



Prepared for:	Inland Revenue
Attention:	
Author(s):	colmar brunton Social Research Agency
Contact:	
Issue Date:	5 February 2003

Reducing the Tax Compliance Costs of Small Businesses

Final Quantitative Research Report

colmar brunton undertakes all research projects to the highest possible standards, and in accord with the principles detailed in the MRSNZ Code of Practice which is based on the ESOMAR Code of Conduct for Market Research.

All methodologies and findings outlined in this report are provided solely for use by the client.

Copyright is reserved by colmar brunton.

Executive Summary

At the request of the Minister of Revenue, Inland Revenue in partnership with Treasury, are looking at ways to reduce the compliance costs of small businesses. As part of a wider consultation process, Inland Revenue have commissioned **colmar brunton** to undertake both qualitative and quantitative research with businesses and tax agents to seek their input. This report presents the findings of the quantitative research.

Telephone surveys of 1611 small businesses and 400 tax agents were conducted between 25 November and 13 December 2002. The maximum margins of error at a total sample level are +/-2.4% and +/-4.9% respectively.

A summary of the salient points is provided below.

Current practices

- 82% of the research participants in this research use a tax agent. Businesses most commonly use the services of tax agents for filing end of year income returns (80%), ahead of filing GST returns (19%), filing FBT returns (17%), advice only (15%) and filing employer monthly schedules (8%).
- Reasons why businesses use a tax agent for filing employer monthly schedules and GST returns most commonly relate to issues of convenience (e.g. saving time) as well as the expertise and/or perceived lack of expertise of the business.
- Among quarterly FBT filers, 44% are aware that they use the flat rate calculation, 18% know that they use the full multi-rate calculation and 3% know that they use the short form multi-rate calculation; 13% know that they use the multi-rate but are not sure which form and 22% don't know what calculation they use.

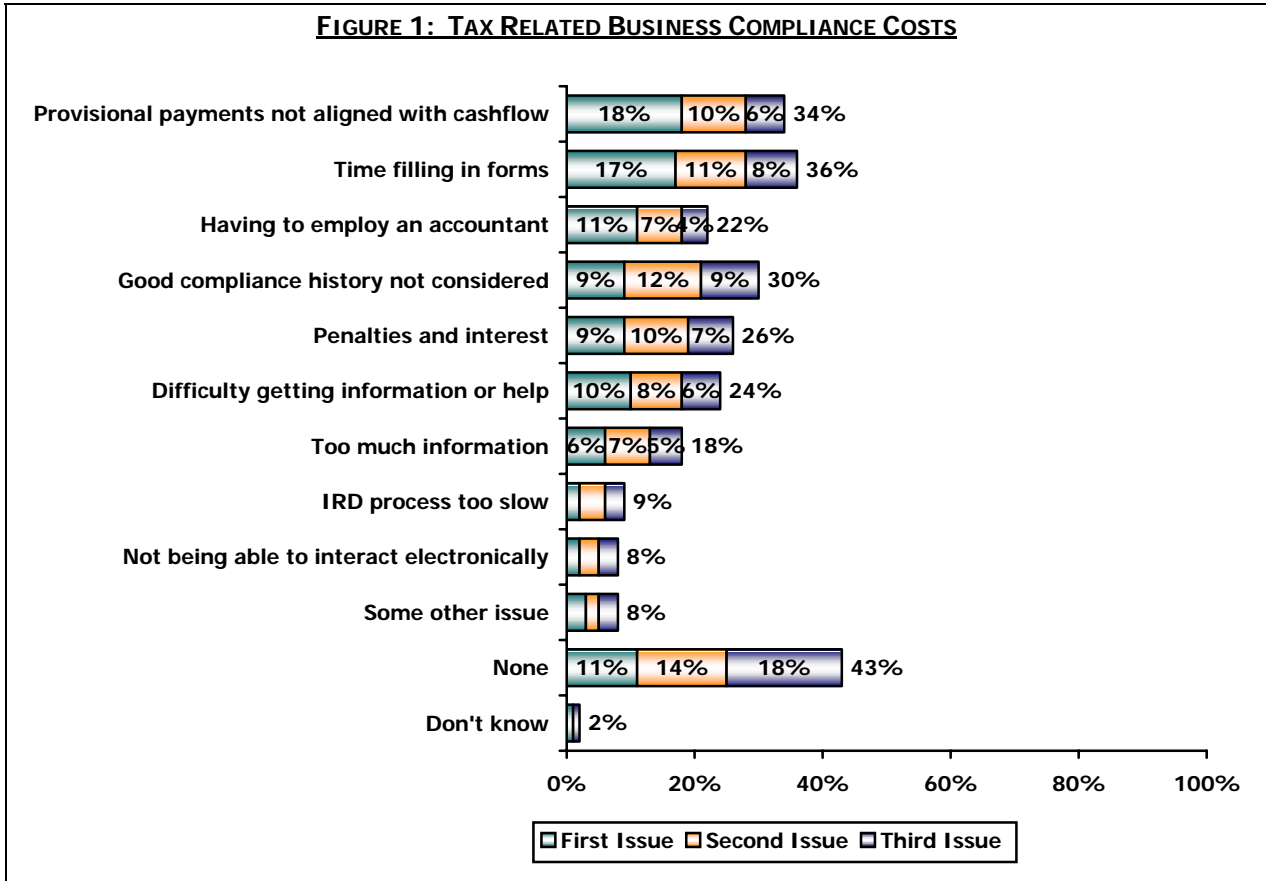
Payroll practices

- 10% of small employers use a payroll company or tax agent to process their PAYE. Small employers that don't use a payroll company generally do not feel they have enough employees for it to be worthwhile (39%) or feel it is easy to do themselves (38%); cost is an issue for 19%.
- 19% of small employers use a payroll package.
- Direct credit is the most common payment method among small employers (61%); 31% pay by cheque.

Compliance costs

- Inland Revenue is the government department considered to have the greatest impact on businesses in terms of compliance costs (70% of businesses name Inland Revenue as the biggest impact and 15% as the second biggest impact) ACC ranks second in terms of compliance costs; 12% consider them to have the biggest impact and 46% the second biggest impact.
- Tax-related compliance costs faced by Inland Revenue vary with no one or two costs dominating across the business community. By a small margin, the most common costs relate to provisional tax payments not being aligned to cash flow and the time spent filling in a large number of Inland Revenue forms. The results for each type of tax-related compliance cost are illustrated below.

FIGURE 1: TAX RELATED BUSINESS COMPLIANCE COSTS



Base: Total Sample (N=1,611)

Source: Small Business Survey

Reducing compliance costs

Without prompting, both businesses and tax agents were asked to name the one thing that Inland Revenue could do to reduce tax-related compliance costs. Suggestions are extremely wide ranging. Most commonly they relate to:

- less paper/written documentation (9% of businesses and 13% of tax agents)
- a more lenient penalties system (7% of businesses and 8% of tax agents)
- simplification of the tax systems and rules generally (7% of businesses and 6% of tax agents)
- amalgamation of taxes and payments (6% of businesses, 11% of large employers and 12% of tax agents)
- changes to payment dates, especially a common date (5% of businesses and 8% of tax agents)
- development of electronic products (5% of businesses and 5% of tax agents)
- financial assistance/incentives (5% of businesses)
- changes to the provisional tax system (5% of businesses)
- revision of FBT (9% of large employers and 10% of tax agents).

GST and provisional Tax

Frequency of filing GST

The options of monthly, quarterly, and four-monthly filing of GST were tested with participants. None of the options hold strong appeal. Of these options, quarterly filing is most favoured with 33% of

businesses rating their chances of taking up this option as at least good (19% rated their chances as high). Tax agents appear to be more strongly in favour of quarterly filing with 43% of agents rating their chances of recommending quarterly filing to their clients as at least good (20% of agents rated their chances as high).

Frequency of filing provisional tax

The options of monthly, two-monthly and quarterly filing of provisional tax were tested. Again, none of these hold widespread appeal. Among businesses, monthly filing holds greater appeal with 32% rating their chances of taking up this option as at least good (21% rate their chances as high). Tax agents tend to show a slightly stronger preference for quarterly filing (29% rate their chances of recommending this as at least good and 10% as high).

Tying provisional tax to GST

The concept of paying provisional tax and GST together, with last year's tax liability and total sales used to determine the rate for paying provisional tax in the current year, holds considerable appeal; 48% of businesses rate their chances of taking up this option as at least good with 29% indicating a high likelihood.

Tax agents are less favourable in their support for this concept with 34% rating their chances of recommending such an initiative as at least good (and 16% rating their chances as high). Additional results for tax agents are:

- 34% of agents believe the concept of tying provisional tax to GST would benefit none of their Non-Individual GST registered clients. Thirty-three percent of agents believe it would benefit more than 30% of these types of clients.
- Tax agent support for the concept is higher if there is a guarantee that the total provisional tax paid is held to 105% of a client's Residual Income Tax; 41% indicate at least a good prospect of recommending the option to their clients if the tax is fixed compared to 30% if the tax is not fixed.
- Forty-two percent of agents believe this initiative would benefit more than 30% of their Individual GST registered clients who can use 'safe-harbour' if the tax is fixed. If it is not fixed, 35% of agents believe more than 30% of these clients would benefit.

Businesses who are supportive of the concept of tying provisional tax to GST most commonly request filing two-monthly (50%). In contrast, tax agents tend to prefer quarterly filing over two-monthly filing (40% and 35% respectively).

Voluntary provisional tax payments

Both businesses and tax agents show strong support for voluntarily paying provisional tax payments in the first year of business (for a tax discount):

- 64% of businesses (who have been in business for three or less years) rate their prospects of doing this, if they were in a position of starting up a new business again, as at least good; 45% rate their chances as high
- 78% of tax agents rate their chances of recommending this option to their clients as at least good; 55% rate their chances as high.
- Around two-thirds of businesses and tax agents suggest a tax discount of 10% or less.

PAYE and FBT

- There is significant appeal among employers (with less than \$15,000 PAYE) in filing employer monthly schedules every two months; 51% rate their chances of taking up this option as at least good with 34% rating their chances as high.
- Employers that offer their staff fringe benefits find appeal in the concept of transferring the responsibility of calculating their FBT to Inland Revenue by providing fringe benefit information with their employer monthly schedules. Preference, however, tends to be for doing this on a quarterly basis; 47% of businesses rate their chances of taking up this concept as at least good if it is done on a quarterly basis (27% rate their chances of doing this as high).

Payment dates

- One payment date to cover all tax revenues is strongly favoured with the large majority of businesses (79%) indicating that there is at least a good chance that they would support this (64% rate their chances as high).
- There is also significant support among tax agents for one payment date although it appears to be weaker than among businesses; 48% of tax agents rate their idea at least a six (on a scale of 0 to 10 where 0 is a very bad idea and 10 is an excellent idea).
- Businesses' preference is for the last day in the month to be the common due date (43% request the last day, 15% between the 20th and the last day, and 28% suggest the 20th).
- Around one-half of businesses believe that it would be more difficult to file GST on time if the payment date is the 20th. Tax agents are even more concerned in this regard with 64% saying that it would be more difficult for their clients that file GST on a payments basis to pay on time, and 61% feel this would be more difficult for their clients that file GST on an invoice basis.

Advisory service

- 13% of businesses that have been in existence for three years or less have received an individual Advisory Service visit and 7% have attend an Advisory seminar.
- Nearly half (48%) of those that have received an individual visit say that a follow-up visit would have been useful.
- 40% of tax agents have clients that have used Inland Revenue's Advisory Service.
- 40% of tax agents recommend to their clients that they use Inland Revenue's Advisory Service. There is a positive correlation between use and recommendation.

E-enablement

Businesses' use of computers and the Internet

- 84% of businesses have computer access. This varies by business type from 68% for partnerships to 100% for large employers.
- 75% of businesses have Internet access. Again, this varies by business type from 53% for partnerships to 95% for large employers.

Businesses' use of existing electronic products

- 18% of employers use ir-File. Use correlates strongly with size of business in terms of number of employees; 71% of employers with more than 20 employees use ir-File.

- The most common reasons given for not filing employer schedules electronically relate to a belief that the current system is easier or better (29%), lack of awareness that ir-File exists (17%) and lack of knowledge about computers and how ir-File works (19%).
- 27% of businesses use Inland Revenue's website (49% of large employers and 31% of companies use the website).
- 12% of businesses make electronic tax payments (23% of large employers do this).

Businesses' likely uptake of e-enablement products

There is considerable support for the various e-enablement products proposed. There is greatest appeal in:

- accessing information about their account with Inland Revenue on-line (63% of businesses rate their chances of using this in the next 12 months as at least good with 51% rating their chances as high)
- corresponding with Inland Revenue staff over the Internet securely (52% at least good, 39% high)

Considerable appeal is also evident for:

- an on-line tool that provides binding rulings on complex technical issues such as whether a person is an employee or independent contractor (48% at least good, 34% high)
- filing returns over the Internet (47% at least good, 37% high); the most common request is for GST returns to be able to be filed electronically
- calculators and tools on-line that they can use to help with complex calculations such as FBT (46% at least good, 36% high)
- making tax payments via Internet banking (43% at least good, 34% high).

Potential up-take of each of these options is notably high among large employers and to a lesser extent companies.

Tax agents' prospects of recommending the e-enablement products to their clients are also high although tax agents rank the suitability of these products differently than businesses:

- Tax agents are most in favour of their clients:
 - making tax payments electronically (72% rate their chances of recommending this to their clients as at least good and 54% rate their chances of recommending as high)
 - on-line account access (69% at least good, 55% high)
- Tax agents are least supportive of their clients using on-line tools that provide binding rulings on complex technical issues (40% at least good and 12% high).

Among businesses, barriers to using the e-enablement products relate to belief of a better or easier alternative (34%), failure to see the relevance or benefit of the products to their business (20%), lack of knowledge about computers (21%), lack or cost of software/hardware (18%), and fears and concerns about the new systems (e.g. security) (18%).

Inland Revenue can best support businesses in taking up the e-enablement products by:

- sending an Inland Revenue person to visit their business to show them how to use the electronic tools (50%)
- providing assurances about security (45%)
- approving standard software packages (44%)
- making available written communications to explain the tools (44%)
- providing assurances about penalties (39%)
- holding seminars to explain the tools (31%).

Agents' use of existing products

- 88% of agents have access to the Internet
- Tax agents currently most commonly use Inland Revenue's website (79%) ahead of e-file (24%), ir-File (20%), electronic tax payments (20%), on-line tools (15%), and filing GST returns on-line (4%).
- Agents' reasons for not using the electronic products most commonly relate to a failure to see the benefit or relevance of them to the agents' business or clients (44%), a better or easier alternative (27%) and the lack or cost of hardware or software - especially a Pacnet connection (21%).
- Inland Revenue can best support agents in taking up the products by providing standard software packages approved by Inland Revenue (61%) and accepting e-file data over the Internet rather than by Pacnet connection (55%).

Agents' likely uptake of e-enablement products

Tax agents indicate strong support for taking up e-enablement products within the next 12 months. The most popular products are:

- Looking up their clients' account details on-line (90% rate their chances of taking up this option as at least good with 84% rating their chances as high)
- On-line tools that provide binding rulings on complex technical issues (79% at least good, 61% high)
- Corresponding with Inland Revenue staff over the internet (78% at least good, 63% high).

Notable support is also given for:

- Filing Income Tax returns on-line (70% at least good, 58% high)
- Calculators and tools on-line that can be used to help with complex calculations such as FBT (68% at least good, 53% high)
- Filing GST returns on-line (67% at least good, 54% high)
- Filing FBT returns on-line (56% at least good, 46% high).

Unpaid tax collector role

In the context of how Inland Revenue can best recognise businesses' role as a tax collector of GST and PAYE on behalf of the Government, businesses rated a number of ideas using a scale of 0 to 10 where 0 is not at all important to their relationship with Inland Revenue and 10 is extremely important. The following are considered to be of high importance:

- More tolerant treatment in terms of penalties and interest for those that have a good record (mean score of 9.1.)
- Inland Revenue answering their telephone calls more quickly (8.9)
- When calling Inland Revenue, the staff person giving their name and contact details so they can contact them again (8.4)

- Reply paid envelopes (8.0).

A thank-you letter is considered to be of relatively low importance (mean score of 3.5).

Call centres

- 28% of businesses are aware of the Call Centres' full opening hours
- 40% of businesses choose the line depending on the tax revenue that their enquiry relates to.

Information

- Two-thirds of businesses feel that the amount of information that Inland Revenue provides on businesses' tax rights and responsibilities throughout the year is about right (66%); 19% feel it is too much and 10% feel it is not enough.
- Businesses hold most confidence in receiving correct and accurate information from their tax agent (mean score of 8.3 using a scale from 0 to 10 where 0 is not at all confident and 10 is extremely confident), followed by Inland Revenue's booklets and newsletters (7.3) and written correspondence (7.6). Least confidence is held in Inland Revenue's call centres (5.8). A similar pattern emerges in looking at tax agents' views.

Processes dealing with not filing returns

- 56% of small employers that have periods with no employees find Inland Revenue's processes in dealing with information about this as either very or quite adequate; 22% find the processes to be inadequate.

Tax agent issues

- Tax agents identify a wide range of issues that they perceive to be a waste of their time and/or to contribute unnecessarily to their clients' fees. These issues tend to fall into three general categories:
 - Inland Revenue errors – most commonly incorrect statements of account and assessment (11%), transferring dollars into wrong period (6%), transferring money into wrong tax type (5%).
 - The complexity of Inland Revenue processes and requirements – most commonly FBT (8%) and the need to provide information in writing (3%).
 - The inadequacy of Inland Revenue processes – most commonly delays in follow-up correspondence (4%), and Inland Revenue's phone system (2%).
- Most agents consider Inland Revenue's processes for dealing with registering or deregistering agents' clients for particular types to be very adequate (22%) or quite adequate (62%); 13% feel that these processes are quite inadequate.
- A year-end summary of GST and PAYE returns and payment data submitted by an agent's client holds great appeal; using a scale of 0 to 10 where 0 is a very bad idea and 10 is an excellent idea, 72% of agents rate this idea as at least an eight.

Conclusions and recommendations

This section provides **colmar brunton**'s research conclusions and recommendations. These have been formulated by drawing together key learnings from both the qualitative and quantitative research phases.

A range of initiatives are needed to reduce compliance costs

The nature and impact of tax-related compliance costs clearly vary considerably within the small business community. Whilst one or two issues (i.e. provisional tax payments not being aligned with cash flow and the time spent filling in large numbers of Inland Revenue forms) appear to be more widely experienced than others, no strong pattern of prioritisation emerges. Perhaps partly in line with this, no single proposed initiative attracts universal appeal. These findings reinforce Inland Revenue's expectation, at the outset of this programme of change, that a range of initiatives will be required.

And, indeed, a number of the initiatives tested in this research hold strong appeal with notable proportions of the small business community, suggesting that progression and further developmental work is certainly warranted.

The initiatives that hold significant potential for reducing the tax-related compliance costs of the small business community are outlined below.

Single payment date

Of all the concepts tested, the proposition of a single payment date to cover all tax revenues received the most widespread vote of approval. We recommend, however, that this initiative only be implemented if it is feasible for the due date to be made the last day in the month. The research indicates that asking GST registrants to file GST by the 20th of the month will cause considerable concern.

Voluntary provisional tax payments

This suggestion also has the potential to reduce compliance costs for new businesses. Both businesses and tax agents strongly support this concept. However, a discount of at least 10% appears to be required for many to take up the option.

Inland Revenue calculating FBT

Around half of large employers find the concept of providing Inland Revenue with information on a quarterly basis, to enable Inland Revenue to calculate the FBT, appealing. Like the other initiatives tested in this research, however, not all employers favour this concept. It therefore needs to be optional.

It should also be noted that employers in this research gave their approval in conceptual terms only. Taxpayers in this research, and other research projects we have conducted for Inland Revenue, call for simplicity. The implications of this are not limited to ensuring that the existing employer schedule does not become excessively complex. By simplicity, taxpayers also talk about the need for information to be targeted and tailored to their needs. So, for example, it may well be that employers that do not offer fringe benefits to their staff, or wish to take up the proposed initiative, would prefer not to be faced with an employer schedule that allows for this additional information to be incorporated. Due to these types

of issues, we recommend that the processes involved in effectively implementing this concept be tested at a practical level.

Finally in regard to this concept, this research indicates that to overcome businesses' distrust in Inland Revenue's ability to provide accurate information, any FBT invoice will need to be accompanied by a statement that clearly shows how the FBT has been calculated.

Tying provisional tax to GST

There is considerable potential for this option to reduce the compliance costs of businesses that struggle with cyclical cash flows. At a conceptual level, this initiative holds much appeal.

This initiative is the most complex initiative tested as part of this research project and as such some participants found the concept quite difficult to grasp. Whether businesses elect this option will depend on:

- how it is implemented and communicated in practice (up-take will be hampered by overly complex processes and/or communications)
- the advice and recommendation of a business's tax agent (this appears in part to depend on whether the total provisional tax paid is guaranteed to be held to 105% of a client's Residual Income Tax).

Agents appear to view this proposed initiative less favourably than businesses. One of their key reservations is whether turnover on its own sufficiently reflects profit (e.g. in a labour intensive business). This issue is also raised by businesses. On the other hand, however, both agents and businesses acknowledge the need for this initiative to avoid becoming overly complex.

Given these issues, we suggest that this initiative needs further testing once it has been developed in more detail.

The research findings point to this initiative being introduced on a two-monthly filing basis as best meeting small businesses' needs.

Frequency of filing

Note, this research tested a number of different options for frequency of filing GST and provisional tax with mixed reaction. Whilst some businesses consider less frequent filing would reduce their compliance costs, other businesses believe this contravenes best practice principles (ie. doing it early, regularly and as the information comes to hand).

Filing employer schedules every two months

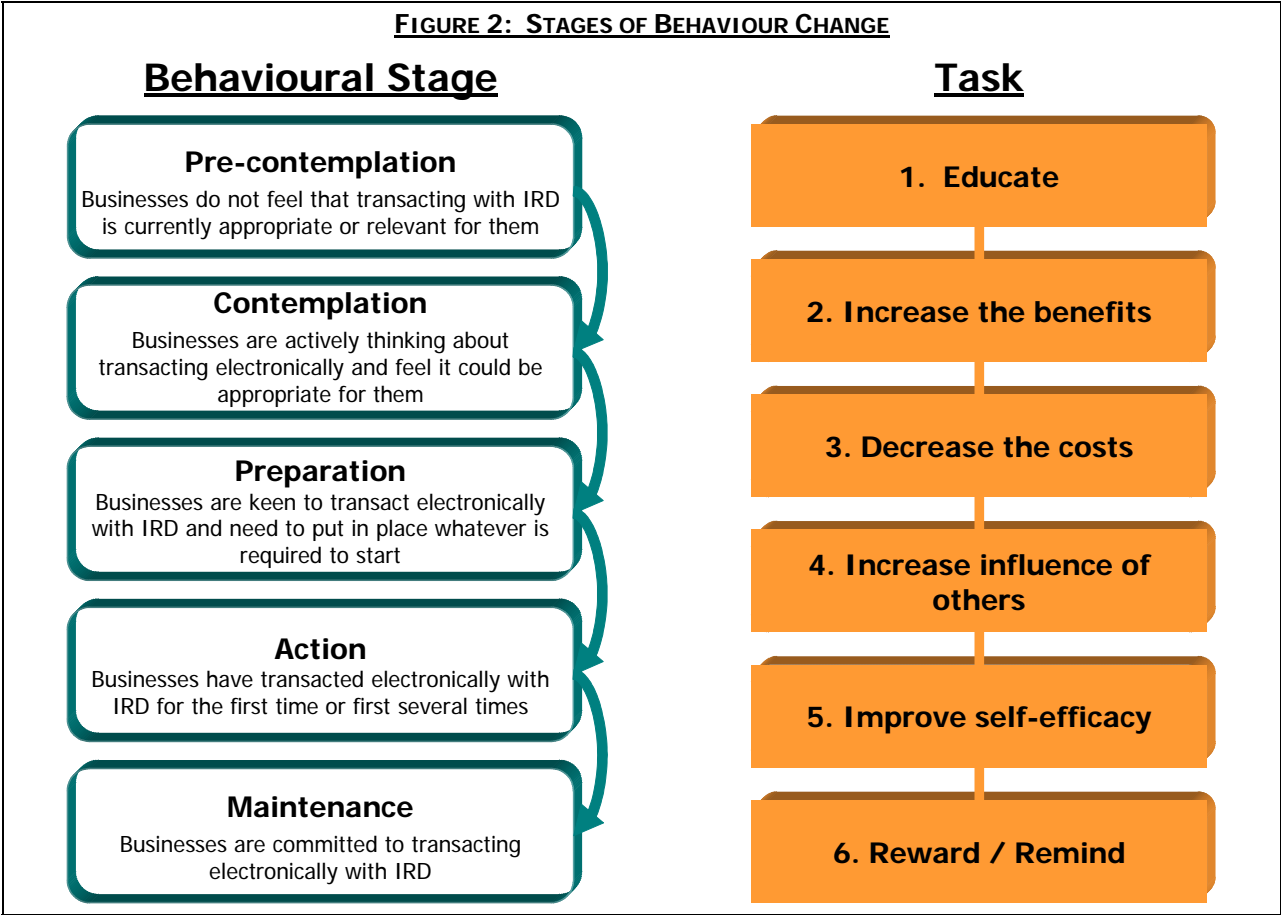
This proposition finds favour with around half of small employers. Some also feel that less frequent filing of PAYE contravenes best practice principles, but this tends to be less of an issue than it is for GST.

E-enablement

The research findings regarding e-enablement products strongly support Inland Revenue's focus in this area. Businesses, even those not currently 'electronically literate', see this as the way of the future. And, more importantly, predicted levels of up-take of these products reinforce this.

On-line account access holds particular appeal for both businesses and tax agents. Some businesses see this product as a solution to their frustrations with the perceived untimely and complex nature of the current statements. Whilst this research suggests that on-line account access should be a high priority, the current statements also need to be reviewed (as the on-line product does not appeal to all).

This research shows that businesses currently sit along a continuum of stages in readiness to take up electronic products. A framework of these stages is illustrated below. The tasks that Inland Revenue need to undertake to shift businesses along the stages of behaviour change vary depending on what stage a business is currently at.



A significant number of businesses appear to be in the Pre-contemplation stage; this is evident from the number of businesses that comment that they fail to see the relevance or benefit of the electronic products to their business. It will be important here for Inland Revenue to clearly communicate how electronic transactions will benefit the business.

For those further along the continuum (i.e Contemplation), as well as communicating the benefits it will be important to overcome perceived costs/risks of the systems. In particular, this research indicates that businesses need reassurances about security of the systems and penalties (should the 'system' cause them to miss a deadline).

Increasing the influence of others (tax agents are key here) and addressing self-efficacy issues are especially important for those in the Preparation stage. This research has highlighted a strong desire for

an Inland Revenue staff person to visit the business to show them how to set up the systems and use the products.

Expand the Advisory Service

Expansion of Inland Revenue's Advisory Service would fulfil two needs:

- More follow-up visits for new businesses. Many new businesses feel that one visit is insufficient. For some of these businesses, follow-up visits would ideally occur a few months after the initial visit as they have had a chance to put in practice initial advice and processes.
- Educating businesses on new initiatives and products. There may be a need to up-skill Advisory service staff to be able to effectively assist businesses with new initiatives such as e-enablement products.

Recognise their role as unpaid tax collectors

This research has highlighted a number of ways in which Inland Revenue can improve their relationship with the small business community and better recognise their role as unpaid tax collectors. Of top priority, in the eyes of taxpayers, is more tolerant treatment in terms of penalties and interest. (The qualitative research details the specific principles that businesses feel should underpin the penalties and interest system).

Many of the issues and ideas raised in this research have significant policy and service implications. Other ideas, such as prepaid envelopes, may not involve big changes to the tax system, but are gestures of goodwill that have the potential to make a positive impact on small businesses' perceptions of Inland Revenue including the value that they perceive the Department places on the small business community.

Appreciate small businesses' varying needs

This research has highlighted a number of key challenges for Inland Revenue in implementing a programme of change. Indeed, we believe the following issues are critical to the success of the programme.

Small businesses desire flexibility

A strong theme in this research is the desire for Inland Revenue to be flexible.

"Flexibility...you can't have strict down the line rules because there is always something that fits outside of them and there is always a situation that occurs in businesses that throws all the good plans out the window." (Small business)

Flexibility is also about recognising that small businesses are not all alike. They differ not only in terms of the physical and financial characteristics of their business, but also in terms of the approaches they take to their bookwork and their levels of confidence, knowledge and anxiety.

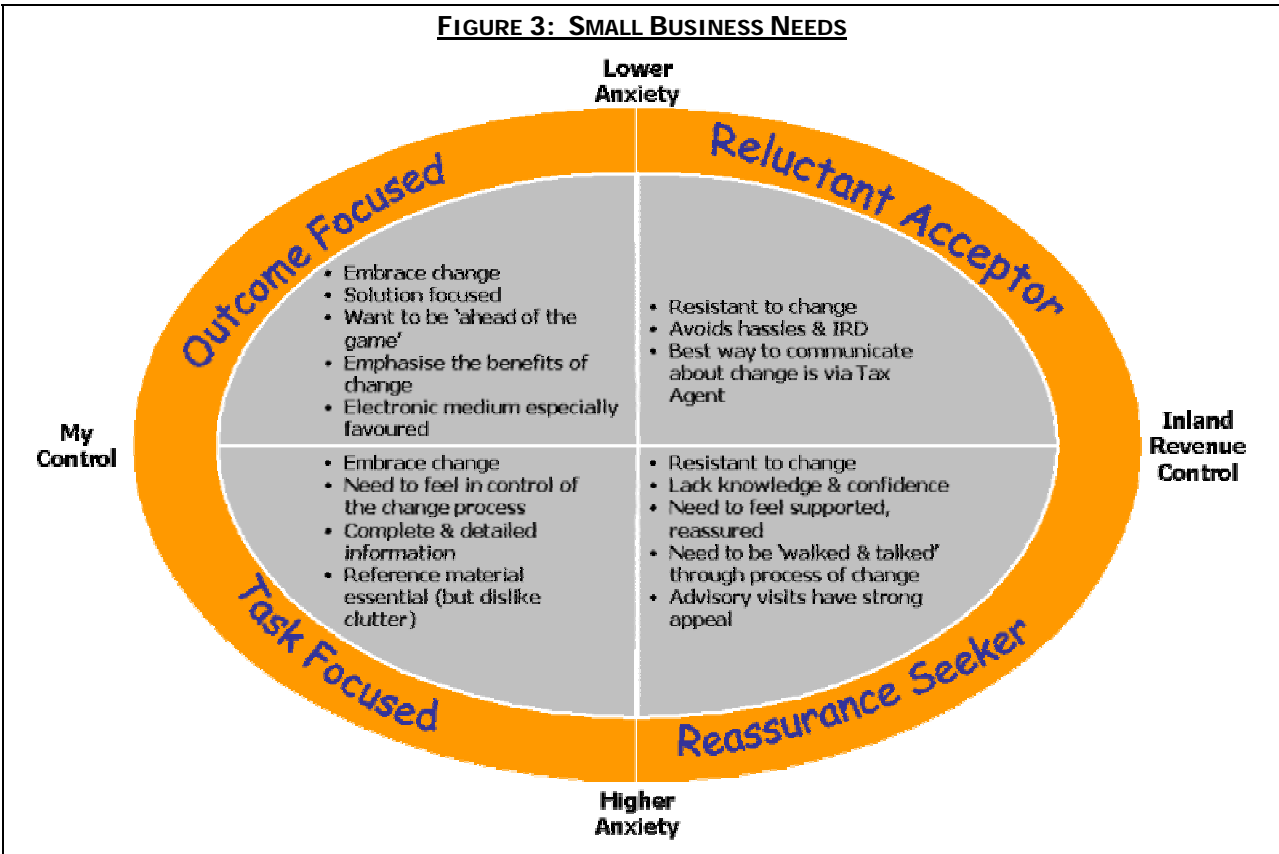
This has a number of implications. First and foremost, small businesses (and tax agents) call for new initiatives to be optional. Providing options is not just about acknowledging that new initiatives may not meet the business needs of some businesses. It also recognises that some businesses are strongly resistant to change because the current system is familiar and they are fearful of any change. (The types of support that these businesses require in taking on new initiatives are different to those required by businesses that are keen to embrace change; this is addressed later in this section).

Herein lies a dilemma. Whilst businesses demand options, there is a real danger of overwhelming businesses with 'yet more options'. This could lead to businesses feeling like the 'load' is heavier than it was before the changes (this is a fear of the Reassurance Seekers and the Reluctant Acceptors). Inland Revenue will need to consider these opposing tensions carefully for each proposed initiative.

Different needs require different types of support

Further, for any initiatives to be implemented successfully, Inland Revenue must deliver different types and levels of support to cater for different needs. Small businesses vary in the level of anxiety they experience in dealing with tax and Inland Revenue and the extent to which they feel their relationship with Inland Revenue is an equal one versus Inland Revenue being in control. This is also closely linked to the extent to which businesses embrace or resist change.

Four different sets of small business needs are illustrated in the following diagram.



Let's take the Reassurance Seeker as an example. These businesses lack knowledge and confidence in dealing with tax. Hence, they tend to be quite dependent on their tax agent. Although resistant to change, because they fear not being able to cope, the Reassurance Seeker can see potential benefits to their business in a number of the proposed initiatives. However, to cope with taking up these initiatives they will need to be walked through the change process step by step. Their driving need is to feel supported and reassured in the process of change. One of the best ways that this can be achieved is via a face-to-face visit from an Inland Revenue person. In this way, Inland Revenue can build the Reassurance Seeker's confidence and show that the Department is willing to listen.

Tax agents

Tax agents clearly play a critical role in small businesses meeting their tax obligations. Some groups of businesses (e.g. the Reluctant Acceptors) are more dependent on their agent than other groups. Nevertheless, this research indicates that tax agents will significantly influence the decisions of small businesses in taking up the initiatives that Inland Revenue proceed with. This has a number of implications:

- The predicted levels of uptake among businesses outlined in this report are likely to be over-estimates given that agents generally show less enthusiasm for the initiatives than the business community.
- Consultation and communications with tax agents will be critical for the effective execution of the initiatives. One element of this would appear to be about finding ways of working *with* agents so that the agents' advisory role is not devalued in any way. There is the potential for some agents to feel protective of their 'territory' with Inland Revenue implementing this programme of change.

On a final note, this research also points to areas where Inland Revenue can improve their relations with tax agents. These tend to relate to process issues (and are outlined in detail in this report and the qualitative research report). Based on the research findings, we also recommend that Inland Revenue provide a year-end summary of client transactions for agents.

Background and Objectives

Inland Revenue, in partnership with Treasury, has embarked on a major exploration into ways of reducing the compliance costs of small businesses. This exploration is at the request of the Minister of Revenue and is in line with Inland Revenue's Statement of Intent; in particular that Inland Revenue's desired future involve taxpayers meeting their obligations of their own accord – and Inland Revenue making this easy.

From previous research, Inland Revenue has identified the following areas where compliance cost reductions could be made for small businesses:

1. The time involved in completing the sheer volume of returns and payments that businesses must send to Inland Revenue each year (steady state activity)
2. The 'one-off' processes and services that Inland Revenue provides when business start or stop ongoing operations (exceptions to steady state)
3. Concern that the penalties and interest regime don't have regard to businesses' (generally good) compliance history, or acknowledge their 'unpaid tax collector' role
4. Prompt access to knowledgeable Inland Revenue inquiry services staff
5. Greater ability to transact tax business electronically
6. The costs incurred in acquiring accounting services for year-end Income Tax return filing. These costs are primarily incurred for the precise profit determination required by tax law, but this level of accuracy is often superfluous to small business information needs.

It is envisaged that a comprehensive approach and mix of interventions will be required including improvements to administrative processes and greater use of electronic technology, as well as legislative changes.

Inland Revenue are undertaking a consultation process with the business community to seek their input. Primary research with businesses and tax agents is one component of this consultation process. Inland Revenue have commissioned **colmar brunton** to undertake two primary research phases: qualitative and quantitative research with both small businesses and tax agents.

The broad objectives of both phases of the research are to:

1. understand and prioritise common tax-related compliance cost issues, as perceived by small business operators
2. identify and discuss possible solutions to those small business tax-related compliance cost problems
3. understand compliance cost problems specific to those business operators who have recently ended or set up a new operation or entity
4. identify barriers to the implementation of new electronic solutions to be offered by Inland Revenue, and how these might be overcome
5. determine probable take up rates of any solutions that Inland Revenue is able to offer to reduce compliance costs.

This report presents the findings of the quantitative research phase. Findings from the qualitative research phase are presented in a separate report.

Research Methodology

Telephone surveys of 1611 small businesses and 400 tax agents were conducted between 25 November and 13 December 2002. All interviews were conducted using CATI (Computer Assisted Telephone Interviewing).

Due to the number of information areas to be covered with businesses, two versions of the questionnaire were used for the business survey. A core set of questions (considered to be of higher priority) was included in both questionnaire versions. The business survey was piloted with 15 businesses to test for respondent understanding of the questions. The tax agent questionnaire was pre-tested qualitatively in six in-depth face-to-face qualitative interviews.

Contact lists were provided by Inland Revenue for both the business and tax agent surveys.

Inland Revenue used specific criteria in drawing the sample for this research to reflect those businesses that are of particular interest to Inland Revenue in undertaking this programme of research and consultation. Hence, the business survey is representative of these groups of businesses rather than of all businesses.

The criteria used in selecting businesses for participation in this research is detailed in the table below along with the number of interviews achieved. Quotas were set to ensure sufficient numbers of interviews were achieved in each group to enable robust sub-group analysis.

	Sample Size	Maximum margin of error
Large employer (Filed both EMS and quarterly FBT return for month of June 2002/balances were non-zero)	301	+/- 5.6%
Small employer (Filed EMS and have less than 10 employees for month of June 2002, and not active for FBT)	318	+/- 5.5%
Individual (Self-employed and have a provisional tax liability on their 2001 return with RIT of more than \$2,500)	279	+/- 5.9%
Company (Filed GST return for the March 2002 period and have a provisional tax liability on their 2001 return with RIT of more than \$2,500)	280	+/- 5.9%
Partnership (GST turnover of between \$100,000 and \$1.2 million per annum/No provisional tax liability)	275	+/- 5.9%
Trust (Filed GST return for the March 2002 period and have a provisional tax liability on their 2001 return with RIT of more than \$2,500)	158	+/- 7.8%
Total businesses	1,611	+/- 2.4%
Total tax agents	400	+/- 4.9%
Total number of interviews	2,011	n/a

Note: all businesses with an annual GST turnover of more that \$1.2 million per annum were excluded.

Questions that were included in only one version of the business questionnaire carry a higher margin of error.

The average interview lengths for the surveys were:

- 13 minutes for one version of the business survey
- 15 minutes for the other version of the business survey
- 18 minutes for the tax agent survey.

The response rates to the surveys were:

- 39% for businesses
- 40% for tax agents.

A more detailed breakdown of the call data is appended.