>
<thead>
<tr>
<th>Number of employees</th>
<th>SME population (unweighted n=372,296) %</th>
<th>Survey respondents (unweighted n=4,028) %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nil employees</td>
<td>62</td>
<td>55</td>
</tr>
<tr>
<td>Micro (1-5)</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>Small (6-19)</td>
<td>12</td>
<td>15</td>
</tr>
<tr>
<td>Medium (20+)</td>
<td>4</td>
<td>9</td>
</tr>
</tbody>
</table>

Note: Figures may not total 100% due to rounding.

Table 2: Proportion of SME population and survey respondents by turnover (2016)

<table>
<thead>
<tr>
<th>Turnover</th>
<th>SME population (unweighted n=372,296) %</th>
<th>Survey respondents (unweighted n=4,028) %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $40,000</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>$40,000 to less than $100,000</td>
<td>24</td>
<td>25</td>
</tr>
<tr>
<td>$100,000 to less than $250,000</td>
<td>27</td>
<td>22</td>
</tr>
<tr>
<td>$250,000 to less than $500,000</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>$500,000 to less than $1.3 million</td>
<td>15</td>
<td>19</td>
</tr>
<tr>
<td>$1.3 million to less than $5 million</td>
<td>10</td>
<td>14</td>
</tr>
<tr>
<td>$5 million and up</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

All survey data have been weighted (see Appendix: Methodology for more information).
Median time spent in-house on tax reduces

Tables 3 and 4 (below) show the median number of hours per year SMEs spent within their businesses on all tax obligations (27 hours), as well as the median hours spent on various tax types (of those businesses that deal with these tax types). Compared to 2013, the median total hours spent on all tax activities in 2016 reduced by 25% (from a median 36 hours to 27, as shown in Table 3), continuing the trend established in 2009.

GST remains the most time-consuming tax

Followed closely by PAYE (median 12 hours annually), GST remains the most time-consuming tax in 2016 (median 14 hours annually). The median time SMEs spent on Income Tax has halved (from 12 hours in 2013 to six hours in 2016). Just 8% of respondents said they had one tax type; 92% said they had more than one.

Table 3: Median annual hours of in-house time SMEs spent by tax type (2004-2016)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GST</td>
<td>33</td>
<td>24</td>
<td>24</td>
<td>14</td>
</tr>
<tr>
<td>Income Tax</td>
<td>18</td>
<td>12</td>
<td>12</td>
<td>6</td>
</tr>
<tr>
<td>PAYE</td>
<td>15</td>
<td>12</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>KiwiSaver</td>
<td>-</td>
<td>9</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>FBT</td>
<td>8</td>
<td>3</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>All tax types (median annual hours)*</td>
<td>55</td>
<td>48</td>
<td>36</td>
<td>27</td>
</tr>
</tbody>
</table>

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

Recording information remains the most time-consuming compliance activity

As shown by Tables 4 and 5, recording information has accounted for around half of the total hours spent on dealing with tax between 2004 and 2013; and a slightly lower proportion in 2016. Calculating tax, completing and filing returns and paying tax together make up the next most time-consuming set of activities. It is anticipated that the changes being made through Business Transformation will see further reductions in the amount of time spent on these activities, continuing the trend established in 2009.

Table 4: Median annual hours of in-house time SMEs spent on tax activities by tax type (2016)

<table>
<thead>
<tr>
<th>Activity</th>
<th>GST (n=3,913)</th>
<th>Income Tax (n=3,549)</th>
<th>PAYE (n=1,803)</th>
<th>KiwiSaver (n=1,223)</th>
<th>FBT (n=408)</th>
<th>All tax types* (n=4,028)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recording information</td>
<td>6</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>&lt;1 (0.3)</td>
<td>12</td>
</tr>
<tr>
<td>Calculating tax, completing and filing returns, paying tax</td>
<td>3</td>
<td>0</td>
<td>4</td>
<td>3</td>
<td>&lt;1 (0.3)</td>
<td>6</td>
</tr>
<tr>
<td>Dealing with Inland Revenue</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Advice about tax</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Dealing with tax advisors (including providing information)</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2</td>
</tr>
<tr>
<td>Learning about tax laws (new or existing)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total hours* (Median)</td>
<td>14</td>
<td>6</td>
<td>12</td>
<td>9</td>
<td>2</td>
<td>27</td>
</tr>
</tbody>
</table>

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

1 This figure does not include those respondents that had nil payments for FBT, only those with payments.
To allow comparison across years, the median value has been apportioned by the percentage of time that respondents indicated.

Table 5: Apportioned annual hours of in-house time SMEs spent on tax activities (2004 – 2016)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Recording information</td>
<td>26.3</td>
<td>23.9</td>
<td>18.9</td>
<td>12.9</td>
</tr>
<tr>
<td>Calculating tax, completing and filing returns, paying tax</td>
<td>12.7</td>
<td>10.1</td>
<td>7.2</td>
<td>6.1</td>
</tr>
<tr>
<td>Dealing with Inland Revenue</td>
<td>3.1</td>
<td>2.4</td>
<td>2.0</td>
<td>1.3</td>
</tr>
<tr>
<td>Tax planning</td>
<td>1.9</td>
<td>1.0</td>
<td>0.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Dealing with tax advisors (including providing information)</td>
<td>6.8</td>
<td>5.8</td>
<td>4.4</td>
<td>3.3</td>
</tr>
<tr>
<td>Learning about tax laws (new or existing)</td>
<td>4.0</td>
<td>3.8</td>
<td>2.4</td>
<td>2.2</td>
</tr>
<tr>
<td>Other</td>
<td>0.2</td>
<td>1.0</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Total hours (Median)</td>
<td>55</td>
<td>48</td>
<td>36</td>
<td>27</td>
</tr>
</tbody>
</table>

Financial cost of in-house time spent on compliance holds steady

The financial value of the median annual internal 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 to compliance costs for 2016:

- $70.63 – owners/partners/directors/trustees (inflation-adjusted from 2013) (c.f., $61.13 in 2013)
- $30.46 – paid employees (inflation-adjusted from 2013 value of $28.03)
- $42.04 – unpaid family members or friends (inflation-adjusted from 2013 value of $38.69).

In 2016 SME owners, partners, directors and trustees were most likely to be the personnel undertaking the compliance activities; just over one third (n=1,396) of SMEs had paid employees involved in tax compliance and very few (n=197) had unpaid friends and relatives involved.

The involvement of business owners over other personnel is illustrated in the median hourly internal cost of dealing with each tax type is presented in Table 6 (below). The greatest increases in the hourly costs since 2013 are for KiwiSaver and FBT, bringing them closer to the hourly rates of other tax types.

Table 6: Median hourly cost of in-house time spent by tax type (2013 and 2016)

<table>
<thead>
<tr>
<th></th>
<th>GST</th>
<th>Income tax</th>
<th>PAYE</th>
<th>KiwiSaver</th>
<th>FBT</th>
<th>All*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013 cost</td>
<td>$53.15</td>
<td>$54.72</td>
<td>$49.86</td>
<td>$41.15</td>
<td>$44.58</td>
<td>$52.40</td>
</tr>
<tr>
<td>2016 cost</td>
<td>$56.61</td>
<td>$58.70</td>
<td>$55.77</td>
<td>$54.94</td>
<td>$50.08</td>
<td>$56.47</td>
</tr>
</tbody>
</table>

*Note: As these are medians, the total costs are not equal the sums of the components.

Table 7 (overleaf) shows the median annual cost of time spent in-house by tax type for 2004, 2009, 2013 and 2016. These costs are based on the values of the time of the different categories of personnel in each year, inflation-adjusted for comparability across the 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.
Table 7: Median annual cost of in-house time spent by tax type (2004 – 2016)

<table>
<thead>
<tr>
<th>Year</th>
<th>GST</th>
<th>Income Tax</th>
<th>PAYE</th>
<th>KiwiSaver</th>
<th>FBT</th>
<th>All*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>$1,542</td>
<td>$757</td>
<td>$699</td>
<td>n/a</td>
<td>$51</td>
<td>$1,739</td>
</tr>
<tr>
<td>2009</td>
<td>$1,455</td>
<td>$794</td>
<td>$661</td>
<td>$397</td>
<td>$159</td>
<td>$2,579</td>
</tr>
<tr>
<td>2013</td>
<td>$1,223</td>
<td>$734</td>
<td>$505</td>
<td>$184</td>
<td>$178²</td>
<td>$2,076</td>
</tr>
<tr>
<td>2016</td>
<td>$848</td>
<td>$318</td>
<td>$706</td>
<td>$426</td>
<td>$69</td>
<td>$1,573</td>
</tr>
</tbody>
</table>

*Note: As these are medians, the total costs are not equal the sums of the components.

The median cost of internal hours spent on all tax types increased from 2004 to 2009. The main reasons for this were an increase in the self-assessed value of business-owners’ time and the introduction of KiwiSaver in 2007, which brought additional tax-related requirements.

From 2009, however, the median cost of internal hours spent on all tax types reduced. In 2016 it is less than the 2004 figure and it is anticipated that a raft of improvements afforded by new technology (such as online banking, greater use of accounting software within the business and by their suppliers, and greater use of myIR) and a customer-centric approach to Inland Revenue’s service have also contributed to this effect over time.

External tax compliance costs reduce slightly

This study considers using tax professionals – a tax agent, accountant, and/or tax lawyer – to help meet tax obligations as a cost external to the respondents’ business.

In 2016, most (89%) SMEs used a tax professional to help meet their tax obligations. As Table 8 (below) shows, this external cost contributes significantly to the value of their overall (combined) compliance costs (a median annual value of $3,200 in 2016).

The median annual external cost of using a tax professional or professionals was $1,000 in 2016. This is a reduction of 10% since 2013. While the dollar values of SMEs’ in-house and external costs may have reduced since 2013, the proportions of in-house and external costs are similar.

Table 8: Median annual compliance costs (2016)

<table>
<thead>
<tr>
<th></th>
<th>2013 (n=1,148)</th>
<th>2016 (n=4,028)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Median annual in-house cost</td>
<td>$2,076</td>
<td>$1,573</td>
</tr>
<tr>
<td>Median annual external cost</td>
<td>$1,117</td>
<td>$1,000</td>
</tr>
<tr>
<td>Median annual combined cost*</td>
<td>$3,654</td>
<td>$3,200</td>
</tr>
</tbody>
</table>

*Note: As these are medians, the combined costs do not equal the sums of the components.

It is important to note that other sources of external costs, such as the pricing structure of tax agents and accountants and the cost of software packages and subscriptions were not available to the study or not included in the survey. While both these sources contribute to a business’ overall external compliance costs, they are not exclusively used for tax compliance purposes.

² Note: Due to inconsistency in the 2013 source data, the figure for FBT in 2013 is an approximation based on the 2013 total median hours of in-house time spent and hourly costs by tax type.
Combined compliance costs are still regressive

The total median annual in-house compliance costs and the total external costs\(^3\) were combined and then considered as a proportion of business turnover (see Figure 1, below). This reveals that compliance costs in 2016 are still regressive, consistent with the 2013 survey results.

In 2016, businesses with an annual turnover of $40,000 or less spend 4% of this amount on meeting their tax obligations, while those with a turnover of $250,000 or more spend less than 1%. However the compliance cost values for larger businesses are larger than those for smaller businesses.

Figure 1: Combined compliance costs as a proportion of turnover (2013 and 2016)

![Graph showing combined compliance costs as a proportion of turnover for different turnover ranges in 2013 and 2016.]

For most SMEs, the stress of compliance is low

As well as the financial costs of tax compliance, it is important to consider SMEs’ psychological costs.

Respondents were asked how stressful they found meeting each tax type (excluding finding the money), and also overall how stressful they found meeting their tax obligations overall (including finding the money). Ratings were on a scale of 1 (not at all stressful) to 7 (extremely stressful).

Table 9 (overleaf) shows almost half (49%) of respondents\(^4\) said that, overall, meeting their tax obligations caused little or no stress (a rating of 1 or 2) and just 5% said it caused significant stress (a rating of 6 or 7).

The highest degree of stress was associated with Income Tax, followed by GST, with 12% and 8%\(^5\) of respondents indicating they found these tax types to be more than moderately stressful (a rating of 6 or 7). KiwiSaver and FBT attracted the highest proportions of respondents who rated it as resulting in little or no stress (62% each), suggesting that it has become entrenched in SMEs’ business practices.

\(^3\) Here ‘external costs’ refers to the costs respondents gave for using their tax agent, accountant and/or tax lawyer in the previous 12 months. It does not include the small number of respondents that reported they sought specialist advice.

\(^4\) Not all respondents answered questions about stress, so the n counts for these questions are different to the overall bases.

\(^5\) This figure does not equal the figures in Table 9 due to rounding.
Table 9: Reported stress levels – overall and by tax type (2016)

<table>
<thead>
<tr>
<th>Level of reported stress</th>
<th>GST (n=3,334)</th>
<th>Income Tax (n=2,800)</th>
<th>PAYE (n=1,367)</th>
<th>KiwiSaver (n=1,289)</th>
<th>FBT (n=454)</th>
<th>Overall (n=3,148)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (not at all stressful)</td>
<td>23%</td>
<td>16%</td>
<td>22%</td>
<td>37%</td>
<td>33%</td>
<td>22%</td>
</tr>
<tr>
<td>2</td>
<td>23%</td>
<td>19%</td>
<td>26%</td>
<td>26%</td>
<td>29%</td>
<td>27%</td>
</tr>
<tr>
<td>3</td>
<td>17%</td>
<td>19%</td>
<td>19%</td>
<td>14%</td>
<td>17%</td>
<td>19%</td>
</tr>
<tr>
<td>4 (moderately stressful)</td>
<td>17%</td>
<td>20%</td>
<td>17%</td>
<td>12%</td>
<td>13%</td>
<td>18%</td>
</tr>
<tr>
<td>5</td>
<td>11%</td>
<td>14%</td>
<td>9%</td>
<td>7%</td>
<td>6%</td>
<td>9%</td>
</tr>
<tr>
<td>6</td>
<td>6%</td>
<td>8%</td>
<td>5%</td>
<td>4%</td>
<td>1%</td>
<td>3%</td>
</tr>
<tr>
<td>7 (extremely stressful)</td>
<td>3%</td>
<td>4%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Note: Figures may not total 100% due to rounding.

As shown by Table 10, a business’ staff size is not an important factor in the level of stress reported by respondents, although Small and Medium-sized businesses were more likely to give ratings of 6 or 7.

Table 10: Reported overall stress levels by business size (2016)

<table>
<thead>
<tr>
<th>Level of reported stress</th>
<th>Nil employees (n=1,787)</th>
<th>Micro (1-5) (n=738)</th>
<th>Small (6-19) (n=405)</th>
<th>Medium (20+) (n=218)</th>
<th>All types (n=3,148)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (not at all stressful)</td>
<td>24%</td>
<td>20%</td>
<td>17%</td>
<td>11%</td>
<td>22%</td>
</tr>
<tr>
<td>2</td>
<td>28%</td>
<td>26%</td>
<td>21%</td>
<td>35%</td>
<td>27%</td>
</tr>
<tr>
<td>3</td>
<td>18%</td>
<td>21%</td>
<td>22%</td>
<td>25%</td>
<td>19%</td>
</tr>
<tr>
<td>4 (moderately stressful)</td>
<td>17%</td>
<td>20%</td>
<td>21%</td>
<td>16%</td>
<td>18%</td>
</tr>
<tr>
<td>5</td>
<td>8%</td>
<td>9%</td>
<td>11%</td>
<td>6%</td>
<td>9%</td>
</tr>
<tr>
<td>6</td>
<td>3%</td>
<td>2%</td>
<td>5%</td>
<td>5%</td>
<td>3%</td>
</tr>
<tr>
<td>7 (extremely stressful)</td>
<td>2%</td>
<td>2%</td>
<td>3%</td>
<td>3%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Note: Figures may not total 100% due to rounding.

Further, respondents were asked about whether meeting their tax obligations is easier or more difficult in comparison to the previous year. The table below shows that most SMEs consider the effort required to be about the same as the year before.

Table 11: Change in effort required to meet tax obligations, compared to the previous year (2016)

<table>
<thead>
<tr>
<th>Change in effort required</th>
<th>All SMEs (n=3,192)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (getting easier)</td>
<td>4%</td>
</tr>
<tr>
<td>2</td>
<td>6%</td>
</tr>
<tr>
<td>3</td>
<td>10%</td>
</tr>
<tr>
<td>4 (about the same)</td>
<td>68%</td>
</tr>
<tr>
<td>5</td>
<td>7%</td>
</tr>
<tr>
<td>6</td>
<td>3%</td>
</tr>
<tr>
<td>7 (getting harder)</td>
<td>2%</td>
</tr>
</tbody>
</table>

---

6 More respondents answered the KiwiSaver stress question than the KiwiSaver hours spent question.
7 This figure includes those that had nil payments for FBT as well as those that had payments.
8 Not all respondents answered this question, so the n count is different to the overall base.
**Tax morale is high**

Tax morale is the attitudinal precursor to tax compliance behaviour, and therefore customer attitudes towards paying tax is of importance to Inland Revenue. High compliance costs may undermine tax morale.

In 2016, for the first time, respondents were asked the four tax morale questions used in Inland Revenue’s Customer Satisfaction & Perceptions Survey (CS&P). Responses to the questions indicate tax morale is high amongst respondents, although not always as high as recent customers’, as the tables below illustrates. While agreement with the first three statements is a little lower than expected, a much larger proportion (73%) of survey respondents disagree with the statement “I resent paying tax” compared with SMEs that have recently contacted the Department (52%).

**Table 12a: SMEs’ tax morale, SME Compliance Costs Survey (May-July 2016)**

<table>
<thead>
<tr>
<th>Rating</th>
<th>Strongly disagree – Disagree</th>
<th>Agree – Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1-2</td>
<td>3</td>
</tr>
<tr>
<td>Paying tax is the right thing to do</td>
<td>2%</td>
<td>13%</td>
</tr>
<tr>
<td>I am responsible for paying my fair share of tax</td>
<td>2%</td>
<td>9%</td>
</tr>
<tr>
<td>Paying tax contributes to New Zealand society</td>
<td>3%</td>
<td>13%</td>
</tr>
<tr>
<td>I resent paying tax</td>
<td>73%</td>
<td>18%</td>
</tr>
</tbody>
</table>

**Table 12b: Tax morale of SME customers, CS&P Survey 2015-2016 Quarter 4 (April-June 2016)**

<table>
<thead>
<tr>
<th>Rating</th>
<th>Strongly disagree – Disagree</th>
<th>Agree – Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1-2</td>
<td>3</td>
</tr>
<tr>
<td>Paying tax is the right thing to do</td>
<td>1%</td>
<td>6%</td>
</tr>
<tr>
<td>I am responsible for paying my fair share of tax</td>
<td>2%</td>
<td>5%</td>
</tr>
<tr>
<td>Paying tax contributes to New Zealand society</td>
<td>1%</td>
<td>6%</td>
</tr>
<tr>
<td>I resent paying tax</td>
<td>52%</td>
<td>25%</td>
</tr>
</tbody>
</table>

**Mental tax accounting indicators show weaknesses**

A recent study conducted by Inland Revenue (2015) revealed mental tax accounting is positively associated with tax compliance. Strong mental tax accounting may result in lower compliance costs as a benefit of effective business practices such as record-keeping. For the first time respondents to the SME Compliance Costs Survey were asked questions designed to measure their mental tax accounting, and the results illustrate there are varying practices.

Despite 85% agreeing or strongly agreeing that they know which tax information and records they need to keep, the table overleaf shows mental tax accounting wavers amongst respondents. Further, only 22% of respondents said they used a separate bank account for tax, one of the indicators of strong mental tax accounting.

Aligned to the stress and effort ratings discussed earlier, just over half (54%) the respondents agreed that the time they spend on tax matters is acceptable and a further 32% responded neutrally to this question.
Table 13: Indicators of mental tax accounting (2016)

<table>
<thead>
<tr>
<th>Rating</th>
<th>Strongly disagree</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>I know what tax info and records I need to keep</td>
<td>&lt;1%</td>
<td>2%</td>
<td>13%</td>
<td>37%</td>
<td>48%</td>
</tr>
<tr>
<td>I only really know the amount of tax that needs to be paid when my tax return is completed</td>
<td>9%</td>
<td>16%</td>
<td>22%</td>
<td>29%</td>
<td>25%</td>
</tr>
<tr>
<td>The amount of time I spend on tax matters is acceptable to me</td>
<td>2%</td>
<td>11%</td>
<td>32%</td>
<td>32%</td>
<td>22%</td>
</tr>
<tr>
<td>I have set long term goals for this business</td>
<td>5%</td>
<td>10%</td>
<td>35%</td>
<td>29%</td>
<td>21%</td>
</tr>
<tr>
<td>I frequently have unexpected expenses</td>
<td>19%</td>
<td>36%</td>
<td>26%</td>
<td>13%</td>
<td>7%</td>
</tr>
<tr>
<td>This business has a detailed budget</td>
<td>13%</td>
<td>25%</td>
<td>35%</td>
<td>16%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Note: Figures may not total 100% due to rounding.

Few SMEs sought specialist tax advice

Respondents were asked if they sought specialist tax advice in the preceding year. This was over and above being asked whether their business used a tax agent, accountant and/or a tax lawyer.

Few respondents (n=154) reported they paid for specialist tax advice. The majority (64%) of those that did said it was in relation to Income Tax, two-fifths (41%) sought specialist advice for GST, and one-fifth (23%) for PAYE, as shown by Table 14 (below).

Table 14: Use of specialist advice (2016)

<table>
<thead>
<tr>
<th>Tax type</th>
<th>% SMEs with tax type (n=4,028)</th>
<th>% SMEs sought specialist advice for tax type (n=154)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GST</td>
<td>97%</td>
<td>41%</td>
</tr>
<tr>
<td>Income Tax</td>
<td>89%</td>
<td>64%</td>
</tr>
<tr>
<td>PAYE</td>
<td>38%</td>
<td>23%</td>
</tr>
<tr>
<td>KiwiSaver (incl. ESCT)</td>
<td>26%</td>
<td>17%</td>
</tr>
<tr>
<td>FBT</td>
<td>9%</td>
<td>20%</td>
</tr>
</tbody>
</table>

The following chapter presents the findings from the focus groups held with SME owners.
Focus group findings

The survey was supported by four focus groups with SME owners. The findings below offer insights into the factors affecting the time, money and effort SMEs spend meeting their tax obligations in 2016. Opportunities available to Inland Revenue to further reduce compliance costs for its SME customers are also presented.

Perceptions 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) and the occasional call to Inland Revenue (e.g., querying an online statement). This confirmed the approach of surveying SMEs about their internal and external tax compliance costs.

Income Tax and GST were viewed as requiring the most effort, with PAYE being relatively simple to administer (apart from those with a larger and more casual workforce).

“Just time spent completing material and filling out forms online and doing GST, putting my spreadsheet together and sending that off to the tax agent. I did quantify in the surveys how many hours I thought that was going to take 8 – 10 hours or something”. (Self-employed, low cost, male)

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.

Generally, participants were comfortable with the level of tax compliance costs. Most felt that compliance costs are reasonable in Aotearoa New Zealand.

“From my personal point of view I think New Zealand compliance costs are pretty low. I used to file some tax returns in the US and the complexity there of doing taxes is much greater.” (Self-employed, high cost, male)

Compliance costs were seen to have reduced since 2013, due to better customer-centred service from IR, less paperwork and a move to digital filing, IR’s improved online services, and also few changes to tax rules and regulations during this time.

“I think it is a heck of a lot better now than it has ever been and their systems are pretty good”. (Self-employed, high cost, male)

“GST is better online, it is new, in the last year they have made it simpler again”. (Self-employed, low cost, female)

SMEs’ suppliers and service providers are increasingly using digital systems and this has also contributed efficiencies within their businesses.

“It is the systems of the service providers I think which make things easier in terms of the electronic statements and the direct credits. So if the service providers are with it electronically then that is where the advantage is I would have thought.” (Self-employed, high cost, male)

“The bank has a special IRD button now that you can push and the payments to the IRD are on there so it is all getting easier and easier really.” (Employers, low cost, male)

Views of tax compliance costs were coloured by: the ability and organisation skills of individuals, sensitivity to stress related factors, tax agent costs, and attitude towards tax generally.

“It is a bit stressful sometimes trying to get your head around the figures. I have had to ring them a few times just to get the hang of it.” (Low cost employers, male)
Use of a tax agent/accountant

Although all but one focus group participant used a tax agent and/or accountant, the tasks the agents carry out for them varied considerably. The majority undertake GST and PAYE returns themselves, relying on a tax agent for their annual Income Tax return.

“But then the accountant does all the FBT and other bits and pieces and it is quite expensive $8 - $10,000. But it’s compulsory, there is not much choice is there?“ (Self-employed, high cost, male)

“You deal with individuals within those big firms and they are not cheap but the advice you get more than pays for itself.” (Employers, high cost, male)

Most employers in the focus groups used some form of accounting software — a mixture of MYOB, Xero, Quickbooks, Sage 50, Banklink, and bespoke programmes. Software use was much lower across the self-employed, with the majority not using any subscription-based software. Tax agents were seen to reduce their costs if information could be pulled directly from these programmes and it is interesting to note that some are encouraging their clients to use this software.

“I do use this Xero thing because my accountant said you will be using that. And whilst they are not huge, they are a cost.” (Employers, low cost, male)

“It is not my strongest point so I rely on an accountant but I do MYOB and he checks everything. I put aside about $500 a month to keep him happy; rather than pay a lump sum I spread it out.” (Employers, high cost, male)

The key reasons participants offered for using a tax agent were to provide ‘peace of mind’; for their expertise (especially important for Income Tax returns where the amount of tax could be minimised); to free them up to focus on their business; and the perception that Inland Revenue is less likely to scrutinise returns submitted via an agent.

“But to me $2500 is an investment in knowing there is a high likelihood those accounts are correct. [So it gives you peace of mind?] “Yes de-stressing.” (Employers, low cost, male)

“I think having an accountant takes away the stress, we pay for peace of mind. You trust they are going to do the right things.” (Self-employed, low cost, female)

“They save you money, that is their job and they claim for things you are entitled to which you would be ignorant of. So they are worth paying.” (Employers, low cost, male)

Factors that contribute to high compliance costs

The factors participants identified that contribute to high compliance costs are largely based in the characteristics of the business:

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

“I have got a lot of lower socio economic staff so I have also got to collect fines, tax arrears and those things. So number of staff, type of staff, variability and how they work”. (Employers, high cost, male)

“If you are employing staff, exports, things that don’t fall in the norm. You have to remember to treat those things.” (Self-employed, high cost, female)

“Probably the main thing is the complexity because you have got GST, PAYE, FBT, Income Tax and shortly we will have perhaps short term holding cost taxes for some people who are dealing in properties. So there is [the] complexity of the tax system.” (Self-employed, high cost, male)
“The level of costs really depend on your ability to keep records and if you don’t keep good records your costs are going to go up.” (Self-employed, high cost, male)

Factors that contribute to lower compliance costs

The factors participants identified which contributed to lower compliance costs were:

- Using accounting software
- Introducing good systems and processes within the business
- Using Inland Revenue’s digital services to calculate tax and file returns
- Better customer service from Inland Revenue
- Better accounts interfaces with suppliers and banks
- Keeping tax rule changes to a minimum

“I think two things, a good wages programme and a good accounting programme.” (Employers, low cost, male)

“Xero is $260 a year and I don’t go to the accountant at all. My accountant fee was $2500 a year and he said ‘you are going on this’ and it went down to $1600 a year plus Xero. I get up in the morning; it appears, you do a reconciliation – that was petrol, that was this – gone. They have access to it, you don’t do anything.” (Employers, low cost, male)

“You can do your whole month in 15 minutes and send your payment away and that sort of thing. GST takes a little bit longer because I do it longhand and use my bank statements. My accountant showed me how to use my bank statements and that takes me a couple of hours.” (Employers, low cost, male)

“You can still be manual but going online does cut down the paperwork and also you can get in and see all of the documents, which is really good.” (Employers, high cost, male)

How to reduce SMEs’ compliance costs

Steps businesses can take to reduce their compliance costs

Participants discussed a range of measures that could be taken by businesses to reduce their compliance costs:

- shop around for a less costly tax agent;
- meet accountant more regularly so it is less work at year end;
- install accounting software;
- keep better records;
- set regular time aside to keep up to date on paperwork and data entry;
- set up bank accounts to manage cash flow issues; and
- undertake an accounting course.

“That is the good thing about MYOB you just get the data off your bank statement and enter it in and it says ‘what was this for’ and you say ‘it was an expense for stationery’ and it does it all for you. It won’t let you proceed if it doesn’t balance.” (Self-employed, low cost, male)

“I am quite happy doing it the way I do it but if someone could show me how to use one of those software packages I probably would.” (Employers, low cost, male)

“Cash flow management is critical. You have to track your cash efficiently and put [the tax] to the side. Because technically it is not your money.” (Employers, high cost, male)

Steps Inland Revenue can take to further reduce compliance costs

While participants felt Inland Revenue’s efforts since 2013 had lessened their compliance costs, they also identified additional steps they believed the Department could take to reduce them further.
Digital services
Further development and improvement of Inland Revenue’s digital services would clearly result in greater efficiency and ease of use. Participants’ suggestions included:

- all business tax returns to be completed and filed in one online platform/account;
- integrate accounting and banking systems with this platform, so data can be uploaded directly to it;
- using simple language on ird.govt.nz, and improve the search engine;
- enhancing Inland Revenue’s notification system to acknowledge all returns and payments received, and sending reminders when the due date has passed if no return has been received;
- ‘cheat sheets’ to explain obligations, and visual step-by-step guides and videos explaining processes;
- offer live chat support, and improved phone response times; and
- developing a mobile app for payments.

“They have got to think about the system from the user point of view. Start from a fresh point of view and sit in the user chair”. (Employers, high cost, male)

“I think the IRD upgrade system has got to get everything one log in, simple for all compliance. At the moment you can do some things through it but other things you have to do in a separate way. Same way with your bank, you get your log in and everything is in there and you can talk to them and do it all”. (Employers, high cost, male)

“I think better user interfaces, better integration from the common accounting system straight into the revenue so you don’t have to relay it – it is just straight through”. (Employers, high cost, male)

“Most of my tax information I got from my recruitment agency because I was a first time contractor and they had a leaflet of what you need to know. I tried going to the IRD website and there is a lot of information but it is very dense. Their website is like the actual law – it is not worded to help you.” (Self-employed, low cost, male)

“It needs instructional videos to say how to comply.” (Employers, high cost, male)

“Live chat, any time I have used live chat it has been really good.” (Self-employed, low cost, male)

“You can file correspondence online too and that is one of the problems: they have got this great online correspondence thing but they don’t look at it very often I don’t think. It is usually quicker to ring them up”. (Self-employed, high cost, male)

Other ideas
Participants made a range of other suggestions:

- having interest gathering GST accounts run by Inland Revenue;
- reducing the types of taxes and rules (especially for smaller businesses);
- more leniency on late payments, providing a ‘carrot’ for prompt payment;
- ability to choose the ideal tax cycle for their business;
- keep change in tax rules to a minimum; and
- set up an independent disputes resolution service.

“If I could put my GST into a GST account and it was the Inland Revenue and you could trust them not to snatch it that is a good idea. The money is to a degree working”. (Employers, high cost, male)

“Incentivise us to streamline our system into theirs and give us a carrot for having done that right 12 months in a row, so you can get easier access to something.” (Employers, high cost, male)

“Why isn’t there a choice and you pick when your dates are?” (Employers, high cost, male)

“…It touches on what [participant name] said about [Inland Revenue being] difficult to deal with, an independent mediation or compliance type process. So if someone has an issue they should be able to push a button. ACC legislation provides for an independent disputes process funded by ACC if there is an issue so IRD should have the same thing. [Would you have used that service if it was

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9 This is a service Inland Revenue already offers – customers can receive email and SMS reminders leading up to due dates, as well as when they are missed. Customers wishing to receive email or SMS reminders are encouraged to check these contact details are held by the Department.
SMEs’ compliance costs in 2016

available?] Yes. If for example IRD queries a return or a transaction and you go I don’t think this is fair you can push the button to the independent dispute process or mediation process and get it resolved.” (Employers, high cost, male)

Advice to new businesses – getting it right from the start

The most commonly cited advice for anyone starting a new business was to:

- have good systems in place to record and collate information;
- hire a good tax agent; and
- invest in accounting software.

Other advice participants offered included to:

- set up system and processes that work for their business – you may need outside help to set this up and should shop around for the best deal and best fit;
- be methodical and regularly set aside time to keep up to date with paperwork; and
- look to gain the knowledge and skills required to be confident meeting tax obligations.

Opportunities for Inland Revenue

The focus groups revealed the opportunities available to Inland Revenue to further reduce the compliance costs of its SME customers; these are outlined below.

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 (and it is clear that some tax professionals are encouraging their clients to use accounting software; Inland Revenue may wish to consider how to support this). Using accounting software 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.

Promote Inland Revenue’s reminder system

There is demand for Inland Revenue to provide email and text reminders; and not just before tax is due, but also when the due dates have passed and returns/payments have not been received. This is a service already provided by the Department, and 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 all returns and payments received

Participants wanted Inland Revenue to acknowledge receipt of all returns and payments submitted. Providing email acknowledgements would offer SMEs certainty and could prevent further contact through more expensive service channels.

Improved content and functionality on ird.govt.nz

Participants suggested a range of improvements to Inland Revenue’s website, ird.govt.nz: simplified language; better search function; step-by-step guides and videos explaining processes; live chat support. Improving the website is a perennial goal, to enable compliance and prevent further contact through more expensive service channels.
Conclusion

This paper has presented an analysis of the time, money and stress Small-to Medium-sized Enterprises (SMEs) spend on meeting their tax obligations. This chapter forms the conclusion of the analysis.

Compliance costs are reducing but still remain a focus of IR’s business transformation

Although the hours spent within and external to their business have reduced since 2004, and most latterly since 2013, the cost of compliance to SMEs is still an important consideration for Inland Revenue’s Business Transformation Programme. Designing and delivering services and systems that facilitate compliance remains a priority for Inland Revenue.

The comments made by survey respondents and focus group participants support the changes Inland Revenue is proposing in policy consultations and preparing to launch. For example, despite the reduction in hours SMEs spend complying with their GST obligations this is still their most time-consuming tax type so the imminent launch of Inland Revenue’s new online GST services is likely to be well-received. Changes such as these facilitate compliance in a customer-centric manner.

Opportunities available to Inland Revenue represent meaningful changes for SMEs

The focus groups offered a depth of detail to the survey results and illustrated that there are a number of opportunities available to Inland Revenue to further reduce the compliance costs of its SME customers:

- raise awareness of the low cost of accounting software or partner with the providers to offer a free trial to encourage uptake, particularly amongst self-employed business individuals
- promoting Inland Revenue’s reminder system as it includes reminders of dates missed for all tax types
- acknowledging all returns and payments received, preferably by email
- improved content and functionality on ird.govt.nz, particularly video and other visual step-by-step guides explaining filing and payment processes and better search functionality

Opportunities for other government agencies

The survey results and focus group findings indicate opportunities for other government agencies operating under the Better Public Services umbrella, who wish to take a similar approach to designing and promoting the services they offer SMEs. The dual outcome is to better serve SMEs whilst facilitating compliance.

Future compliance costs measurement

Inland Revenue plans to measure SMEs’ compliance costs again in 2018, to provide insights for its Business Transformation Programme.
This chapter outlines the methodological approach of the study.

**Survey methodology**

The 2016 survey of SMEs’ compliance costs continued a time series established in 2004 and carried out in 2009 and 2013. A fresh examination of 2013’s study identified several aspects of the methodology, including the questionnaire, which could be improved upon; these changes are incorporated into the 2016 study.

**SME survey population**

Definition of the 2016 population of SMEs:

All enterprises in Aotearoa New Zealand which meet all of following criteria:

### Population

1. Registered with Inland Revenue
2. Have an annual turnover more than $30,000 or PAYE deductions more than $4,000 and an annual turnover less than $80 million and employ less than 50 employees*
3. Have filed an income tax, GST, or PAYE form with Inland Revenue in the 2015 tax year (1 April 2014 – 31 March 2015)
4. Are not not-for-profit businesses

### Exclusions

5. Must be currently active, that means they are not ceased or bankrupted or liquidated entities
6. Have either a physical address or an email address available to IRD
7. Were not selected for IR-sponsored surveys six months prior the 2016 SME compliance costs survey sample were drawn or businesses that are included in the non-contact list

Entities include registered businesses and self-employed persons.

* Number of employees refers to the highest monthly employment between 1 April 2014 to 31 March 2015.

The eligible survey population was 372,296.

**SME sample design**

The sample design was a stratified random sample of SMEs. The sample strata (n = 25) were defined by customer group, turnover and employment size. The total sample size of n = 28,746 was calculated on the basis of 5% margin of error at the 95% level with an estimated response rate of 25%. The sampling rates for each stratum are determined through Kish allocation, as endorsed by Statistics New Zealand, which allocates the total sample size among the strata in proportion to stratum sizes to minimise the overall sampling error on the primary estimate of interest. The sample design was peer reviewed by Professor Binh Tran-Nam, a leading tax researcher and academic.

**SME survey questionnaire and its deployment**

The questionnaire was based on the 2013 instrument (which itself was based on the original 2004 instrument), with the aim of preserving continuity in key metrics across the points of measurement: the number of hours respondents spent meeting their tax obligations within their business, by tax type; the value of that time; and the level of stress they experienced as a compliance cost.
The survey was deployed via Inland Revenue’s online surveying tool, Insight Explorer. Invitations to take the survey were emailed to survey candidates where email addresses were available (n=20,846), or posted where they were not (n=7,900).

Survey candidates in the letter group could request a paper copy of the questionnaire be posted to them, or to take the survey by phone. Candidates in both the email and letter groups could opt out of the survey.

Reminders were emailed at weekly intervals, and a second invitation to take the survey was posted to those that had not completed the survey after a fortnight.

The fieldwork spanned almost six weeks.

**Achieved SME sample**

After cleansing, the achieved sample was n=4,028. This represents a response rate of 14%.

**Weighting the survey data**

All data were weighted so the survey results could be used to make generalisations to the entire survey population. Weighted values have been used in all analysis for this report. A weight for each responding SME was calculated as \( \frac{N(i)}{n(i)} \), where:

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

**Focus groups**

Four focus groups supported the 2016 survey of SMEs’ compliance costs. The research was conducted on 28 and 29 June 2016 in Auckland at UMR’s purpose built focus group facility. The duration of each group was around two hours.

Participants were recruited from the first few hundred respondents to the survey. Based on their survey responses, the participants were a mix of high, medium and low compliance cost customers; half were employers, and half worked by themselves:

- 1x focus group – SME employers, high time spent meeting obligations.
- 1x focus group – SME employers, low-medium time spent meeting obligations.
- 1x focus group – self employed, high time spent meeting obligations.
- 1x focus group – self employed, low-medium time spent meeting obligations.

Care must be taken interpreting results from focus groups as these are based on a qualitative methodology and validation by a quantitative methodology is required to measure how strongly views are held across the wider population.