



Reducing compliance

Public practice accountants are in a Catch-22 situation with respect to tax compliance.

COMPLIANCE IS BOTH a curse and a blessing. It places a burden on clients, but also generates work for public practice accountants.

Because of that, the feedback on NZICA's recent proposals on tax simplification for small businesses was mixed.

Some accountants thought the proposals were great and others were worried about the impact those changes might have on their income. (See the revised proposals at smetax.co.nz.)

The Inland Revenue Department (IR) has just released two reports on the tax compliance costs for New Zealand small and medium enterprises (SMEs).

The first report summarises results from a 2009 survey of 1,700 businesses and 350 tax agents.

The second report compares the 2009 results with the outcomes of a 2004 survey.

The purpose of the two reports is to help the department decide whether changes to the tax system have helped SMEs and identify opportunities for further improvements.

Three further reports related to SME compliance are still to be released.

Key results from the IR surveys follow.

- The average compliance costs for all SMEs in 2009 (both internal and external) were \$5,557.
- The average internal compliance cost was \$3,995 (calculated by multiplying the hours involved by a standard hourly charge rate).
- The average external compliance cost was \$1,639.
- 80% of SMEs surveyed used a tax adviser (the average external costs for the

businesses which had an adviser was \$2,184).

- External compliance costs in actual dollars were virtually the same in 2009 as they had been in 2004. Because of increasing costs this is a significant decrease in real terms.
- The average number of internal hours spent on tax compliance was 77. This ranged from 52.1 hours for the 53% of businesses with no employees to 159.8 hours for the 2% of businesses with 20 or more employees.
- Between 2004 and 2009 the average number of internal hours spent on compliance dropped by 16.3 hours per year (a 17.5% decrease).

According to the IR: "The many changes over recent years in tax policy and administration, whether aimed specifically at reducing the burden of tax where this is consequential, are designed in ways to affect small but cumulative changes to minimise compliance costs. The reduction in time could well be the accumulation of the many improvements over the five years. The evidence at hand shows that seems to be happening."

The IR needs to consider the impacts of the systems used by accountants including BankLink. One third of the internal compliance time saved is probably due to the increased uptake of BankLink between 2004 and 2009.

The IR also found that the compliance cost as a proportion of turnover is much higher for very small businesses.

The graph at left shows how the compliance burden falls unfairly on the country's micro-businesses. It also displays how the tax compliance process for micro-businesses should be simplified.

The Institute's proposal is certainly a step in the right direction. ■

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