Improving Tax Compliance Cost Research – The New Zealand Story Continues

Charles Sullivan
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Preface

*Measuring the tax compliance costs of small and medium sized businesses – a benchmark survey* has been a complex and thorough piece of work. It is complex in terms of subject matter and in terms of the many areas of expertise that are intertwined in producing a sound understanding of tax compliance costs. This account proves the thoroughness of the research. There are two main purposes of this report. First, it is to record some of the knowledge from previous research that informed decisions taken here. Secondly, it is to record new, very practical lessons for the benefit of future tax compliance cost research.

The major design and intellectual work was carried out by Dr Charles Sullivan, Director of Capital Research. The depth of his understanding and his ability to integrate the conceptual and the practical, in relation to the many fields of interest – tax, business, compliance costs, survey research – greatly improved the validity of our estimates. We asked Charles to capture these advances in the form of issues encountered and lessons learnt.

This is not intended as a complete design and methodological account for the project, but a personal record of the important issues and decisions that Charles dealt with, and his recommendations for future work in this field. This report supplements others that record the survey design, methodology and findings.

**Prue Oxley**
Manager Evaluation Services
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1 Survey design and implementation

1.1 Project scope and central definitions

The project aimed to collect benchmark survey data appropriate to the evaluation of tax simplification initiatives and related policy advice, with a clear focus on compliance costs. During the project we learned that the appropriate focus differed in some small but important ways from previous compliance costs research. As a result, the scope of the project and our use of central definitions (for example, total compliance costs) changed.

1.1.1 Compliance costs vs impact

The original request for proposal (RFP) for this project was entitled Research assignment to measure tax compliance costs of small and medium-sized businesses. The primary task was to estimate business compliance costs for business compliance costs statements. But it also stated that the proposed research should "allow for better consideration of the impact of proposed changes of tax compliance costs at each stage of the tax policy development process" and "assist in monitoring the impact of past and present legislative and administrative changes on business tax compliance costs". ‘Impact’ is not always identical with ‘compliance costs’ and the difference between the two led to design changes favouring assessment of impact (understood broadly) rather than purely measuring compliance costs.

Given the clear emphasis on compliance costs throughout the RFP and the extensive body of international research focused on tax compliance costs, the scoping report by ATAX (Evans & Tran-Nam, 2004) naturally focused firmly on compliance costs. Their framework carefully outlined:

- a definition of tax compliance costs
- components of tax compliance costs
- sources of tax compliance costs
- valuation issues relating to compliance costs (valuation of time, non-labour costs)
- legal versus economic incidence of tax compliance costs (social compliance costs versus taxpayer compliance costs)
- transitional compliance costs and recurrent compliance costs
- incremental compliance costs versus total compliance costs
- actual compliance costs and hypothetical compliance costs
- individual compliance costs and aggregate compliance costs
- absolute compliance costs and relative compliance costs.

1.1.2 Research design changes

Our initial questionnaire draft was based on two previous compliance cost questionnaires—an Australian example provided by ATAX and the New Zealand survey by Sandford and Hasseldine (1992). However, the evaluation requirements suggested by current tax simplification initiatives resulted in some changes in approach to certain areas of the questionnaire.
**Tax simplification - cash flow vs tax compliance costs**

The Policy Advice Division brochure *Making tax easier for small businesses: summary of proposals* (IRD, 2003) introduced four proposals: helping small businesses with PAYE; paying provisional tax and GST on the same date; basing provisional tax payments on GST turnover; a discount for self-employed people who pay provisional tax in the first year of business. All but the first of these proposals could potentially increase compliance costs as traditionally measured for many firms.

For example, paying provisional tax and GST on the same date could well mean more time (and hence higher compliance costs as usually measured) spent on provisional tax for many SMEs because they would be paying provisional tax six times a year instead of three. The benefits to cash flow might in some cases outweigh the increased compliance costs.

Another example is if self-employed people pay provisional tax in the first year of business rather than simply not paying (the current situation), this would generally increase the time they spend on tax issues (ie increase their compliance costs as usually measured in terms of time and tax advisor costs). However, the initiative might appeal to many self-employed people because they find it difficult to handle the ‘double payments’ required in the second year of business under the current system.

This prompted us to change our measures of psychological costs in the questionnaire (Q23-27). Traditional thinking separates tax compliance costs from the money paid as tax. However, consideration of the initiatives above (ease of budgeting, cash flow) led us to include ‘finding the money’ as another source of stress – see ‘Psychological costs’ on page 5 of this document. This might appear to partly contradict the common definition of tax compliance costs as excluding the actual tax paid, but can be seen as consistent with the definition of compliance costs given in the scoping report for this project (Evans & Tran-Nam, 2004, p8). The decisive point is that including ‘finding the money’ is a more appropriate indicator of the impact of some of the proposed simplification initiatives than excluding it.

**Audit compliance cost information**

We decided that, unless audit is the focus of a particular tax simplification initiative, including audit-related compliance costs simply creates problems for our main measurements of compliance costs (eg by causing a small number of extreme values leading to statistical difficulties measuring impact/change over time). As a result we decided to ask about audit costs early (Q8) and explicitly exclude them from the main questions about time and cost by tax type.

**Extreme values**

We also considered extreme values caused by rare events other than audit. Traditional compliance costs research has been focused on estimating total compliance costs nationwide and so has been obliged to include such extreme values simply because they are real. However, even a small number of extreme values can have a devastating effect on statistical power (ie the probability of detecting a significant difference or change that really does exist) in comparisons between types of businesses or over time) eg before versus after implementation of a tax simplification initiative).

Given the importance to this project of detecting changes over time, for summary measures we decided to use trimmed means and medians (which reduce the impact of extreme values) rather than the usual mean.
1.1.3 Effect on central definitions

These small research design changes result in significant differences to our definition of compliance costs. The phrase ‘total compliance costs’ as measured previously is substituted by the new term ‘combined compliance costs’ created to refer to our measurement. For example

- people may total up compliance costs or hours for all tax types in the core questions (Q10-14) of the questionnaire, but these are not total compliance costs because of the exclusion of audit costs and extreme values
- where we use a median or trimmed mean to describe average costs for a group of businesses (such as employers with fewer than five staff), we cannot simply multiply that result by the number of businesses to get aggregate compliance costs nationwide, as we could had we used the normal mean.

Lessons

Beware of using ‘total compliance costs’ in relation to our data.

Beware of losing sight of practical policy objectives (eg measuring impact of initiatives) because of the ready availability of a very large body of previous compliance cost research with different objectives.

1.2 Questionnaire design

The substantial changes made to the final questionnaire, and the lessons learnt during the process, are obvious when contrasting the final questionnaire with the one used for initial pretesting. This pretesting questionnaire may be a useful source of draft questions or warnings about difficulties in future research in this area.

1.2.1 Major design areas

Measuring internal time

The central questions of compliance cost questionnaires to businesses concern internal time (Q13a 13b in the final questionnaire). Issues relating to internal time dealt with include: splitting time between activities or staff; order (if time is split in more than one way); overlap and double-counting between activities; overlap between tax types; length; reference period (year or month); time units (minutes and hours); distinguishing between zeroes, missing values, and not applicable; ‘positive’ versus ‘negative’ definition of compliance costs.

Splitting time

An attractive feature of the ATAX questionnaire, used as a starting point for our questionnaire (similar to the one in Evans et al, 1996), was that time for each tax type was recorded twice: first split by a variety of processes (eg recording information, dealing with IRD); then split by tax type. In both cases, columns differentiated the people doing the work (eg owners/directors, paid employees, unpaid helpers). Splitting time by process enables estimates of impact where initiatives will only change particular processes. Splitting time by person improves estimates of compliance costs because the hourly rate for an accounts clerk will normally be much less than for an owner.
However it has been found (see Evans et al, 1996, p39) that respondents generally do not realise that the totals should be the same for both questions (ie the process time split and the person time split), resulting in discrepancies between the time totals. So our questionnaire took several steps to prevent this discrepancy

- Q13b starts by instructing respondents to "please tell us how the time you recorded in Q13a was divided across different people"
- the first bullet point emphasised that "the total for each tax should be about the same as for Q13a"
- the end of the question has a ‘please check’ instruction on the totals.

As a result we succeeded in getting reasonably high consistency, with exact matches of between 85-96% for the various tax types.

In contrast to ATAX, we recorded the tax activities separately for each tax type rather than each person type. This is because of the importance for our project of evaluating tax initiatives (which are typically focused on a single tax type).

**Order**
Should the internal time split by person or by tax activity be presented first? Reactions differed quite sharply on this issue, depending on the number of people involved with tax matters and the allocation of tax activities.

**Overlap and double-counting between activities in Q13a**
It was important that the list of tax activities be both exhaustive and mutually exclusive. For example, we combined two activities originally recorded separately (learning about new tax laws versus learning about existing tax laws) because pretesting exposed a risk that respondents would simply record the time they spent learning about tax in general in both places. ‘Implementing tax law changes’ was also deleted as inviting double-counting of hours recorded beside other activity types.

**Overlap between tax types**
In principle, it can be difficult to split some activities such as recording financial information between GST and income tax. We encouraged businesses not to think about this potential problem by placing the GST column before the income tax column. This reinforced the common tendency to assign all the initial work to GST and consider only end of the year issues for income tax (as reported by Ritchie, 2001, p310).

**Length**
It was important to keep the list of tax activities in Q13 as short as possible so that respondents could take reasonable care to avoid double counting (not to mention making the question look less intimidating). For this reason, Q17a-c were removed from their draft position as activities within Q13a.

**Year versus month**
Initially, we intended to ask respondents to record times for a year rather than expecting them to estimate on a monthly basis (which can be awkward for small businesses, because some taxes are only dealt with once or twice a year). However, initial pretest results revealed that respondents estimated the annual figures based on monthly figures. This convinced us to return to the ATAX approach of requesting monthly figures (Sandford & Hasseldine, 1992, requested annual figures).
Minutes
 Particularly with monthly recording, fractions of an hour (as used in the ATAX questionnaire) were an issue. We replaced the original request to write fractions of an hour by a separate box for recording minutes.

Zeros, missing values and ‘not applicable’
 For analysis it is crucial to be able to distinguish reliably between values of zero minutes and cases where the respondent did not provide an answer. Rather than suggesting that people might leave lines blank if no time was spent on particular tax, we suggested that they make things clearer by crossing out the relevant column. Furthermore if no time was spent on particular activity, we instructed that respondents write in 0 or a dash (-).

‘Positive’ versus ‘negative’ definition of compliance costs
 Q9 provides a list of activities that are not compliance costs. We considered the alternative of trying to list activities that were compliance costs, but found it less satisfactory.

1.2.2 Other design areas reflected in final questionnaire

Psychological costs
 We decided on a 7-point rating of how stressful businesses found meeting requirements (Q23-27). An unusual added feature was the instruction to include ‘finding the money’ as a contributor to stress (except for the initial overall rating). This was because some tax simplification initiatives are clearly aimed at reducing taxpayer concerns about cash flow and budgeting.

Accounting/taxation overlap
 The accounting/taxation overlap issue is a long-standing problem, well known in compliance cost research. To gather some data on this issue, without asking respondents to make precise splits between accounting and taxation for particular activities or tax types, we created some questions beginning with “imagine for a moment that New Zealand was tax-free” (Q7, 11, 12b). We hoped these would deliver qualitative but useful data while being easy to answer and without affecting response rate. For example, Q7 reads

Imagine for a moment that New Zealand was tax-free: do you think that you would still use computerised accounting software? Assume that the costs of buying and updating the software remain as they are now.

Respondents who answer ‘Definitely yes’ provide us with indicative information that they are not particularly concerned about the added cost of the tax components (without trying to extract from them precise information about software costs and the split relevant to tax). Pretesting showed that respondents could answer these rating questions quickly and easily. The same rationale applies to Q12b about external payroll services.

Similarly, Q11 (concerning whether they would still pay the external accounting/advisor to do the annual accounts) provides indicative information on this thorny topic where it is difficult to obtain precise cost splits. In particular, by asking the same question of their tax advisors, we tested whether major differences in points of view exist on this question.
1.2.3 Question topics omitted from the final questionnaire

Data from IRD databases
We gained permission to link IRD data eg entity class (company, partnership, etc), GST accounting basis (payments, invoices, and hybrid), GST payment frequency. This data was useful because it allowed us to shorten the questionnaire and it provided a better source of data for some areas of interest, in particular the estimate of cash flow benefits.

Computing costs (hardware and software)
Computing costs were omitted because the difficulties in data collection did not seem justified by the value and precision of the data. Costs associated with computer hardware and software were sometimes difficult to assess because it would often have been bought some years previously and because there was a need to assess the extent to which it was used for tax purposes. Examination of the costs of common business software such as MYOB suggested that the ongoing tax related costs of such software are likely to be less than $100 (and less again for the many businesses with no staff or so few staff that a payroll package is not needed).

Benefits of tax-related processes
Pretesting by Colmar Brunton showed that questions relating to the benefits that businesses get from recording and preparing returns for IRD (for example Alexander et al, 2004) are difficult to answer, so they were deleted. Such questions probably need extensive development effort before being suitable for a large-scale survey, given the inherent accounting/taxation overlap problems.

1.2.4 Documenting early questionnaire design
A good view of questionnaire development and design improvements is gained by comparing the final questionnaire (long version) with the version used for initial pretesting. This document should be printed or viewed with options set so that ‘hidden’ text is visible (hidden text was used for convenience in printing clean copies for pretest respondents to use). The hidden text documents problems, sources, options under consideration. This document also appends a substantial number of questions considered but already deleted by that stage. The core questions on internal time spent in the final questionnaire (Q13a-b) illustrate worthwhile improvements to formatting and wording that might not be immediately apparent on simply viewing the final questionnaire.

Lesson
Take care not to lightly discard the very careful design of the core questions recording internal time on tax activities. Many painfully gained insights are incorporated into wording, order, and formatting.

1.2.5 Pretesting
There were two stages of pretesting involving around 30 interviews in addition to a pilot of 71 returns. Given that most of the questions were very closely following precedents from large-scale surveys in Australia and New Zealand, the large number of difficulties discovered and the changes found to be desirable suggest
future researchers in this area should plan for extensive pretesting, even if many of the questions come from existing surveys

highly experienced survey researchers did insufficient cognitive pretesting with the previous compliance cost questionnaires.

Lessons

Never underestimate the amount of pretesting required with compliance cost surveys.

Never be tempted to rely too much on questionnaire design precedents from previous compliance cost surveys (even if local).

1.3 Response rate

1.3.1 Low response rates with large-scale mail surveys

There is a widespread belief that mail surveys almost inevitably deliver low response rates (examples from compliance cost research include Godwin, 1995, p93; Tran-Nam et al, 2000, p244). Concern about response rates is apparent from major conferences on compliance cost research (eg Sandford, 1995). Table 1 summarises the size and response rate of several large-scale compliance cost surveys, particularly focusing on surveys of businesses in New Zealand and Australia. Response rates from businesses are typically below 40%.

Table 1: Response rates from previous compliance cost surveys

<table>
<thead>
<tr>
<th>Survey Details</th>
<th>Usable responses</th>
<th>Response rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sandford &amp; Hasseldine (1992), New Zealand</td>
<td>1,887</td>
<td>39.8%</td>
</tr>
<tr>
<td>GST/business income tax</td>
<td>2,954</td>
<td>31.0%</td>
</tr>
<tr>
<td>Godwin (1995), UK</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1986-87 PAYE, VAT, corporation tax</td>
<td>680</td>
<td>24%</td>
</tr>
<tr>
<td>Pope (1995), Australia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal income tax 1986-87 (no reminder)</td>
<td>1,098</td>
<td>16.3%</td>
</tr>
<tr>
<td>Public companies’ income tax 1988 (no reminder)</td>
<td>314</td>
<td>16.9%</td>
</tr>
<tr>
<td>Employers 1989-90</td>
<td>745</td>
<td>27.2%</td>
</tr>
<tr>
<td>Companies’ income tax 1990-91</td>
<td>849</td>
<td>33.6%</td>
</tr>
<tr>
<td>Allers (1995), Netherlands</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Business</td>
<td>1,053</td>
<td>20%</td>
</tr>
<tr>
<td>Evans et al (1996), Australia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal</td>
<td>936</td>
<td>50.1%</td>
</tr>
<tr>
<td>Sole trader</td>
<td>729</td>
<td>26.6%</td>
</tr>
<tr>
<td>Other business</td>
<td>1,735</td>
<td>36.4%</td>
</tr>
<tr>
<td>Godwin (2001), UK</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employers 1995/1996</td>
<td>&gt; 1,000</td>
<td>32%</td>
</tr>
<tr>
<td>Cordova-Novion &amp; de Young (2001)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OECD survey, 1999, New Zealand component only (tax)</td>
<td>464</td>
<td>36.2%</td>
</tr>
<tr>
<td>OECD survey, 1999, other countries (tax)</td>
<td>315–1217</td>
<td>21%–3%*</td>
</tr>
<tr>
<td>Siemrod (2002), USA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large and mid-size businesses</td>
<td>443</td>
<td>10%</td>
</tr>
<tr>
<td>IBM (2003), USA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal wage and investment (telephone and mail)</td>
<td>5,851</td>
<td>60.5%</td>
</tr>
<tr>
<td>Self-employed (telephone and mail)</td>
<td>9,081</td>
<td>56.4%</td>
</tr>
<tr>
<td>Business New Zealand (2004), New Zealand Businesses 2003, 2004 (web surveys)</td>
<td>760,949</td>
<td>Presumably low</td>
</tr>
</tbody>
</table>

* It is difficult to believe that this 83% response rate was calculated in a way comparable to the other response rates, but no particular explanation was given in the paper.
However, evidence shows that distinctly higher response rates can be achieved with mail surveys (Brennan, 1992, p24). Dillman (2000, p150) lists five elements for achieving high response rates together with detailed suggestions for implementation and substantial evidence from large-scale experiments (eg for the US Census Bureau) that these methods work:

- respondent-friendly questionnaire
- return envelopes with real stamps (instead of business reply envelopes)
- personalisation of correspondence
- additional ‘special contact’ for mail contacts (pre-notice letter, questionnaire, thank-you postcard, replacement questionnaire, final contact by telephone or courier)
- token prepaid financial incentives.

These elements should be taken as pointers rather than a prescription. In particular, token financial incentives may often be inappropriate for compliance cost surveys either because the survey is coming from the government or because the recipients are businesses rather than households. But use of non-financial incentives, although typically less effective, can also be useful. For example, a survey of people renewing driver’s licences in Washington State showed an 8 percentage point advantage (67% versus 59%) for those who received a very inexpensive purple ball-point pen with the words ‘Department of Licensing’ on it (Dillman, 2000, p169).

A recent IRS project on taxpayer burden had response rates of 56% and 60%, although the project dealt with individuals (including the self-employed) rather than businesses. First, they used a mixed mode approach, using both telephone and mail. Second, the mail component clearly followed current good practice as described by Dillman (2000) and others. The mail survey process used a pre-notification letter, a token incentive of $1, a reminder postcard a week after the initial questionnaire, and not only the usual reminder questionnaire a couple of weeks later, but also a third copy of the questionnaire around seven weeks after the first mailing. In addition, they promised a significant incentive for completion of the questionnaire ($20 for wage and investment taxpayers, $30 dollars for the self-employed).

These types of methods have proven effective in New Zealand (Sullivan et al., 2003; Gendall et al., 1998). Although it is sometimes difficult to draw clear conclusions from many experimental New Zealand studies about the size of effects of various design options (because the sample sizes are much smaller than major overseas experiments), the general pattern is consistent with overseas results. Brennan concluded (p24)

> Mail surveys have an undeserved reputation for producing low response rates. However, the evidence presented in this paper demonstrates that response rates of 60% or better can be routinely achieved for mail surveys of the general public, specific consumer groups, and businesses, regardless of the topic investigated.

1.3.2 Response rate in this project

This section outlines our experience with a variety of methods used or considered to enhance response rate. The overall response rate from businesses was 44%. Response rate details of this are in the main survey report by Colmar Brunton (2005).
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Preliminary contact before sending out the questionnaire
There were three tasks before the questionnaire was sent out

- gaining consent of businesses to send business details to the contracted research company, and encouraging their voluntary participation
- updating contact information
- excluding from the sample businesses who asked not to be surveyed – as per lists held by Inland Revenue and Colmar Brunton (for Inland Revenue).

The first two tasks were accomplished by Inland Revenue sending out a consent letter to the selected sample. The third was a separate exercise.

The initial consent and updating processes are resource intensive but result in a sample in which we have greater confidence, in terms of its representation of the business population and in likelihood of contacting them. But there are also disadvantages, as the following explains.

Consent letter: main perceived advantage
A letter requesting consent was seen as necessary to enable passing on of address details and other IRD information to the market research company conducting the survey and checking the quality of the sample.

Effect on response rate
A consent letter was sent out about three weeks before the initial questionnaire mail-out. Within 15 days, 546 businesses opted out of the survey by phoning or writing to IRD. This represents about an 11% reduction in response rate before a single questionnaire is delivered. Note that the calculation removes the 201 ‘returned no address’ cases from the total mail-out before calculating the response rate effect.

This clearly contrasts with the known beneficial effects of a pre-notice letter sent a few days before the questionnaire (Dillman, 2000, p156, cites improvements of 4-6%). Pre-notice letters should be used with caution.

Passing on of address details
This can be avoided by implementing the mail-outs of questionnaires and reminders, with the market research company being able to indicate which companies need reminders by returning a list of code numbers from completed questionnaires received. This kind of procedure was used for the Sandford and Hasseldine (1992) compliance cost survey in New Zealand and elsewhere (eg Godwin, 2001). A possible disadvantage is that such a procedure may restrict use of the telephone to improve the response rate.

Passing on of other IRD information
If we chose not to link the IRD database information to the questionnaire information in future surveys, we would probably need to add to the questionnaire length, which would probably reduce the response rate somewhat (overseas research suggests that this effect might not be large).

Quality of the sample
The second task of the consent letter was to check the quality of the sample in a number of ways. The consent process always identifies respondents who no longer meet the qualifying criteria, and those for whom the contact details are incorrect, some of whom then ring IRD with amended contact details.
It appears that this initial consent/opt out process did not only identify those businesses who would have failed to respond to a more usual survey approach, but also other businesses who would normally have responded but probably made use of the invitation to opt out of the survey. Given this, it is likely that the response rate achieved after this consent process (i.e., as a proportion of the questionnaires mailed out) is reasonably indicative of the response rate achievable in the absence of the initial consent/opt out process. So this alternative (higher) response rate (49%) may be more comparable to the response rates achieved in other compliance cost surveys, which do not usually involve a preliminary consent letter.

Note that the pilot study reported by Evans et al. (1996, p.32) concluded that the initial letter and survey form should come from the Commissioner of Taxation because this had a better response rate.

Lessons
Consider whether getting consent to link IRD database information is worth the cost in response rate. Review that decision case-by-case in future surveys rather than simply follow the precedent of this one.

Consider planning for IRD to handle all mail-outs directly, including a pre-notice letter a few days before the questionnaire. This does not necessarily involve them also receiving the questionnaires and doing the subsequent data processing.

It is reasonable to consider the alternative response rate achieved after the consent and cleaning processes (i.e., as a proportion of the questionnaires mailed out) as indicative of the response rate achievable in the absence of the initial consent/opt out process.

1.3.3 Measures taken to improve response rate

User friendliness
Two reasons for reduced response rates to compliance cost questionnaires are their unusual level of difficulty due to the complexity of some questions, and the common need in businesses for more than one person to be involved in answering questions (e.g., because different people handle PAYE and income tax).

These difficulties make it more important than usual to ensure that the questionnaire is as user-friendly as possible. The foundation for user-friendly questionnaire design is very thorough pretesting by highly experienced survey professionals who are open to the possibilities for improvement suggested by the comments and behaviour of respondents. Despite largely using questions and design from previous mail questionnaires in Australia and New Zealand, this project included 24 pretest interviews by survey specialists, in addition to several by a content-area specialist with extensive previous experience of compliance cost surveys.

Formatting
Sound formatting features of the final questionnaire include

- a prominent ‘start here’ arrow to increase the number who actually read the initial instructions
- careful attention to the role of tax advisors (e.g., the supplementary instruction in Q1 to include taxes where their accountant/tax advisor completed the return)
• ensuring that the later general instructions (defining what are not compliance costs) are more likely to be read, by formatting them like a question (Q9)
• reverse shading in white, subtly highlighting the places where a response is required
• exceptional care over design details, layout, and order in the central question on internal time (Q13a-b) as mentioned above (p4).

Use of content-area experts
Of course, ongoing involvement of content-area experts remains essential. It is easy for well-intentioned suggestions for ‘simplification’ to result in a conceptually flawed question.

Provision of tailored questionnaire variant
We designed an entirely separate, and much shorter, questionnaire for the common cases where income tax was the only relevant tax. This shorter questionnaire had a higher response rate of 52% compared with 47% for the main questionnaire. This proves the value of providing questionnaire variants tailored to the needs of important subgroups rather than expecting them to navigate their way through a distinctly longer and more complex questionnaire (much of which is irrelevant to them).

In hindsight, we should have extended this principle and also created another variant of the shorter income tax only questionnaire. The new variant, aimed at individual taxpayers with business income, should have had identical questions, but with a different introduction and cover letter to prevent confusion between compliance costs of related taxpaying entities generating the business income (eg partnerships, companies) and their personal compliance costs as an IR 3 taxpayer.

Lessons
Exceptionally thorough pretesting of the questionnaire by experienced survey researchers is essential. This remains the case even if question wordings are being reused from major overseas surveys.

High quality formatting is desirable.

Separate questionnaires for large subgroups for which many of the standard questions are irrelevant, are useful to enhance response rate. In the New Zealand case, this variant was successfully used for the many businesses concerned with income tax only.

Promotional communications
We arranged for a number of notices in appropriate media to encourage participation: Chartered Accountants Journal (Institute of Chartered Accountants), Business Update (Business New Zealand), a number of IRD publications (the internet page for tax agents, the monthly newsletter for tax agents), a press release from the Associate Minister of Revenue, and a press release to regional newspapers tailored to their region.

Token incentive
A distinctive feature of the first mail-out was the inclusion of a token incentive: a Post-it highlighter pen with Post-it flags. This is a good illustration of how a relatively creative approach can be used in response to the experimental research demonstrating ways of improving response rate.
We do not have clear evidence of the impact of including the token incentive because it was simply included with (nearly) all questionnaires rather than experimentally withheld from half the sample.

Clearly, this is a token incentive (with a value substantially less than the $30-$50 typically paid for attendance at a focus group) comparable to the commonly used ballpoint pen. Reasons this should have been more effective than a ballpoint pen include:

- greater commercial value (around $6)
- distinctiveness/novelty (this was a relatively new product)
- practicality - it enabled us to put in a positive light one of the practical difficulties for those completing the survey (i.e., that they would often need to get some answers from a different person in the business).

Costs of the incentive were minimised by selecting an appropriate product that was in launch phase. The supplier was prepared to deliver the large numbers involved at a low cost (little more than that of a specially printed ballpoint pen) – for these Post-it products, potentially more powerful than any advertisement is the sheer practical experience of finding how convenient they can be.

**Reminders**

The survey process included a postcard reminder, a reminder questionnaire, and a final telephone contact. The telephone contact is the only one requiring further discussion here because it was a somewhat experimental element.

**Telephone contact**

Telephone contact to non-respondents (even after the reminder questionnaire) was limited to 600 respondents, split between questionnaire types in similar proportions to the original totals dispatched – 450 contacts with main questionnaire respondents and 150 with those getting the shorter income tax only variant. Due to a lack of evidence about the beneficial impact of such telephone contact with business compliance cost surveys internationally, we chose not to commit to the large cost of completing such telephone contact with all non-respondents. So the experience gained here is useful to guide such decisions in New Zealand in the future, and may also be useful to compliance cost researchers overseas.

Including some contact by telephone is a common option to consider, particularly with business surveys (e.g., Dillman, 2000). For example, an initial telephone contact might be useful to help ensure that the questionnaire is sent to the right person (and ideally, personalised). Alternatively, telephone can be used for reminders (as we did), or to gather compliance cost responses in a ‘mixed-mode’ design with data coming both from written questionnaires and from telephone interviewing (e.g., IBM, 2003).

The under use of telephone contact in large-scale compliance cost surveys may be partly due to historical reasons—the importance of content area expertise with compliance cost surveys has led to many of them being conducted by universities, who typically lack both the familiarity with telephone interviewing and the in-house interviewing resource that research companies have.

In our case, initial response to the telephone reminders was fairly positive—over 50% either agreed to return the questionnaire (45%) or requested another copy (11%). A further 19% claimed to have already returned the questionnaire. In the end, 18% of those contacted by telephone returned the questionnaire, as opposed to the 12% returned from 2,282 non-contacted businesses who had not responded by the same date (z = 3.74, p < 0.01).
Of course, this comparison is indicative rather than being a purely random experiment, particularly as the non-contacted businesses include many where telephone contact was attempted but not successful. Such businesses may also be generally less likely to return questionnaires.

**Lesson**

Take care in advance to ensure rigorous (rather than indicative) analysis of the impact of such interventions on response rate (because opportunities to measure the impact with samples large enough to measure the small but important changes expected are rare).

1.3.4 Techniques considered but not used

**Just one question**

Allers (1995) found that non-respondents thought they had a significantly higher compliance burden (as assessed by their responses to a similar single question) than respondents, and also that respondents who think they are relatively heavily burdened actually do have relatively high compliance costs. His results suggested that the results of the business survey were biased downward because of selective non-response by around 10%, but this level of change was within the 95% confidence interval.

Evans et al (1996, p37) used a similar approach in Australia. In their survey 861 taxpayers chose to respond to a single question rather than complete the full survey form. There was no significant difference between those who chose to respond to the full survey and those who chose to complete only the single question (a simple 5-point rating) of whether their federal tax compliance costs (compared to other businesses) were ‘Very low…Very high’. Given that the just one question technique had been used twice (including Australia) without revealing dramatic bias problems, we decided not to use the technique.

**Prize draw**

The suggestion of a prize draw was also made during this project. In contrast to the consistent support for positive effects of token incentives, studies of lotteries have yielded inconsistent findings (Singer, 2002). The chance of winning a computer valued at $3,040 did not appear to have had any discernible impact on response rates for business taxpayers in a major Australian study of tax compliance costs (Evans et al, 1996, p36).

1.3.5 Misunderstanding about response rates, sampling errors and bias

**Response rates**

Misunderstanding over response rates and other indicators of survey quality appear in compliance cost literature. Details and careful discussions of survey methods, including response rate, were a feature of the important tax compliance cost conference in Oxford during September 1994. Contributors regularly reported response rates as specifically requested by Sandford (1995, p8)

- response rate as percentage of sample
- response rate as percentage of population.
During this research a particular rationale for systematically listing response rate as percentage of population did not become evident, the significance of which has consequently been misunderstood. For example, later in the same volume, the researcher leading many Australian tax compliance studies reported

\[\text{The survey of Australian personal taxpayers compares favourably with postal surveys in other surveys in terms of both the absolute number of usable responses and the percentage rate of universe coverage that is the number of usable responses divided by the taxpaying population.}...\text{Universe coverage (at 0.013) was approximately one third that of Stemrod's survey but double that of Sandford's survey.} \text{ (Pope, 1995, p109)}\]

The tiny figures concerning ‘universal coverage’ contribute nothing of real value in my view. Even in a small economy like New Zealand, broad surveys of business will typically only cover a fraction of the population. Whether this fraction is 0.25% or 2% is irrelevant.

**Sampling errors**

A common misuse of sampling, which may underlie the misunderstanding apparent in the tax compliance cost survey literature, is the ‘percentage of population fallacy’. The fallacy is that the sample size to population ratio is critical in determining accuracy of results from sample. The truth is that, with random samples, the effect of the percentage of population (technically, the finite population correction factor) is routinely ignored until the percentage is at least 5%. Even at 5%, the effect of the finite population correction factor is merely to shrink the margin of error by around 2.5%. Broad surveys of compliance costs and large economies will rarely, if ever, cover more than 5% of the relevant population. Therefore this factor will generally be irrelevant except in very small economies or where a particular aspect of tax affects only a small subgroup of businesses.

**Bias (non-sampling error)**

Fundamental in considering accuracy of survey results is the distinction between sampling error (ie the margin of error, which is substantially determined by absolute sample size) and non-sampling error (eg bias from some groups disproportionately choosing not to respond to a survey or misunderstanding a question). Simply increasing sample size merely repeats the effects underlying non-sampling error and does not reduce it. This fundamental distinction and/or the finite population correction factor appear not be understood by some key contributors to the literature on tax compliance cost surveys, for example

\[\text{It seems unreasonable that some academics and critics place such a great emphasis on the percentage response rate. The universal coverage rate is an important indicator often ignored.} \text{ (Pope, 1995, p120)}\]

Unfortunately, this misunderstanding seems to have continued unchallenged for many years, and become embedded as common practice in reporting compliance cost surveys without explicit justification, as in this recent example

\[\text{The comprehensiveness of the sample of legal entities as compared with the total number of legal entities that are importers (the universe) is 0.271%. Comparing the comprehensiveness of our sample with the comprehensiveness of the samples of some foreign researches of the costs of tax compliance, we should notice that our research covered a greater part of universe than almost any other research.} \text{ (Pitrarevic, 2003, p10)}\]

Note that the percentage of population fallacy is a compelling and widespread error, related to psychological illusions affecting intuitive judgements of probability, such as those popularised by Kahneman and Tversky
(1972). For example, even an introductory textbook wrongly advises as a guideline for determining sample size that “the sample size should be about 5% of the population size” (Geldof, 2002, p78).

**Lessons**

Thorough understanding of the now extensive literature on achieving good response rates is important to deal with the particular challenges of tax compliance cost surveys. The recommendations and guidelines of Dillman (2000) provide a good starting point that will improve response rates beyond those typical of compliance cost surveys to date.

Do not overlook the importance of user-friendly questionnaire design to response rates. Again, given the special complexities of tax compliance cost surveys, this requires a high level of questionnaire design experience (eg cognitive pretesting), not merely following good practice lists/guidelines.

The recurrent emphasis on ‘response rate as the proportion of population’ or ‘universal coverage rate’ in the tax compliance cost literature appears misguided and should be ignored for broad-based business surveys like those in this project.
2. Other measurement issues

2.1 Valuing time

2.1.1 Introduction

The issue of valuing work time is considered less contentious than that of valuing personal time, but still raises some difficult issues. (Sandford, 1995, p398)

Key questions the project had to deal with included:

- Conceptual issues - should hourly rates include or exclude: tax, overheads etc?
- Data sources - should we rely on what businesses report as their value of time, or are independent external sources better?
- Calculation method - should we use individual values of time for each business, or apply averages to groups of 'like' businesses?
- Person types - how many different types of people within businesses (eg owners, managers, accountants, clerks, IT, unpaid) should we collect values of time for?

2.1.2 Conceptual issues

Conceptual issues were dealt with briefly in the scoping report (Evans & Tran-Nam, 2004). Labour costs were to be valued at market wage rates where possible, and non-labour costs (such as overheads) were expected to be negligible in most cases for small businesses (unless important to a particular tax policy change being evaluated).

2.1.3 Data sources

Data sources are a more difficult issue because of our focus on small business. This focus means that we expect most of the time to be that of owners/directors not of employees (where the hourly wage rates provides a convenient estimate of opportunity cost). With business owners/directors, selecting a value to apply is less objective and has more difficulties to valuing time spent on personal tax affairs (because owners may do the tax compliance work in what would otherwise be leisure time).

The respondents’ own valuations plus cross-checks from external data, using proxy occupations..., may be the best compromise. (Sandford, 1995, p398)

The scoping report (Evans & Tran-Nam, 2004, p10-11) similarly recommended using both respondent valuations and external data (eg Statistics NZ). Exactly how to proceed from the general principles was not always clear. In particular, we were not clear during questionnaire design on what the scoping report meant by ‘reservation’ wage rates. For example

Survey participants' imputed wages should be approximated by their reservation wages.
(Evans & Tran-Nam, 2004, p11)
Lessons

Query crucial concepts (like ‘reservation wage’) in scoping reports earlier (eg when in draft).

When reading drafts of scoping reports, carefully think through key points as to what details they imply (eg questionnaire wording) to check if clarification is needed.

Given that our focus is on small business, values available from recruitment companies (eg Hays, 2003) are less relevant than they were to the Australian studies that included large businesses (Evans et al., 1997). For example, Australasian data on accountant salaries available from Hays is provided in three turnover bands: up to $100m; $100-$500m; and $500+m. These turnover bands suggest that their data is generally coming from companies larger than those targeted in this project.

Evans et al (1997, p46) provided detailed wage rates used for valuing time (see Table 2 below) and detailed notes on the derivation of each (these detailed notes are an excellent demonstration of the vagaries involved in finalising such values). The derivations made use both of survey responses and also a published salary review from Cullen Egan Dell (a major remuneration and human resource consulting firm).

Table 2: Wage rates ($ per hour) 1994-95

<table>
<thead>
<tr>
<th>Personnel</th>
<th>Small</th>
<th>Medium</th>
<th>Large</th>
<th>Overall</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover</td>
<td>&lt;$100k</td>
<td>$100k-$9.9m</td>
<td>$10m+</td>
<td>24</td>
</tr>
<tr>
<td>Sole traders</td>
<td>19</td>
<td>29</td>
<td>n/a</td>
<td>33</td>
</tr>
<tr>
<td>Partners, directors &amp; trustees</td>
<td>19</td>
<td>33</td>
<td>46</td>
<td>25</td>
</tr>
<tr>
<td>Managers</td>
<td>19</td>
<td>25</td>
<td>30</td>
<td>24</td>
</tr>
<tr>
<td>Internal accountants &amp; lawyers</td>
<td>19</td>
<td>24</td>
<td>30</td>
<td>24</td>
</tr>
<tr>
<td>Computer programmers &amp; analysts</td>
<td>19</td>
<td>22</td>
<td>25</td>
<td>22</td>
</tr>
<tr>
<td>Clerks &amp; bookkeepers</td>
<td>13</td>
<td>15</td>
<td>17</td>
<td>15</td>
</tr>
<tr>
<td>Unpaid helpers</td>
<td>12</td>
<td>12</td>
<td>12</td>
<td>12</td>
</tr>
</tbody>
</table>

2.1.4 Calculations valuing time

The use of external data (eg from Statistics NZ) assumes that group averages will be used for translating the recorded time (hours) spent on tax compliance into internal compliance costs ($). This method was finally adopted in the current project (Value of time decisions, email from Stuart Turner, IRD, 28/2/05).

The use of group averages stands in direct contrast to the major previous survey of business compliance costs in New Zealand (Sandford & Hasseldine, 1992). They multiplied the hours from each business by the valuations of time provided by the same business. They also mentioned checking reasonableness of such values against “statistics of wage rates and different occupations” (p11).

Strengths of using the individual respondent values

- correctly assigns higher values to people/businesses with higher hourly rates. In contrast, using group averages will understate the value of time for high-priced individuals (eg lawyers charging $400+) at the firm level.
if tax simplification enables businesses to delegate more tax work (previously done by owners or senior staff with particularly high values of time) to staff with lower hourly rates, this method might appear to be more likely to detect the change where using group averages might understate the change.

Weaknesses of using the individual respondent values

- greater risk of including unreasonably high values which may be inappropriately affected by respondents’ misunderstanding or intention to express irritation about tax.
- probably greater variability (standard deviations and margins of error) around compliance costs. Greater variability would make it more difficult to detect statistically significant differences when comparisons are made between groups or between years. This was a particularly important concern for this project because it sets a baseline for detecting change in future years.

One previous study reinforces concerns about greater variability if individual responses are used. Wallschutzky (1995, p280) did an in-depth study of 12 small businesses in Australia that included asking respondents for the estimates of their perceived opportunity costs at two different times. Responses below (see Table 3) from the first six participants listed demonstrate the unreliability of these responses over time. That is, the very same firm (presumably, the very same person in many cases) can provide remarkably different values (given a little time in between).

### Table 3: Perceived opportunity costs of time spent on tax compliance

<table>
<thead>
<tr>
<th>Participant</th>
<th>March 1992 $AUS/hour</th>
<th>November 1992 $AUS/hour</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>65</td>
<td>20</td>
</tr>
<tr>
<td>B</td>
<td>20</td>
<td>35</td>
</tr>
<tr>
<td>C</td>
<td>25</td>
<td>14</td>
</tr>
<tr>
<td>D</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>E</td>
<td>25</td>
<td>55</td>
</tr>
<tr>
<td>F</td>
<td>60</td>
<td>100</td>
</tr>
</tbody>
</table>

2.1.5 Person types

The ATAX questionnaire that served as the main starting point for our questionnaire design included six different person types working within the firm, each of whom might be assigned a different value of time. In sharp contrast, the Sandford & Hasseldine question used in New Zealand had only two

- proprietor and family, directors, partners, controllers
- other staff eg wages clerk, bookkeeper.

We chose to collect hours involved by three person types: owners etc; paid staff; unpaid friends or relatives. Restricting data collection to fewer person types than ATAX seemed easily justified because of our focus on small business—these businesses typically involve fewer different types of people with tax. Also, the Sandford & Hasseldine data showed that the majority of internal compliance costs in small businesses were associated with time spent by owners rather than employees.

Unpaid helpers are a particularly awkward person type with respect to valuation of time. First, they have no real market wage rate. Second, even asking businesses about the value of their time may prove particularly difficult for respondents. In particular, it may result in responses of $0. It is not immediately clear if these are valid
indications that the helper’s time really has no value, or a misunderstanding of the point of the question. Simply
including the $0 values into group averages biases results downwards (assuming the $0 values are fallacious).
But deleting the $0 responses probably biases results upwards, because it seems likely that the real value for
these respondents is lower than average. One ad hoc solution might be to replace $0 values with some
alternative (eg half the median of the other values) but this approach has not been justified elsewhere.

Two relevant comments from Australia may help.

Unpaid helpers are involved mostly in relatively small businesses that may not require tax
specialist skills. The research team has therefore adopted the approach of valuing business
taxpayer unpaid helpers’ time at the same rate as the average overall reported value for time
spent by the unpaid helpers of personal taxpayers ($12 per hour). (Evans et al, 1997, p19)
[However, p60 of Evans et al, 1996, suggests this is the 5% trimmed mean, whereas the mean
is $33.]

Considerable cost and effort has been wasted in trying to find some form of objective
measurement for individuals’ subjective values of their own leisure time. Precision is not
possible in any case and so researchers should avail themselves of the measures already
available. The type of data used by cost-benefit analysts in the public sector would be much
more useful. (Gurd & Turner, 2001, p71)

Benefit-cost calculations for road investments in New Zealand routinely use several different valuations of time.
Standard hourly values used by Transfund in 2001 included: car drivers (commuting) $7.42; car drivers (work
purposes) $22.58; urban public transport (seated) $5.57; pedestrian (commuting) $11.18 (Beca, Carter, Hollings
& Ferner, 2002, p1-4). Table 4 (following) shows the range of values of time from a variety of sources. Similarly,
diverse methods have been used for valuing taxpayer time. The following example illustrates the kinds of
pragmatic assumptions sometimes made.

In line with common practice, hours spent by the owners/manager have been valued at the
reported value, with corrections for extreme values. Time spent by the spouse or other unpaid
family members is valued at half this figure. Staff time is also valued at the reported value.
(Allers, 1995, p180)

Pope (1995) lists six different methods for valuing personal taxpayers’ time

- values reported by respondents
- values reported by respondents but subject to a maximum hourly rate (to remove unrealistic
  extreme values)
- what they would pay to be rid of the all compliance costs
- the usual hourly wage rates before tax
- the after-tax wage rates
- median value of reported values.

Pope (1995) concluded that valuation was simpler for businesses because relevant wage rates could apply.
Having instructed respondents to exclude overhead costs, he simply asked for ‘direct cost of time per hour’ in
dollars per hour for different labour cost categories (eg directors/managers, accounting/bookkeeping staff, legal
staff). In terms of questionnaire design, a brief instruction to exclude overhead may not be sufficient for many respondents. They may need an illustration of how an appropriate answer might be substantially less than charge-out rates they are familiar with.

Table 4: Values and methods from other sources

<table>
<thead>
<tr>
<th>Currency &amp; timing</th>
<th>Hourly values</th>
<th>Source</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£3.74 New Earnings Survey mean for general management</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>£4.74 New Earnings Survey upper quartile for general management</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$21.32 owner</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia 1990-91</td>
<td>$89 legal staff</td>
<td>Pope (1995, p118)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$45 directors/managers</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$19-24 other staff</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Australia 1995</td>
<td>Personal tax, unpaid helpers: mean $33, median $8, trim mean $12, minimum $0, maximum $1,000.</td>
<td>Evans et al (1996, p60)</td>
<td></td>
</tr>
<tr>
<td>New Zealand 2001</td>
<td>$22.58 value of travel time savings, car drivers (work purposes) used by Transfund</td>
<td>Beca, Carter, Hollings &amp; Ferner (2002, p1-4)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$16.75 value of travel time savings, heavy commercial vehicle drivers (at work)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$5.57 urban public transport commuting and non-work (seated)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$18.88 general accounts clerk</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$21.11 payroll clerk</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$30.00 degree qualified accountant (CA/CPA/CIMA)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$35.56 business services manager (0–2 years)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$72.22 business services principals/directors</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$21.11 payroll clerk</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$30.00 degree qualified accountant (CA/CPA/CIMA)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$35.56 business services manager (0–2 years)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$72.22 business services principals/directors</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Lessons**

When comparing compliance cost results from different studies, care is needed because quite diverse approaches to valuing time are justifiable and can have large impacts.

In future New Zealand questionnaires, consider whether clearer instructions (and illustrations) about excluding overhead are needed.

### 2.2 Cash flow benefits/costs

#### 2.2.1 Importance of cash flow benefits/costs

As an example, consider PAYE. A small employer will typically pay staff fortnightly but only be obliged to pass on the tax monthly. Hence the tax system delivers a benefit to that small employer—they keep hold of the PAYE component of pay from the time they pay staff through to the time they pay IRD (thus improving their cash
situation). For large employers, cash flow benefits can be larger than PAYE-related compliance costs (eg see Sandford & Hasseldine, p46). That is, for PAYE they have tax compliance benefits rather than tax compliance costs.

2.2.2 Early key decision about cash flow
During questionnaire design we had to decide whether or not to include questions that would help us to estimate cash flow benefits/costs to them. We had a precedent for each approach.

Sandford & Hasseldine (1992) included questions in their survey which they used to estimate cash flow benefits/costs (supplemented by external information such as an interest rate indicator). Their questions covered issues such as

- PAYE deductions for the previous year in $
- proportion of employees paid weekly, fortnightly, or monthly in $
- GST payment/refunds during the last complete 12 month period in $

In contrast, Evans et al (1997) based cash flow benefits/cost calculations on

- amount of tax revenue from each tax type (information supplied by the ATO)
- average duration of cash flow benefits (using assumptions documented on p51-57 of their report)
- an average annual interest rate (from the Reserve Bank of Australia).

2.2.3 Choice to use information from IRD vs from business survey
We decided to use IRD information instead of including cashflow questions in the business survey for four reasons

- it reduced the length of the questionnaire (and so reduced respondent burden)
- pretesting showed that some of the cash flow questions were awkward for respondents (particularly about proportion of staff or wages paid weekly versus fortnightly versus monthly versus other)
- Policy Advice Division already had extensive experience calculating such cash flow benefits/costs, and doing such calculations for precisely the businesses in our target population was feasible
- such results from IRD databases would be clearly more accurate than relying on survey responses and able to be reproduced comparably in future years.

To check on precisely the information needed and to check in advance that we would be able to obtain the values needed, we prepared a spreadsheet (cash flow1b.xls, 3/5/04). The first worksheet (Summary) outlines some extra details if these are required. The other worksheets outline illustrative calculations by tax type. These may be of no future use, but were done simply so that no data was overlooked that would be necessary to estimate cash flow benefit/costs for any tax type.
2.2.4 Measuring external costs (tax advisors)

Preliminary discussions with accountants suggested that substantial changes had happened and were happening in the balance of work between businesses and external advisors. For example, it was stated that after the introduction of GST many businesses initially left this to the accountant but as the years passed, businesses increasingly did most GST work themselves. A similar pattern may appear in response to many other tax policy changes. In addition, changes in computing and software were reported as having substantial effects.

It became apparent that the boundary between tax-related work completed in-house and by external advisors was sufficiently subject to change that accurate conclusions about the impact of policy changes would be difficult without dealing with this issue properly. For example, if a successful simplification enables businesses to replace costly tax advisor work by a little more work within the business, then simply measuring time taken within the business will wrongly show an increase in compliance costs.

However, measuring external costs, particularly those of tax advisors, proved problematic in this project. The initial scoping report did suggest a survey of tax advisors, but without specifying details of method or suggesting particular objectives (Evans & Tran-Nam, 2004). Nor did current policy objectives or current tax implication initiatives indicate seeing separate data collection from tax advisors as important. However, as main questionnaire design (for businesses) proceeded, unresolved issues around external costs became increasingly apparent.

2.2.5 External payroll costs

These were of potential interest because of the growth of online payroll services suitable for small businesses and IRD support for small business use of external payroll services. The final questionnaire asks about the costs of external payroll services, but does not ask businesses to attempt to deduct the tax-related component of this. If there is a subsequent need for an estimate of the tax-related proportion, we suggest that payroll firms are in a better position to provide an indication of this.

2.2.6 Measuring tax advice costs

The approach of simply asking businesses to split their external advisor costs by tax type was taken from Sandford & Hasseldine (1992). However, pretesting indicated that this was regarded as difficult or outright impossible by some businesses. In addition, this approach had met with some sharp criticism

> There have been several examples of researchers sampling clients in order to determine the average tax agent fees for categories of taxpayer and categories of tax work. This is almost like the ABS [Australian Bureau of Statistics] surveying consumers to ascertain grocery prices, rather than just visiting supermarkets and reading the prices off the shelves. (Gurd & Turner, 2001, p73)

A closer look at the Sandford & Hasseldine precedent showed two main types of data with differing levels of non-response

- yes/no questions about whether businesses used an external advisor for a particular tax type were generally well answered. However, it proved more difficult to gauge frequency of use, particularly in relation to income tax. This may be because many businesses will get advice on income tax only once a year (which seems perhaps ‘occasional’ rather than ‘regular’ in terms
of frequency) but will have been getting advice from the same advisor for several years at the same time (which may seem ‘regular/routine’)

- $ amount questions about external advice costs by tax type were less well answered, but still completed by most respondents.

Overall, the Sandford & Hasseldine approach had some problems, but appeared to have delivered a substantial amount of useful data very simply. Of course, the accuracy of some of the responses is open to question, both because of the possibly limited knowledge of the respondent, and also because these awkward kinds of questions may have led other businesses to not return the questionnaire.

The main problem was that an attractive alternative option was not readily apparent. In particular, we did not have a precedent available from Australia in the ATAX surveys (eg Evans et al, 1996). One useful precedent did come from Blazic (2003) who collected data in Croatia on external fees from the relevant business unit (about the fee paid to the accounting/bookkeeping office in total) and then asked the accounting/bookkeeping office used to estimate how much of the stated amount referred to tax compliance work. Their use of a face-to-face approach apparently kept consent-related problems with such a two-stage process down to a reasonable level.

We also had concerns that the difficulty of asking detailed questions about external tax costs could reduce response rate overall to the main business survey. Hence, we actively scoped alternative approaches. Key points are

- **size** - external advisor costs are substantial, around 33% of total business compliance costs (Sandford & Hasseldine, 1992). A similar pattern holds in Australia, as advised in our scoping report (Evans & Tran-Nam, 2004, p8)

- **accountants can respond accurately if asked.** Discussions with two accountants confirmed that accountants will typically be able to provide accurate breakdowns by tax type, even when bills are not itemised (the lack of itemisation limited the knowledge of their clients with respect to splits by tax type). This is because they typically record time spent accurately (eg using handy codes for different activities in a system such as MYOB) even though this detail is not provided on the bill that the client receives

- **with current objectives, a separate survey of tax advisors was only really helping to improve the quality of four numbers:** the split of total tax advisor costs by tax type (GST, income tax, PAYE, FBT)

- **a wide range of options was considered, without any particularly standing out as the best way to proceed.** Options considered (and listed with pros and cons) included

  - **Nothing.** Don’t ask businesses or tax advisors
  - **Biz only.** Ask businesses only, not tax advisors
  - **Accountants unlinked.** Random sample tax agents (perhaps in proportion to the number of SME clients they have listed) and ask them
  - **C1 (linked).** Accountants Direct 2+. Ask tax advisors wherever businesses surveyed claim tax advice for more than one tax type. Get businesses to give consent and address of advisor in main questionnaire
  - **C2 (linked).** Accountants Direct (even 1 tax). Ask tax advisors wherever businesses surveyed claim tax advice
Hybrid: Biz & Accountants Direct. Mixture of options B and C. Only ask businesses for consent to approach tax advisors and address IF they feel unable to provide a reasonable breakdown themselves.

E (linked). Accountants by forwarding. Include tax advisor questionnaire and unsealed envelope for the businesses to forward. Sub-options - as for direct approach but might consider whether instruction should be to forward

(a) wherever there are external tax advice costs, or
(b) wherever there are any difficulty estimating external tax advice costs, or
(c) only if 2+ tax types.

In the end, we decided to have a separate survey of tax advisors linked directly to the businesses in the main survey (that is, we asked tax advisors to provide the costs of the firm sampled in the main survey). Naturally, this required consent from the sampled business. Unfortunately, only 37% of the sample businesses with external tax advisors who completed the main questionnaire gave their consent. Combined with a response rate of 50% by the accountants approached, only a relatively small number of completed questionnaires from tax advisors was received (275, 18% of those reporting external tax advisors). Of course, many businesses only pay for tax advice for one tax type (income tax) and thus their own response concerning the external advice costs is probably acceptably accurate.

Because the low response rate was such a concern, we considered re-asking the non-consenting businesses to reconsider us approaching their agent. Specifically, we considered sending them the agent questionnaire (so that they could see how short it was and what it asked) and a stamped envelope that they could choose to forward to their agent. However, in the interests of not burdening businesses further and in respecting their first response, it was decided not to follow this option. Note that all businesses had a minimum of three contacts from us and some had up to five contacts.

This project has gained useful data and experience from surveying tax advisors. The data from the tax advisor survey is useful for indicative estimates of the proportions of external advice costs associated with each tax type. Beyond this core practical objective, it also provided data of international interest with respect to

- consistency between business estimates and external advisor estimates of total tax-related costs (we asked both businesses and advisors about the total)
- consistency between business views and advisor views on whether or not the advisor would still be used to do annual accounts if New Zealand were tax-free (which contributes to understanding of the accounting/taxation overlap problem).

Lessons

Splitting external advice costs by tax type remains an awkward area for compliance cost measurement. Given that external advisor costs are a large proportion of total business compliance costs, more detailed attention should be paid to them in future research. Of particular interest are influences (eg technology) or policy initiatives causing businesses to reassign tasks from internal to external or vice versa.

The current work has established a very useful base of data and experience for good planning of data collection about external costs if required in future years. Because of low rates of consent by businesses (to sending a brief questionnaire to their tax advisors), we do not see the survey approach taken this time as suitable for later repetition.
2.3 Evaluating initiatives against baseline

This project provides baseline measurements for estimating the impact of policy changes in the future. During design, we aimed to keep this in mind (to the extent that it is possible to accurately anticipate future needs). For example, questionnaire wording was designed to be robust to changes over time where possible by avoiding terms or classifications likely to change soon.

2.3.1 Sampling and panel designs

At the scoping stage, panel designs were briefly discussed (ie matching responses from a business now, with the very same business in a couple of years). Panel design should lead to substantial gains in accuracy. However, we did not work through these options rigorously, because objectives likely to be central in future years were not sufficiently clear-cut as to justify time-consuming preparatory work (eg statistical calculations for sample sizes). Rough calculations suggested that the size of benchmark survey required if a panel design was to be relied on throughout the following decade would be excessively large (ie outside feasible budget).

In addition, changes in the size and success of the firm over time may well have confusing effects on compliance costs when measured over time. For example, a firm’s compliance costs may substantially increase because they have successfully doubled in size. Ideally, we would like to know the impact of changes in tax policy for businesses of similar size, experience, and so on.

Implications

Sound statistical planning will be vital for the next survey. Appoint an excellent statistician early in the project to advise on overall study design. The statistician needs to be sufficiently experienced to weigh up options such as panel designs, rolling samples, and independent groups, in response to the policy objectives relevant at the time. A distinctly high level of technical expertise will be required because sample size calculations will need to take account of both the weighting/stratification of the sample in the 2005 project, as well as the use of measures resistant to extreme values such as trimmed means.

Subgroups are vital for planning sample sizes required. The total sample size is not necessarily informative about the value of a sample for policy purposes. Rather, one needs to know the size of policy-relevant subgroups such as FBT payers, employers with 1-5 staff etc.
3 Project management

3.1 Content-area expertise and survey skills

Compliance cost surveys are unusually demanding with respect to both content area expertise and survey skills. Content area expertise can be further split into two major components:

- conceptual knowledge specifically about tax compliance cost research
- more practical knowledge of the organisation’s (in this case IRD’s), databases and requirements.

Balancing these skills requires careful management. Experience during this project provides some practical pointers.

The initial RFP in 2003 recognised the unusual balance required at the outset by listing five organisations with ‘compliance cost subject matter expertise’ while also requiring involvement by one of the department’s established suppliers of market research fieldwork.

The supplier of subject matter expertise subsequently appointed to coordinate scoping and early design probably had the least subject matter expertise of the five listed, but strong survey skills to compensate. So it was important that others working on the scoping part of the project be strong on conceptual matters. The commissioning of ATAX and delivery of their scoping report (Evans & Tran-Nam, 2004) clearly helped to balance skills and minimised the risks that could have resulted from insufficient subject matter expertise at the very start.

In hindsight, it would have been good to have also reduced risk of later questionnaire design weaknesses by involving ATAX in a review of the final questionnaire.

Later, as the project became more focused on fieldwork, it remained important not to lose sight of fundamental conceptual issues:

- issues covered during scoping (eg definition of ‘small’ businesses) had to be translated into operational terms using IRD databases (the province of IRD staff, not external advisors)
- care was required to ensure that the many changes made during questionnaire drafting/pretesting/piloting did not introduce serious flaws in terms of content matter.

3.2 Integration

The second external advisor selected had substantial practical experience with compliance cost surveys in addition to a core-strength in accounting and compliance cost research. The two external advisors involved had sufficient understanding of each other’s perspective to work together smoothly and take appropriate account of each other’s strengths and weaknesses. The underlying issue here is integration—it is not sufficient merely to have strength in both the fundamental areas within the team, because integration of both perspectives is necessary for success.

In hindsight, one failure of integration occurred during piloting. This led to many of the ‘short’ income tax only questionnaires being non-usable. Although this problem may have been partly due to chance factors such as the absence of key staff, we could have reduced the risks of this kind of problem more by ensuring that others with content area expertise viewed the pilot questionnaires to detect possible problems. Even if confidentiality
problems excluded IRD staff from sighting questionnaires, an hour with the pilot questionnaires (or photocopies) by the external advisors would have been good risk management.

Integration is particularly awkward to achieve with complex projects requiring multiple skill types. This is because good solution of problems (sound in terms of both concept and survey approach) often cannot be achieved simply by an advisor doing most of the work and taking brief advice occasionally from someone with balancing expertise. Instead, prolonged and in-depth involvement from experts with strengths in the various areas relevant is required.

For example, from the perspective of a survey specialist, the existing tax compliance cost survey literature has suffered lasting quality problems (in questionnaire design, survey implementation, and analysis) because of the failure of the content matter experts to involve survey specialists deeply enough. Furthermore, although tax compliance cost conferences have devoted a remarkable amount of careful attention to survey-related problems, improvements have been unnecessarily slow. A root cause may be the lack of deep involvement by a survey specialist. This is not at all arguing against Content matter experts having taken the lead in early compliance cost surveys. (Indeed, perhaps, and our project has run the risk of too much survey expertise at the expense of content area expertise.) But the survey implementation problems with compliance cost research are deceptively deep and will not be solved by simply consulting introductory survey texts, or by brief involvement of survey specialists, or by simple reliance on market research companies to do fieldwork.

**Lessons**

In project management, take particular care to achieve balance between content matter and survey skills appropriate to each stage.

Do not overlook the additional difficulties of sound integration between major areas of expertise (compliance cost research, IRD systems and processes, survey design and analysis). A surprising amount of depth and/or cross-checking is required in each other’s field of expertise for sound integration. Hence it is advisable to engage or develop people with substantial overlap in the three areas of expertise.
4 Main conclusions

4.1 Total compliance costs

Previous major tax compliance cost surveys generally focused on estimating total tax compliance costs. This project does not. The practical objective of assessing impact of tax policy changes led us to move the focus of this project to be slightly different. In particular, we excluded audit costs from key internal estimates of time and cost, and we further minimised the impact of extremely high but rare compliance costs by emphasising trimmed means rather than ordinary means. A practical result is that we will generally need to avoid using phrases such as ‘total compliance costs’ to describe results.

4.2 Design lessons learnt

The questionnaire design process delivered several lessons relevant to future work in this area:

- never underestimate the amount of pretesting required with compliance cost surveys
- do not be tempted to trust questionnaire design precedents from previous compliance cost surveys too much (even if local)
- quantifying external costs (e.g., splitting fees paid to external accountants by tax type) remains an awkward area for compliance cost measurement. For future surveys, we do not recommend the approach to collecting tax advisor costs taken this time, unless some way of ensuring a higher consent rate can be devised (because of low rates of consent by businesses)
- given that external advisor costs are a large proportion of total business compliance costs (around 33%), we recommend paying careful attention to this area in future research. In particular, we should remember to take account of technological change in considering whether policy initiatives might cause businesses to reassign tasks from internal to external or vice versa. The current project has established a very useful base of data and experience for good planning of data collection about external costs if required in future years.

4.3 Response rates

Response rates for large-scale mail surveys of business compliance costs have typically been low (30-40%). However, a substantial body of evidence from large-scale experiments shows that distinctly high response rates can be achieved with mail surveys. Unfortunately, this evidence has not traditionally been used well, in relation to tax compliance cost surveys. By removing the damaging effect of the unusual consent/opt out letter sent to potential respondents at the very start of this project, response to the remainder of our process suggests that response rates around 50% are feasible.

To achieve response rates of around 50% with future compliance cost survey, we should

- reconsider whether getting consent to link IRD database information is really worth the cost in response rate. Consider if it is feasible for IRD to handle all mail-outs directly, including a pre-notice letter a few days before the first questionnaire, a reminder postcard, and subsequent reminders
• again use separate questionnaires for large subgroups, for which many of the standard questions are irrelevant (eg income tax only). Special care is needed where confusion may be possible between individual tax affairs and those of related businesses (eg IR 3 taxpayers with business income)

• greater use of telephone (eg for reminders) should be considered because this proved successful in increasing response rate. But the cost effectiveness may still be arguable

• again use an appropriate token incentive (like the highlighter pen with Post-it flags used this time). A randomly split sample would be ideal to measure the impact of this incentive.

4.4 Planning and project management of future surveys on this topic

Sound statistical planning will be vital at the start of planning for the next survey. The statistician involved needs to be sufficiently experienced to weigh up options such as panel designs, rolling samples, and independent groups, in response to the policy objectives relevant at the time. A distinctly high level of technical expertise will be required because sample size calculations will need to take account of both the weighting/stratification of the sample in the current project as well as the use of resistant measures such as trimmed means.

Take particular care to achieve balance between content matter expertise and survey skills appropriate at each stage. Do not overlook the additional difficulties of integration between major areas of expertise (economics/accounting/tax policy, IRD systems and processes, survey design and analysis). That is, explicitly consider engaging or developing people with substantial overlap in the three areas of expertise.
Appendix A: References


Evans, C & Tran-Nam, B. 2004. The tax compliance costs of small and medium-sized businesses, for Inland Revenue.


IBM. 2003. Individual taxpayer burden model—project documentation, for Internal Revenue Service.

Inland Revenue Department, New Zealand (April 2003), Research Assignment to Measure Tax Compliance Costs of Small and Medium-Sized Businesses, Ref: IR/2003/14/NPU/T, Wellington: IRD.


Slemrod, J & Venkatesh, V. 2002. The income tax compliance cost of large and mid-sized businesses; a report to the IRS LMSB Division.


Appendix B: Business information supplied by IRD to reduce questionnaire length

1. Your legal form (company, partnership, trust etc)

2a. Size - turnover band (eg $100,000-$250,000 or $5 million-$10 million etc)

2b. Size - employee numbers (typical number per month over the last 12 months, and the maximum number in any of the last 12 months)

3a. Commencement date

3b. Commencement dates - earliest registration, first date of registration INC/PAYE/GST/FBT

3c. Commencement dates - transition indicators Y/N, GST/PAYE registration > 1/4/2003

4. Provisional tax option used (standard +5% or estimation)

5. Filing method for EMS (paper, web, file transfer)

6a. GST basis (invoice or payments or hybrid)

6b. GST filing frequency (monthly or two-monthly or six-monthly)

7. Whether your GST payment date aligned with your balance date

8. Main activity type (agriculture or retail or manufacturing etc)

9. Use of a tax agent

10. Whether multiple sites are recorded for your business

11. List of tax types (registered)

12. Indication of child support payments (Q15 from Questionnaire 4a)

13. Indication of audit activity (Q19 from Questionnaire 4a)

14. Value of zero-rated supplies (GST return IR 101 2002 - box 6, [Zero_Rated_Supplies_1202])

15. RIT bands for companies (IR 4)
Dear Sir/Madam,

This survey will help reduce business tax compliance costs
The Inland Revenue Department (IRD) is committed to reducing your tax compliance costs. By tax compliance costs, we mean the time, money and effort your business spends in meeting IRD’s tax requirements. To help IRD reduce these costs, Colmar Brunton has been asked to conduct this very important survey. This will help IRD report to Government on the impact that future initiatives and law changes have on compliance costs. The research will help IRD to do the right things to reduce compliance costs for businesses.

Who should complete the survey?
The questionnaire should be completed on behalf of the business (or person with business income) to which the envelope is addressed. If the envelope is not addressed to a named person, the person within your business who mostly deals with tax matters should complete the survey.

Please ignore all related business entities, such as subsidiaries or holding companies.

If your business has more than one site, please ensure your answers include estimates for all sites (in total – you don’t need to provide separate estimates per site).

You can answer all the questions without needing to consult tax advisors outside the business.

As a small token of appreciation for your help with the survey, we enclose a highlighter pen with Post-it flags. This may also be useful to mark questions if a second person is needed to answer a few of them.

Your input is confidential
IRD will not know who responded to the survey and only anonymous information will be passed back to IRD. Colmar Brunton is an independent research organisation.

We will give you the results
We will send you a summary of the research results on completion of the project.

Any questions?
If you do have any questions about this survey, you can either call Colmar Brunton on freephone 0508 265 627 (and ask to speak to someone on the tax research team), or IRD on 0800 833 445 (this is a special line set up to answer questions about this survey).

What to do when you’re finished
There is a reply paid envelope enclosed with this questionnaire. Once you have completed your questionnaire, please put it in the envelope and post it back to Colmar Brunton by Friday, 19 November 2004.

Thank you very much in anticipation of your input.

Yours faithfully

The tax research team
Colmar Brunton
Many questions ask you to provide information about “the last 12 months”. If you cannot easily estimate this, please use the most recent 12 month period possible (e.g. perhaps your last tax year).

You can answer all the questions without needing to consult tax advisors outside the business.

This form should be completed on behalf of the business (or person with business income) to which it is addressed. Please ignore all related business entities, such as subsidiaries or holding companies.

If your business has more than one site, please ensure your answers include estimates for all sites (in total – you don’t need to provide separate estimates per site).

IRD will not know who responded to the survey and only anonymous responses will be passed back to IRD.

1. Which of the following taxes did this business organisation pay or complete a return for during the last 12 months? Include taxes where your accountant/tax advisor completed the return for you.
   - GST (tick only if you are GST-registered)
   - Income tax (including provisional tax)
   - PAYE
   - Fringe Benefit Tax (nil return only)
   - Fringe Benefit Tax (including some payment)
   - SSCWT (Specified Superannuation Contribution Withholding Tax). If you are one of the few businesses to pay SSCWT, please ignore it throughout this questionnaire.

2. Is this organisation a charity or not-for-profit organisation?
   - No
   - Yes, and we are not exempt income tax
   - Yes, but we are not exempt income tax
   - Other (please describe)

3. How many owners who work in this business at the end of last month were:
   - Full time – usually working 30 hours or more per week
   - Part time – usually working less than 30 hours a week

4. How many employees in this business at the end of last month were (excluding owners):
   - Full time – usually working 30 hours or more per week
   - Part time – usually working less than 30 hours a week
   - Casual
   - Temporarily absent from work (e.g. sick, on leave or strike or temporary layoffs etc)
   - Working for commission, unless registered for GST
   - Managerial staff (excluding working proprietors)

5. How does the business process staff wages? This question is not about PAYE.
   - Tick as many as apply
   - Not applicable – no staff
   - Paper-based/manual (used in-house)
   - Computerised payroll or accounting software (used in-house)
   - Other computing used in-house (e.g. spreadsheet)
   - External (e.g. bureau/Internet payroll service)

6. What type of accounting system does this business use for GST?
   - Tick as many as apply
   - Not applicable – not GST-registered
   - Paper-based/manual (used in-house)
   - Computerised accounting software (used in-house) such as MYOB, NZA Gold
   - Other computing used in-house (e.g. spreadsheet)
   - External

   Only answer the question below if you use computerised accounting software (in-house) such as MYOB, otherwise go to Q8.

7. Imagine for a moment that New Zealand was tax-free: do you think that you would still use computerised accounting software? Assume that the costs of buying and updating the software remain as they are now.
   - Tick one only
   - Definitely yes
   - Probably yes
   - Unsure
   - Probably not
   - Definitely not
   - Not applicable

8. Have you had an IRD tax audit during the last 12 months?
   - No Go to 9
   - Yes

   If YES: Please estimate the time and costs as a result of the tax audit.
   - Hours within the business
   - External costs (e.g. fees to accountant outside the business), but excluding any change in tax liability or penalties

   Please exclude the time and cost associated with IRD tax audits throughout the rest of this questionnaire.
**PLEASE READ:** Tax compliance costs are the time, money and effort your business spends in meeting IRD tax requirements. Many activities occur because you are in business, but are not tax compliance costs. The following are not tax compliance costs, nor is paying for advice about them:

- Processing customer invoices/cash received
- Following up debtors
- Banking
- Paying bills and wages
- Checking bank statements against cash records
- Stock control
- Investment planning unrelated to tax

Please consider only the extra work necessary to meet the requirements of IRD in answering the rest of the questionnaire.

<table>
<thead>
<tr>
<th>Question</th>
<th>Options</th>
<th>Instructions</th>
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<tbody>
<tr>
<td>10a</td>
<td>Did the business pay for any <strong>tax</strong> services in the last 12 months from an advisor outside the business (e.g. an accountant, tax agent or lawyer)?</td>
<td>1. No [Go to 12a] 2. Yes</td>
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<tr>
<td>10b</td>
<td>If YES, how much did you pay these advisors because of tax?</td>
<td>$</td>
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<tr>
<td>10c</td>
<td>If YES, how much did you pay these advisors other than your main tax advisor?</td>
<td>Roughly, how much of this cost for tax advisor(s) other than your main tax advisor resulted from each tax?</td>
</tr>
<tr>
<td>11</td>
<td>Imagine for a moment that New Zealand was tax-free: would you still pay your external accountant/advisor to do your annual accounts?</td>
<td>Tick one only</td>
</tr>
<tr>
<td>12a</td>
<td>Did the business pay for any external payroll services in the last 12 months?</td>
<td>1. No [Go to 13a] 2. Yes</td>
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<tr>
<td>12b</td>
<td>If YES, about how much did you pay in total?</td>
<td>$</td>
</tr>
<tr>
<td>13a</td>
<td>Imagine for a moment that New Zealand became tax-free: would you still pay for these external payroll services? Assume the cost remains the same.</td>
<td>Tick one only</td>
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</table>

Name: ____________________________
Postal address: ____________________________
In answering this question:

- Please estimate the average hours per month within this business spent on tax activities during the last 12 months. Some taxes are dealt with only once or twice a year; please include this time on a monthly basis (e.g. if you spent 12 hours on end-of-year income tax count this as 1 hour per month).
- Include time spent by owners/partners/directors/trustees, paid employees, and unpaid friends or relatives.
- Only count hours once (e.g. if you count some hours beside the heading “Recording information needed for tax”, do not count the same hours beside “Calculating tax, completing tax forms, paying tax”).
- If no time was spent on a particular activity, please write in ’0’ or a dash (-). If the tax type does not apply to your business, you can cross out the column.

<table>
<thead>
<tr>
<th>GST</th>
<th>Income Tax, including provisional tax</th>
<th>PAYE, including child support, student loans, ACC levy</th>
<th>Fringe Benefit Tax</th>
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</table>

Recording information needed for tax (e.g. GST amounts, employee tax codes). To work this out, imagine New Zealand became tax-free. Consider what you would stop recording and write down how much time you would save.

<table>
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<tr>
<th>Calculating tax, completing and filing returns, paying tax</th>
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Dealing with IRD (e.g. letters, phone calls, visits, email)

<table>
<thead>
<tr>
<th>Tax planning (e.g. for losses)</th>
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</table>

Dealing with tax advisors (including providing information to them)

<table>
<thead>
<tr>
<th>Learning about tax laws (new or existing) e.g. from newsletters, Tax Information Bulletin, the Internet</th>
<th></th>
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</table>

Other tax activities (please describe)

<table>
<thead>
<tr>
<th>Total hours per month (on average)</th>
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<th></th>
<th></th>
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</thead>
</table>
13b Now, please tell us how the time you recorded in Q13a was divided across different people. In answering this question:

- Please estimate how many **hours per month** the following **people** within this business spent on the taxes below during the last 12 months. The total for each tax should be about the same as for question 13a.
- For taxes which are dealt with only once or twice a year, please include this time on a monthly basis (e.g. if you spend 12 hours on end-of-year income tax count this as 1 hour per month).
- If there is more than one person in a category, provide the total number of hours for all the people in that category.
- If no time was spent on a particular activity, please write in ‘0’ or a dash (-). If the tax type does not apply to your business, you can cross out the column.

<table>
<thead>
<tr>
<th></th>
<th>GST</th>
<th></th>
<th>Income Tax, including provisional tax</th>
<th>PAYE, including child support, student loans, ACC levy</th>
<th>Fringe Benefit Tax</th>
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<tbody>
<tr>
<td>Owners/Partners/Directors/Trustees</td>
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<tr>
<td>Paid employees (e.g. clerks, managers, internal accountants, IT staff)</td>
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<tr>
<td>Unpaid friends or relatives</td>
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<tr>
<td><strong>Total hours per month</strong> (on average)</td>
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</table>

**Please Check:** Are the totals immediately above similar to the totals for question 13a?

- ☐ Yes
- ☐ No

💬 If not, please check and adjust

---

14 Time spent on the above activities is valuable. What was the approximate value of this time for each group of people?

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<tbody>
<tr>
<td>Owners/partners/directors/trustees</td>
<td>$</td>
<td>per hour</td>
</tr>
<tr>
<td>Paid employees</td>
<td>$</td>
<td>per hour</td>
</tr>
<tr>
<td>Unpaid friends or relatives</td>
<td>$</td>
<td>per hour</td>
</tr>
</tbody>
</table>
### Internal Time/Costs/Background

#### 15. During the last 12 months, did your business employ staff paying child support?
- **No**  Go to 16
- **Yes**

  *If YES: In Question 13 you estimated the hours per month spent on PAYE. On average, about how many of those hours were spent dealing with child support?*
  - **hrs**  **mins per month**

#### 16. During the last 12 months, did your business employ staff repaying student loans?
- **No**  Go to 17
- **Yes**

  *If YES: In Question 13 you estimated the hours per month spent on PAYE. On average, about how many of those hours were spent dealing with student loans?*
  - **hrs**  **mins per month**

#### 17. During the last year, how many hours within the business were spent on...

  a. Calculating provisional tax and deciding which provisional tax option to choose (i.e. standard option [+5%] versus estimation/estimating income)
  - **None**
  - **hrs**  **mins per year**

  b. Tax activities for depreciation and adjustments for fixed assets, valuing stock
  - **None**
  - **hrs**  **mins per year**

  c. Other end-of-year tax adjustments (e.g. amounts owed to you/by you)
  - **None**
  - **hrs**  **mins per year**

#### 18. Some entertainment expenses are only 50% deductible and also require a related GST adjustment. Did this business spend time during the last 12 months dealing with the 50% deductibility and GST adjustment required for such entertainment expenses?
- **No**
- **Yes**

  *If YES: roughly how much time?*
  - **hrs**  **mins per year**

#### 19. Were there any other unusual things during the last 12 months that resulted in your tax compliance costs being unusually high or unusually low (for a business of your size)?
- **No**
- **Yes**

  *If YES: please describe briefly:*

#### 20. Please estimate the turnover of the business for your last tax year (excluding GST).

  *Tick one only*

  1. **$0**
  2. **$1 - $19,999**
  3. **$20,000 - $39,999**
  4. **$40,000 - $99,999**
  5. **$100,000 - $249,999**
  6. **$250,000 - $499,999**
  7. **$500,000 - $1,299,999**
  8. **$1.3 million - $4,999,999**
  9. **$5 million - $9,999,999**
  10. **$10 million - $49,999,999**
  11. **$50 million - $99,999,999**
  12. **$100 million or more**
Background Questions

21. What is the main activity of the business?
   Tick one only
   1. Agriculture, forestry and fishing
   2. Mining
   3. Manufacturing
   4. Electricity, gas and water supply
   5. Construction (incl. landscaping and all activities involving construction) and repair of buildings
   6. Wholesale trade
   7. Retail trade
   8. Accommodation, cafes and restaurants
   9. Transport and storage
   10. Communication services
   11. Finance and insurance
   12. Property and business services ("business services" incl. lawyers, accountants, architects, engineers, etc.)
   13. Education
   14. Health and community services
   15. Cultural and recreational services
   16. Personal and other services ("personal services" incl. photographers, hairdressers, laundries, gardeners, lawn mowing)
   17. Other (please describe)

22. About how long has this business/organisation been trading?
   Tick one only
   1. Less than 6 months
   2. 6 months but less than 1 year
   3. 1 – 2 years
   4. 3 – 5 years
   5. 6 – 10 years
   6. More than 10 years

23. Overall during the last 12 months, how stressful did you find meeting IRD requirements (ignoring finding the money)?
   Please circle one number
   Not at all Stressful 1 2 3 4 5 6 7 9
   Extremely Stressful
   N/A

24. During the last 12 months, how stressful did you find meeting requirements for GST, including finding the money?
   Please circle one number
   Not at all Stressful 1 2 3 4 5 6 7 9
   Extremely Stressful
   N/A

25. During the last 12 months, how stressful did you find meeting requirements for provisional tax, including finding the money?
   Please circle one number
   Not at all Stressful 1 2 3 4 5 6 7 9
   Extremely Stressful
   N/A

26. During the last 12 months, how stressful did you find meeting requirements for PAYE, including finding the money?
   Please circle one number
   Not at all Stressful 1 2 3 4 5 6 7 9
   Extremely Stressful
   N/A

27. During the last 12 months, how stressful did you find meeting requirements for Fringe Benefit Tax, including finding the money?
   Please circle one number
   Not at all Stressful 1 2 3 4 5 6 7 9
   Extremely Stressful
   N/A

28. Who answered the last five questions about how stressful tax activities are?
   Tick as many as apply
   1. Owner/partner/director/trustee
   2. Manager
   3. Internal accountant or lawyer
   4. External accountant or tax advisor
   5. Clerk or IT staff
   6. Unpaid friend or family member
   7. Other (please specify)
Would you like a summary of the results of this survey?

☐ Yes
☐ No  Go to 30

If YES, to help us get this summary to you next year, please provide us your name, and any corrections needed to the mailing address we used. (This information will remain confidential to the Colmar Brunton research team, and will not be given to IRD).

Name:

Email address, or corrections to mailing address:

In a few cases, it may be important for us to briefly check on key answers to this questionnaire. We would appreciate your first name and telephone number to help with this. (This information will remain confidential to the Colmar Brunton research team and will not be given to IRD).

First name:

Telephone number:

( 0 )

Please use this space to make any comments that you feel would be helpful to understand your answers.

Thank you