



**SUMMARY REPORT OF THE
BUSINESS NEW ZEALAND – KPMG COMPLIANCE COST SURVEY**

October 2007

1. INTRODUCTION

This report provides summary results of the fifth annual survey on business compliance costs conducted by Business New Zealand in conjunction with KPMG.

The Business NZ-KPMG compliance cost survey seeks to measure the costs of complying with legislative and regulatory requirements as well as respondents' perceptions of changes in the compliance burden and the helpfulness or otherwise of central and local government agencies.

While the survey measures the amount of time spent within the business and the cost of any external advice in coping with compliance requirements, it is important to emphasise that it does not measure levels or changes in the actual costs of doing business.

Compliance costs are the *administrative* and *time* costs of complying with legislation (e.g. the time and resources involved in working out tax or holiday payments) as opposed to the *substantive* costs imposed by legislation (e.g. the amount of tax to be paid or the amount of holiday pay to be paid.)

The survey has already become a key tool used by the private sector and Government to gain a snapshot of the business community's priorities for action on compliance costs. Now that the survey has been running for five years, a sufficient time series of results shows not only where perceptions of compliance costs create the largest issues for businesses, but also in-depth information regarding the monetary costs of compliance, especially when broken down by numbers employed in an enterprise.

The 2007 survey represents the second time in which a major piece of legislation has been introduced where the compliance cost effects on businesses can be compared on a 'before and after' basis. The official introduction of KiwiSaver in July 2007 as a generic work based superannuation scheme open to all employees and compulsory for all employers to provide has meant the issue of compliance cost priorities and trends for 'employer based superannuation schemes' has increased significantly. This in itself is no surprise as all businesses have to take at least some measures to understand and comply with administering the scheme. However, announcements by the Government in the 2007 Budget regarding further changes to KiwiSaver that are still before the Select Committee have created significant uncertainty about the scheme in the future. Therefore, survey results in upcoming years will provide further clarification regarding how successful the Government has been in minimising KiwiSaver compliance costs for businesses. In addition, the 2007 survey also asked respondents about the overall helpfulness of Government with the scheme, which provides interesting insights when broken down by FTE size group.

Regarding other aspects of the 2007 survey, it is again important to note that the increased number of responses from smaller businesses, in addition to the drop in the number from large businesses, means the sample of respondents' quantifiable results need to be interpreted with care. Therefore, when interpreting the change in values, it is

important to focus on the average FTE cost by size of enterprise, which is not as strongly influenced by the make-up of respondents from year to year. Overall, it is encouraging to see that for 2007 average total costs decreased for four of the six FTE groups compared with 2006.

The results of the 2007 survey also indicate an overall increase in cost perceptions, although the extent of the increase in compliance costs continues to fall, with an overall 'modest increase' in 2007, compared with a 'large increase' in previous years. However, it was disappointing to see the Holidays Act experience a rise in the level of perceived compliance (probably due to the four week annual leave provisions being introduced in April of this year), and it remains the leading compliance trend issue.

Our rankings of local and central Government agencies regarding perceived helpfulness show the New Zealand Companies Office remain the most helpful Government agency, claiming the top spot for the five years the survey has been running. We also note that the Environmental Risk Management Authority (ERMA) has significantly improved its ranking in 2007, after being ranked last (or close to last) for the previous four years.

Lastly, Business NZ and KPMG decided to summarise the various central Government developments regarding ways to reduce compliance costs for businesses over the last year and looking forward into 2008. This was done via an official information request to the five Government agencies that typically have the greatest contact with businesses. Overall, we view many of these initiatives as useful steps forwards, although there is still room to concentrate actions towards the significant compliance cost priorities as outlined in our survey that cause the most problems for business.

We would like to take this opportunity to express our great appreciation to the 1,334 survey respondents for the valuable time they made available to complete the survey and for providing their insights on compliance issues. Also, we would like to thank the industry associations and organisations that assisted in obtaining responses from their members.

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Chief Executive
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National Chairman
KPMG

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2. RESPONDENT PROFILE

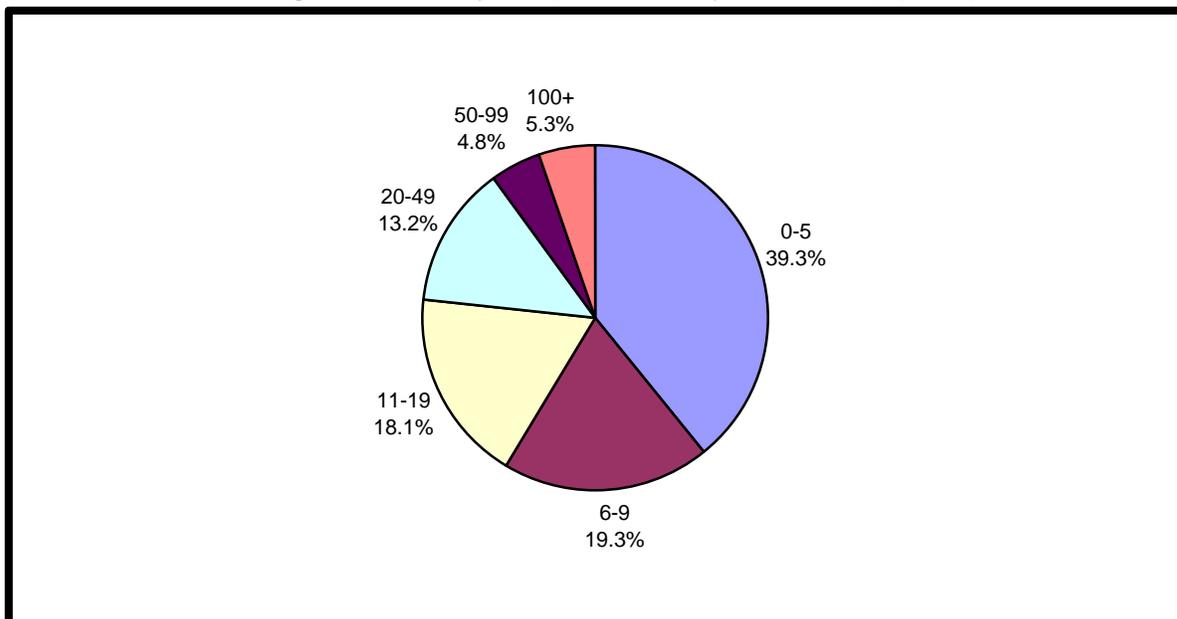
Table 1 below shows the breakdown of respondents by the number of full-time equivalents (FTEs) for 2006 and 2007. The 2007 survey received 1,334 responses, down slightly from the 1400 received in 2006. As there was a further increase in the number of associations taking part in the survey for 2007, the drop in response was somewhat surprising. While there could be various reasons why responses were lower (including the multitude of official and unofficial surveys in the field), feedback from some associations stipulated that other compliance matters had meant many simply were not able to find the time to complete the questionnaire.

The results for 2006 indicated an important change in the demographics of those participating in the survey, primarily due to the increased participation of trade groups. The demographic spread for 2007 was largely similar to 2006 (as outlined in table 1), with a continuing trend towards a higher percentage of small-medium sized firms, and a correspondingly lower percentage of large firms. Figure 1 provides a summary in the form of a pie chart for the 2006 respondents by FTEs.

Table 1: Respondents by Number of Full Time Equivalent Employees (2006 & 2007)

Number of FTEs	Number of respondents 2007	Percent of total valid responses 2007	Number of respondents 2006	Percent of total valid responses 2006	Population (Business Demography Statistics 2003)
0-5	524	39.3%	579	41.4%	83.9%
6-9	257	19.3%	246	17.6%	7.3%
10-19	242	18.1%	191	13.6%	7.6%
20-49	176	13.2%	196	14.0%	
50-99	64	4.8%	76	5.4%	0.7%
100+	71	5.3%	112	8.0%	0.5%
Total valid responses	1334	100.0%	1400	100.0%	100.0%

Figure 1: Survey Respondents by FTE Group (2007)



3. SUMMARY OF FINDINGS

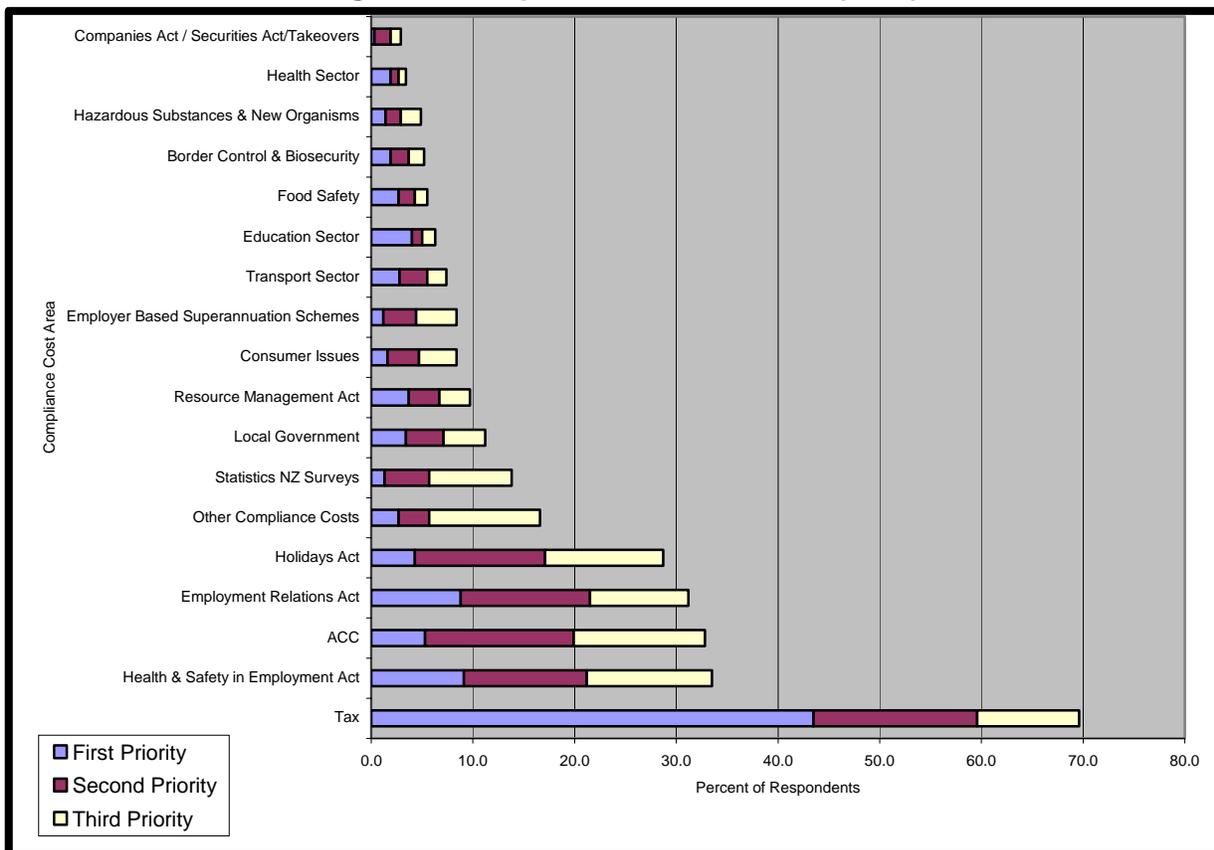
3.1. COMPLIANCE COST PRIORITIES

At a glance

Looking at respondents' top three priorities, tax remains in the top position by a considerable margin, although this continues to trend downwards from previous years. The other top 4 priorities are largely the same as in previous surveys; however, this year the introduction of KiwiSaver has seen employer related superannuation schemes show the greatest movement in terms of rankings. In the 2007 survey all enterprises by size placed significantly higher priority on tax, with the exception of the 50-99 and 100+ FTE group that prioritised health and safety in employment as the most important issue.

As in previous years, the 2007 survey respondents were asked to assign their three highest priorities to a list of compliance cost areas. The results are shown in Figure 2 below.

Figure 2: Compliance Cost Priorities (2007)



Tax clearly remains the first priority among respondents, with 43.5% selecting it as their top priority for change in 2007. However, this value continues to fall, down from 45.5% in 2006, and 48.5% in 2005. A cluster of employment-related compliance cost areas continues to follow tax. Health and safety in employment (HSE) (9.1%) remains in

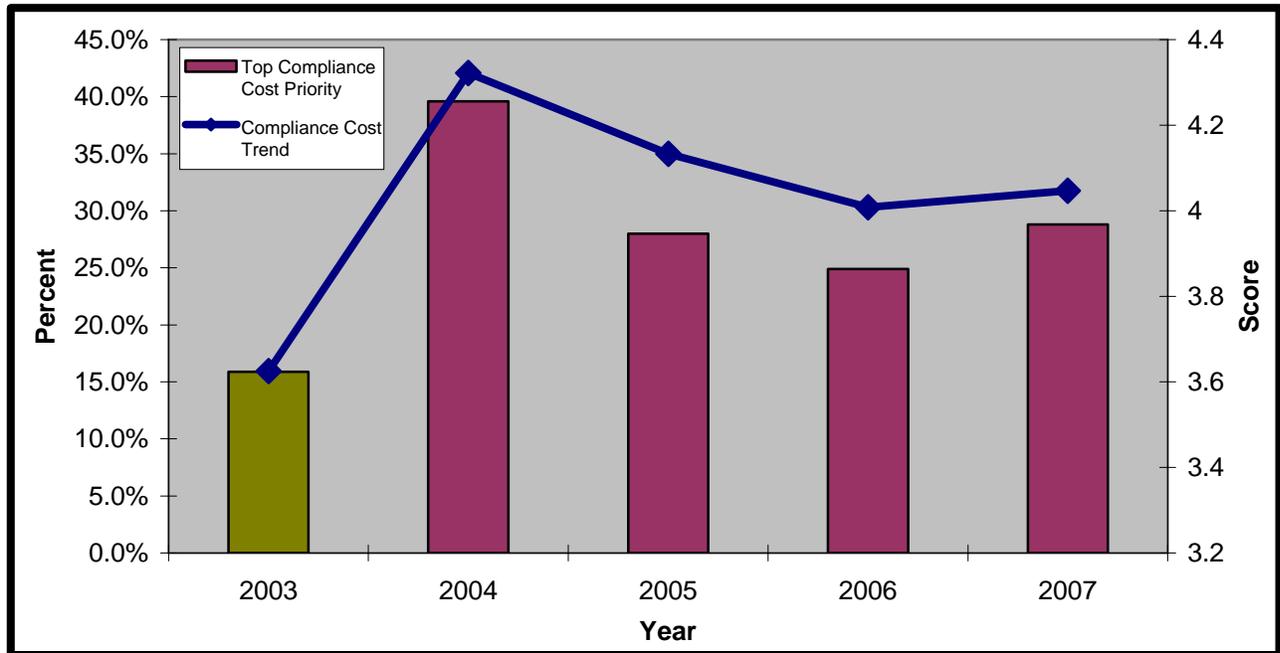
second place in terms of compliance cost priority (although down slightly from 9.8% in 2006), while the Employment Relations Act (ERA) also slipped downwards from 9.4% in 2006 to 8.8% in 2007.

When all three priorities are taken into account, total tax priority stood at 69.6%, clearly in first place but again a slow but steady decline from previous years. HSE moved up from 4th to 2nd place for 2007, even though its combined priority value fell from 35.4% in 2006 to 33.5% in 2007. ACC continues to fluctuate in terms of priority from year to year, while the combined values of the ERA and Holidays Act are worth noting. With the former, the ERA recorded its highest priority in the first year the survey was held, which was largely due to its relatively recent introduction in October 2000. While there were two further amendments to the Act in 2004 and 2006, both affected only a small number of businesses. Since 2003, the combined priority for the ERA has dropped from 47.6% in 2003 to 31.2% in 2007.

The Holidays Act has, during the time in which the survey has been running, provided the best example of the effect of regulation both before and after legislative changes was implemented. Figure 3 shows both combined compliance cost priorities and compliance cost trend scores for the Holidays Act from 2003-2007. The highest points in terms of priority and the two occasions when compliance cost trends have increased in value from the previous year have occurred when changes were introduced. 2004 saw changes to the Holidays Act by way of relevant daily pay and 'time and a half' penal pay for employees. In April 2007, the four weeks annual leave provisions were formally introduced, the most likely contributing factor to the Holidays Act, as a combined priority, rising from 24.9% in 2006 to 28.8% in 2007.

Both points in time highlight the direct cause and effect between changes to legislation and the compliance burden that results. The time series also shows what is sometimes referred to as the 'shockwave' of regulation. While we would expect an increase in compliance costs because of changes, regulatory changes that are of poor quality create a substantive shockwave in the years after the changes were made. Figure 3 clearly shows that the perception of compliance costs for the Holidays Act has not come back down to anywhere near the level exhibited in 2003, before the changes took effect.

Figure 3: Holidays Act: Compliance Cost Priorities & Trends (2003-2007)



The other main feature of the 2007 results was the significant shift in employer related superannuation schemes (ERSS). The 1st of July 2007 saw the introduction of KiwiSaver, which is a generic work based superannuation scheme open to all employees in New Zealand. Prior to KiwiSaver, worked based schemes were fairly uncommon in most businesses, as they were typically inherent to the business. KiwiSaver has meant all businesses have had to understand the impacts and compliance issues involved in administering the scheme to their employees. ERSS have typically been the lowest compliance cost priority measured in the survey (a combined value of 0.4% in 2006). However (in relative terms) the introduction of KiwiSaver meant this figure rose substantially to 8.4% for 2007.

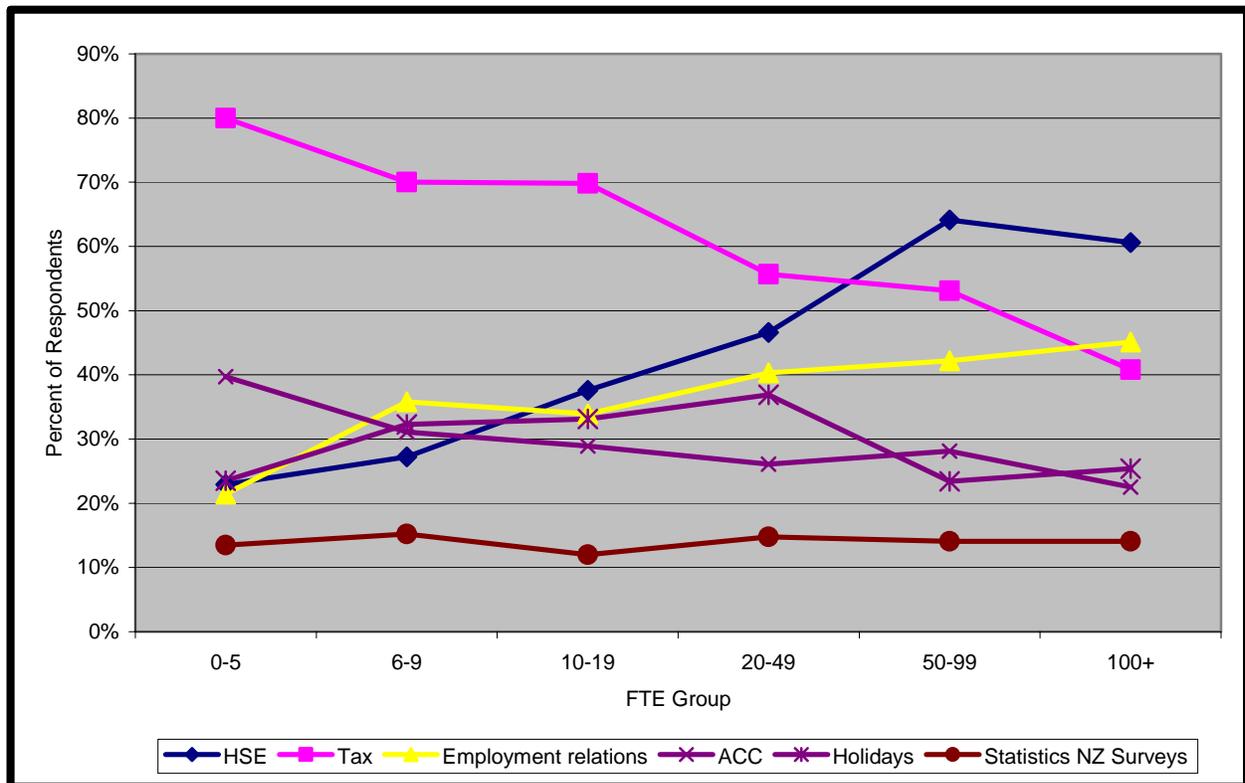
Again, the increase in this priority given the compliance issues associated with KiwiSaver is not a surprise in itself. However, changes announced during the 2007 budget that meant compulsory employer contributions from 1 April 2008 significantly changed the game. These changes have moved KiwiSaver away from a relatively light compliance issue for employers, to one which has now added a range of complications, many of which are yet to be fully understood. The real impact on compliance may not be completely felt or indeed understood until 'KiwiSaver Mark II' is formally introduced via legislation.

Figure 4 shows tax compliance costs remain the significant priority for all businesses by size, except for those in the 50-99 and 100+ FTE groups, which have HSE as their key priority. While HSE as a priority for the 50-99 and 100+ FTE sizes has previously featured highly due to major changes to HSE legislation in 2003, the reason for the recent increases in HSE priority for larger businesses is difficult to pinpoint, although it may be linked to a general trend towards larger businesses that are able to do so paying greater attention to HSE issues. This does not suggest that smaller businesses are in

any way ignoring health and safety issues, rather that the in-house capability of larger businesses to introduce new measures that comply with required safety regulations means necessary changes can be made more quickly.

Statistics New Zealand surveys are among the top six compliance priorities for business, although this priority continues to be much less significant compared with the top five issues identified by all businesses of whatever size.

Figure 4: Compliance Cost Priorities by FTE Group (2007)



Apart from ERSS discussed above as one of the key highlights beyond the top six compliance issues, the Resource Management Act (RMA) also deserves mention. A recent survey and report¹ by Research New Zealand on behalf of Federated Farmers asked farmers to share their experiences and attitudes towards the RMA, and how it impacted on them as farmers.

Of the 869 responses, the RMA was the sixth most important issue for farmers when all compliance and non-compliance areas were examined, and the second most important compliance cost related issue (behind ACC/OSH issues). By comparison, breaking down the data by industry for the Business NZ/KPMG survey, showed the RMA as one of a group of three with very similar values below tax as the biggest compliance priority. For all sectors, the RMA ranked much lower at 9th.

¹ *The Resource Management Act and Farmers*, Research New Zealand, April 2007.

3.2. HELPFULNESS OF CENTRAL AND LOCAL GOVERNMENT AGENCIES

At a glance

Overall, three government agencies had had contact with more than 50% of respondents for the 2007 survey (in 2006 there had been four, while in 2005 there were six), with results for most agencies largely consistent with previous years. Most agencies improved their helpfulness score for the 2007 survey, while the Companies Office was viewed as the most helpful agency for the fifth straight year. This was followed by the New Zealand Customs Service (NZCS), with the Department of Labour improving one place to third. The Environmental Risk Management Authority (ERMA), which has been towards the bottom of the rankings since the survey began, displayed the strongest increase in its helpfulness score to move from last in 2006 to 10th out of the 16 agencies we monitor in 2007. The New Zealand Immigration Service was considered the least helpful government department in 2007.

As in previous years, respondents were asked first to indicate whether they had had contact with a given central or local government agency. If the answer was yes, they were then asked to indicate the degree of helpfulness of that agency. The government agencies included in the list were the same as in 2005 and 2006.

The Inland Revenue Department (IRD) still has the most contact with respondents (88.4%) by a clear margin, although again down from the previous year (89.1% in 2006). Almost all agencies had less contact with respondents in the 2006 survey, although the differences in many cases were only minimal. The only agencies that had an increase in contact were the Food Safety Authority and Transport Agencies.

All the agencies listed in the 2007 survey were considered by the majority of respondents to be more helpful than unhelpful. As figure 5 shows, the overall helpfulness score for 2007 (3.373) increased again from the previous year (3.352 in 2006), and is currently at its highest level over the four year period². During these four years, the overall score has stayed in the 'fair' category in terms of the perception of all agencies.

² Helpfulness scores for 2003 cannot be compared with subsequent years, as there was no 'neither helpful nor unhelpful' category for respondents to choose in the 2003 survey.

Figure 5: Overall Helpfulness Score for All Government Agencies (2004-2007)

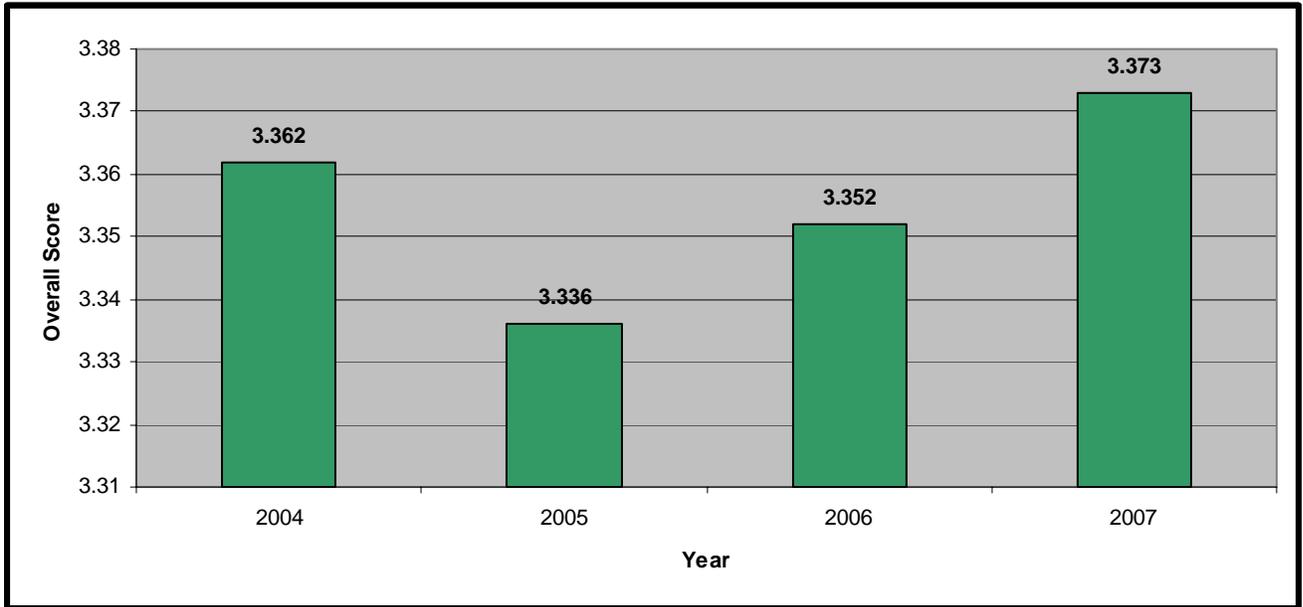
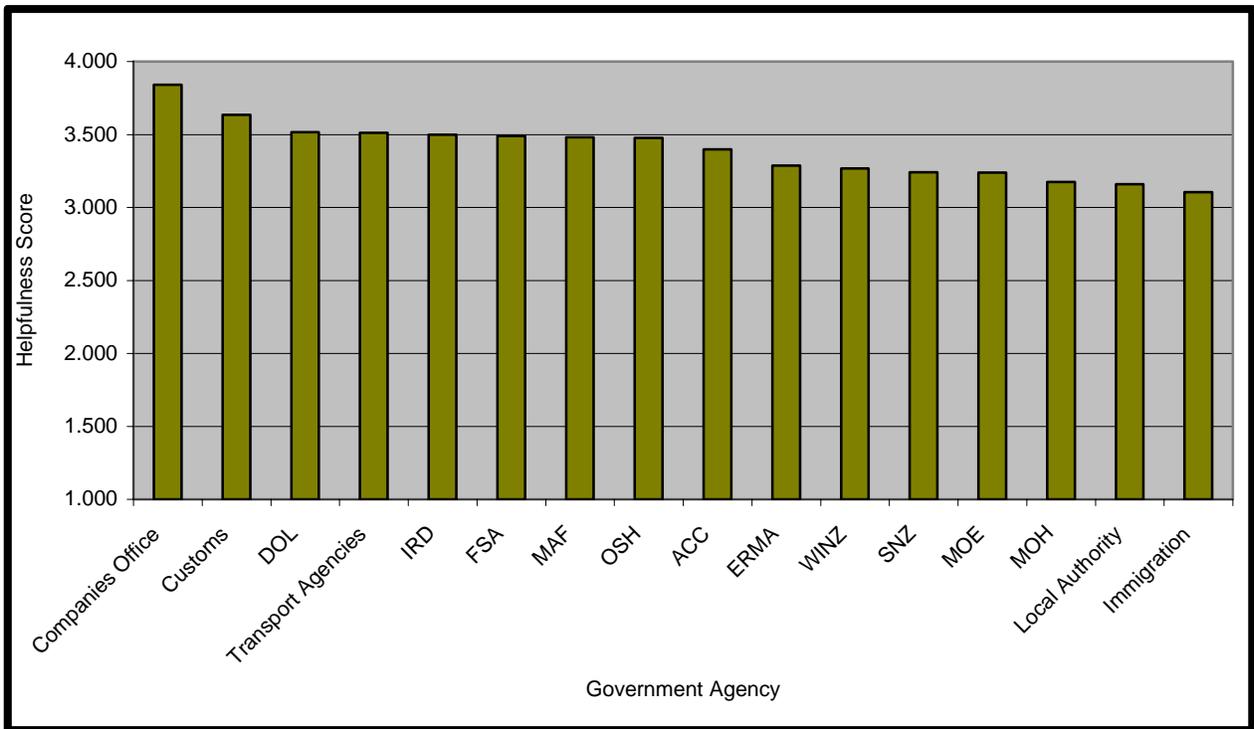


Figure 6 shows that most agencies again ranged in value between 3.1 and 3.5, which was similar to 2006.

Figure 6: Helpfulness Scores for Central and Local Government Agencies (2007)



The New Zealand Companies Office continues to be ranked as the most helpful agency, with its 2007 value improving on 2006, but still not at the levels attained for 2004-2005.

Despite this, it remains the only government agency to be categorised as excellent, and has led as the most helpful government agency since the survey began in 2003.

The New Zealand Customs Service (NZCS) continued to improve its score, and was again ranked second for 2007. The Department of Labour (DoL) improved from the fourth to third spot in 2007 to round off the top three agencies.

Probably the most interesting result from the 2007 survey was the significant improvement of the Environmental Risk Management Authority (ERMA). During the previous four years of the survey, ERMA had either been rated last or second to last of all the agencies monitored. This meant that ERMA was generally categorised as 'poor' for its degree of helpfulness. However, in 2007 ERMA experienced a significant increase in its helpfulness score. This was helped by a net percentage result for 'very helpful minus very unhelpful' of +4.2 percentage points in 2007, compared with -0.7 percentage points in 2006. The end result was that ERMA moved from 16/16 in 2006 to 10/16 in 2007, the biggest ever improvement by an agency in a single year.

The reasons for ERMA's dramatic improvement are probably varied, although there are some issues that could provide an insight. First, the change could not be put down to a sampling error in the survey. There were 100 businesses that had contact with ERMA for the 2007 survey, and while down from the 139 in 2006, this was still the third highest number of responses for ERMA over the history of the survey. The improvement in helpfulness was also spread across almost all enterprises by FTE group, with strong improvements for the 0-5, 10-19 and 50-99 groups. Also, we are aware of ERMA conducting focus group meetings with enterprises via Business NZ's Regional Associations in various parts of the country during 2007 in order to understand the issues the business community has had with the agency. While it will obviously take time for any changes from these meetings to have a direct effect on compliance matters, the holding of focus group meetings does indicate a mindset within the agency to improve its direct relationship with business, and this may have been identified by respondents in the 2007 results.

At the other end of the scale, the New Zealand Immigration Service (NZIS) slipped down the rankings from 2006, and was considered the least helpful government agency for the 2007 survey, along with being the only agency categorised as 'poor'. Not surprisingly, it had the highest proportion of respondents who found the NZIS to be either 'unhelpful' (18.6%) or 'very unhelpful' (10.4%).

The only other change in ranking of note between 2006 and 2007 was the Ministry for Agriculture & Forestry (MAF), which moved down four places from 3rd in 2006 to 7th in 2007. In fact, MAF was one of only four agencies that received a lower overall score compared with 2006.

It is also useful to compare from year to year the net score that results from subtracting 'very unhelpful' from 'very helpful' scores. This gives a view of the data that is affected by individual polarised or extreme opinions resulting from specific government agency encounters. The 2007 result shows a higher net figure than in 2006 for 10/16 agencies,

with the largest gain being ERMA as discussed above. The largest decline was for the Ministry of Education (MoE), down 7.1 percentage points.

As in previous years, the larger the firm the more likely it was to find government agencies helpful. Encouragingly, the 0-5 FTE group experienced its highest overall helpfulness score in 2007 compared with previous years, while the 10-19 FTE group continue to be the least impressed with government agencies.

3.2.1 Respondent Comments – Helpfulness of Central and Local Government Agencies

Section B of the survey was designed to obtain information on the perceived helpfulness of central and local government agencies.

Respondents were asked to indicate whether their enterprise had had contact with any of the government agencies listed and how helpful they had found them. To indicate the helpfulness, respondents were asked to rate the agencies on a scale of 1-5, with 1 corresponding to “very helpful” and 5 corresponding to “very unhelpful”.

If a respondent indicated a rating of either 1 (very helpful) or 5 (very unhelpful) at question 2, they were asked to discuss the reason for giving that rating.

A total of 265 respondents provided comments.

General perception

As in previous years, there was a variety of comments, both positive and negative, in relation to a number of government agencies.

Accident Compensation Corporation (ACC)

Overall: Negative

We received a number of negative comments on the helpfulness of ACC.

As in 2006, a number of respondents commented that invoices were unclear and unhelpful in explaining the levy rates used. One respondent noted that they were sent a number of different invoices from ACC for the same time period, thus making it difficult for them to identify the exact amount outstanding.

Companies Office

Overall: Positive

As with prior years, we received a number of positive comments regarding both the Companies Office website and call centre. Many respondents commented on how user friendly and informative the website was. Others made comments that the call centre staff were friendly, informative, and eager to help customers.

One respondent commented on the “excellent online resources and services” and “good quality phone support” provided by the Companies Office. Another respondent commented that the Companies Office “have good information and are willing to help with getting to the solutions needed”.

Department of Labour (DoL)

Overall: Positive

We received a number of positive comments regarding the helpfulness of the DoL. Respondents commented that their matters were dealt with promptly and that staff were supportive of their needs.

In contrast, one respondent commented on DoL’s delay in answering phone calls and responding to queries.

Inland Revenue Department (IRD)

Overall: Mixed

As with prior years, we received a variety of comments from respondents in respect to the helpfulness of IRD.

A number of respondents noted that IRD’s website provided excellent information and was user-friendly. Many respondents also commented on the helpfulness of IRD’s call centre staff.

However, many respondents were clearly frustrated at having to wait a long time to get through to someone when calling IRD. In particular, one respondent commented that “[Inland Revenue’s] phone system is abysmal”. Another respondent commented that they rang the phone number as requested on a form and waited 15 minutes on hold to be told that they needed to write a letter. Comments were also made regarding the inconsistency of responses given by IRD call centre staff.

In addition, respondents commented on the penalties charged by IRD with one respondent noting that they have a “voracious appetite” to penalise their clients.

Land Transport Safety Authority (LTSA)

Overall: Mixed

We received a number of comments regarding the helpfulness of LTSA. In particular, one respondent noted that LTSA “was very helpful and very easy to get what information you need from them.”

In contrast, other respondents noted that the LTSA is good at quoting the rules but not so good at answering queries.

Local Authorities

Overall: Negative

In contrast to prior years, respondents had an overall negative view of the helpfulness of local authorities.

One respondent mentioned that staff were unhelpful in processing resource consent applications. Another respondent stated that local councils are “uneducated on what they are supposedly giving consents for”.

Ministry of Education (MoE)

Overall: Mixed

We only received a few responses in respect of MoE.

Some respondents commented that the Ministry of Education are knowledgeable, clear, and prompt in responding to requests for information. In contrast, one respondent did comment that the department adheres entirely to its own agenda which does not correspond to government policies.

New Zealand Customs Service (Customs)

Overall: Mixed

A number of different comments were received in relation to Customs this year. Consistent with last year, some respondents felt that Customs often delayed their processes and one respondent felt that it was “unrewarding to liaise with them”.

In contrast, one respondent praised Customs and commented that they “gave clear concise helpful information regarding requirements and tax issues”.

New Zealand Immigration Service (Immigration)

Overall: Negative

We received a number of negative comments on the helpfulness of Immigration.

In general, respondents felt that Immigration New Zealand’s conditions are too restrictive. In particular, one respondent said that Immigration New Zealand make it very difficult to employ foreigners despite the fact that New Zealand needs to employ more tradespeople.

Occupational Safety and Health (OSH)

Overall: Positive

The majority of comments on the helpfulness of OSH were positive. In particular, one respondent commented that OSH staff were “knowledgeable people with an attitude of assistance rather than a big stick approach.”

Another respondent commented that OSH is very supportive of their company safety initiatives.

Statistics New Zealand (SNZ)

Overall: Mixed

We received a variety of comments regarding the helpfulness of SNZ. As with prior years, many respondents felt that SNZ forms were time consuming and pointless.

However, respondents also noted that SNZ was helpful in accepting delayed dates for the completion of these forms.

Work and Income New Zealand (WINZ)

Overall: Negative

As with prior years, we received a number of negative comments on the helpfulness of WINZ.

A number of respondents commented that WINZ do not have the people qualified to deal with business related questions. However, those respondents who deal with specific contacts at WINZ in general noted that they were helpful.

3.2.2 Central Government Agencies Initiatives to Reduce Compliance Costs

There have been various developments by central government over the last year regarding ways in which to reduce compliance costs for businesses. The most prominent development was the establishment of the Quality of Regulation Review that began in 2006 with a final report of recommendations that was released in September this year.

In addition to the Review, Business New Zealand sought to find out what various Government agencies were specifically doing in terms of planning/working on, or what had put in place, to reduce compliance costs for businesses. In total, five departments/agencies were chosen to receive an official information request (OIR) from Business New Zealand outlining what they had done, the five agencies contacted being those tending to have the most contact/compliance issues with business. The following provides an outline of their replies.

Ministry of Economic Development

The key initiative undertaken by the Ministry of Economic Development (MED) involved the Quality of Regulation Review. While the review has involved various rounds of consultation and reports, its name is somewhat misleading, as it is a review concentrated on reducing compliance costs, rather than on fundamental changes to regulation.

Nevertheless, since the review began in May 2006, it has involved a number of specific projects, including:

- Interviews of four sectors and regulatory issues identified and passed to relevant Government departments for response;
- Various interface studies;
- An Omnibus Bill that will provide necessary regulatory and legislative amendments as expediently as possible; and
- Other legislative amendments to address issues raised in particular Acts such as HSNO Act 1996, HSE Act 1992 and the Crown Minerals Act 1991.

Lastly, changes have been introduced regarding regulatory process disciplines, including strengthening regulatory impact assessment requirements, implementing the business cost calculator, promoting the issue of regulatory flexibility and producing guidelines for government on regulatory enforcement.

Business NZ/KPMG Comment: Overall, the formal work carried out as part of the Quality of Regulation Review is supported, as it shows direct action by the Government to try and reduce compliance costs for businesses. While a regulatory review provides an opportunity for Government to sharpen its mind on the issues, it should not be an ad hoc event but rather the start of ongoing work into examining ways to reduce compliance. Also, as stated above, a regulation review needs to include areas of regulation which are causing the most issue for business. The Quality of Regulation Review has certain 'no-go' areas', primarily including those involving employment legislation. Any government led regulation review needs to be comprehensive if it is to be successful. Excluding employment legislation has meant that the Holidays Act is not addressed, which has typically been the compliance area showing the highest compliance cost trend value in the survey.

As well as the Regulatory Review, specific branches of MED have been working on the following initiatives of note, as outlined in table 2 below.

Table 2: Other MED Initiatives to Reduce Compliance Costs

Initiative	Details
Revamping of the Business Consultation website	Revamped website in June 2007 with enhanced functionality to allow running of short term consultation for IRD on particular matters, especially those affecting SMEs.
Amendments to the Securities Markets Regulations 2003	Proposes to reduce the number of those classed as 'officers' and making the disclosure process easier.
Local Authorities Exemption under Securities Act 1978	From June 2007, Local Authorities would have reduced disclosure requirements, including an exemption from producing a prospectus.
Companies Amendment Act 2006	Involving a series of provisions, including the choice of electronic annual reports, concise rather than full annual report option for shareholders, non-active companies not required to prepare and make available annual reports, and closer alignment with New Zealand and Australian company information requirements.
Financial Reporting Amendment Act 2006	Involving a series of provisions, including broadening the right to be exempt from preparing company financial statements, non-active companies not required to prepare financial statements, removing the requirement for overseas companies under a certain size threshold to file audited financial statements, and provision for the Securities Commission to exempt certain overseas incorporated or constituted issuers, as well as certain overseas companies, from financial statement requirements.
BIZ Portal re-launch	Re-launched in August as a 'contentless' site which provides access information from other sites, and promoted as the main point of contact with government for business.
Government Procurement	Approval for measures aimed at reducing costs incurred as part of the procurement process by SMEs while bidding for government contracts.
Joint initiative between the New Zealand Companies Office and IRD	Second phase of the joint initiative launched in July 2007 whereby businesses can now register for GST at the same time as applying for their tax number when registering as a company. Also, the tax number allocation turnaround is now in real time.
Joint initiative between the New Zealand Companies Office and Australian Securities & Investments Commission (ASIC)	Initiative launched in September 2007 involving data exchange of information between the two agencies. This will reduce the filing information requirements for companies, as well as reducing multiple fee charges across the two jurisdictions.
Intellectual Property Office of New Zealand	Currently developing a facility for clients to file on-line applications for design registrations, as well as online filing for patent applications.

Accident Compensation Corporation (ACC)

ACC has recently undertaken work to provide clear, understandable and easily accessible information to businesses, as well as to simplify and improve business communication and servicing. Regarding the former, ACC has:

- Reviewed its website to improve businesses' access to information;
- Reviewed the levy-setting process with the view to supplying less technical information about the process and the way levies are calculated;
- Introduced a "new to ACC" pack to ensure adequate and appropriate information is provided for new businesses; and

- Planned a content and format review for various newsletters to the business community.

Regarding simplifying and improving business communications, Acc has:

- Introduced new levy invoices, which provide clearer information regarding levy payments for business;
- Updated the ACC classification systems to ANZSIC codes to ensure the correct coding is used for businesses; and
- An intention to review payment options, including frequency and method of payment during the later half of 2007.

Lastly, in conjunction with IRD and SNZ, ACC has indicated that it is exploring ways in which cross department information can be delivered at the same time. ACC is also checking the consistency of employer data, together with its involvement with the Companies Office with the aim of reducing the duplication of information requirements.

Business NZ/KPMG Comment: Overall, we believe the steps ACC intends to take to make information clear and easily accessible are in the right direction, especially regarding ACC levy forms that can often create confusion. However, we view the last initiatives outlined, involving improving data collection and sharing of information with other government agencies, as probably providing the greatest long term benefit in terms of reducing compliance issues for businesses associated with ACC.

Department of Labour (DoL)

DoL identified three broad areas in which work has been taking place to reduce compliance costs on businesses.

The first involves the Immigration Act Review, with the associated bill currently before parliament. The Bill proposes legislative change to reduce immigration compliance costs for employers, by enabling DoL to disclose that an identifiable non-citizen is entitled to work or is eligible for publicly-funded services without the explicit consent of the non-citizen.

Second, as part of the Quality of Regulation Review, DoL has taken steps to streamline Approval in Principle (AIP) applications, including improving the timeliness and complexity of the AIP process.

Third, DoL has undertaken a number of communication initiatives during 2007/2008 to better inform industry and employees about health, safety and employment relations rights and obligations, which aim to reduce compliance costs (amongst other objectives). Also, on-line tools have been developed, such as those relating to hazard identification and the Holidays Act.

Business NZ/KPMG Comment: Overall, while there are some useful DoL initiatives taking place, it appears the real opportunity for change has been missed because of the no-go areas within the Quality of Regulation Review. No better example of this is the

Holidays Act on-line calculator. While this shows a genuine attempt to lessen the confusion for employers about the changes to the Act, it does not reach to the heart of the problem in terms of poorly written legislation that has led to the confusion in the first place. As the Holidays Act has remained the top compliance cost trend issue for some years now (with no sign that this is easing), the Government needs to take a step back and fundamentally address the legislation as it currently stands before any type of compliance cost reduction can be anticipated.

Inland Revenue Department (IRD)

IRD outlined the outcome of consultation on GST and provisional tax changes as the main initiative in reply to the OIR by Business New Zealand. Following the enactment of the GST and provisional tax changes, IRD (via the New Zealand Institute of Chartered Accountants) received feedback from tax agents with smaller numbers of clients on the impact the changes would have on them. The main issues involved the impact on tax agents' workloads, impacts on income tax balance dates and updating thresholds in the revenue Acts. To alleviate matters, IRD made timing changes to help relieve workload concerns and concerns regarding income tax balance dates. Also, thresholds became open to consultation via the *Business Taxation Review of 2006*.

In addition to the official response to IRD, Business NZ also received an outline of other developments, including:

- As part of the 2007 Budget, the Government announced that there would be a discussion document on compliance cost reduction later this year. The various thresholds affecting SMEs' tax compliance obligations will be one issue covered;
- Compliance cost reduction for SMEs is viewed as an area for ongoing incremental improvement as can be seen from the raft of relatively recent tax measures such as:
 - GST and provisional tax - basing provisional tax on GST, alignment of payment dates
 - PAYE subsidy for intermediaries
 - FBT - especially the minor benefit threshold; and
- The current Taxation Bill before parliament. The Bill contains a significant number of changes to tax penalty rules to ensure that generally tax compliant businesses will receive a notification rather than being immediately penalised for occasional late payment or filing. The changes will also in many instances allow for penalties to be fully remitted where voluntary disclosure is made of an incorrect tax position.

From an administrative point of view, IRD has also initiated or will soon be initiating the following:

- Early intervention with SMEs to identify issues preventing compliance as well as the provision of education to customers;

- Outbound calling for all new employers to ensure they understand their obligations and the support available. The use of electronic channels will also be promoted; and
- An investigation of the options around improving the range of online forms to make them more user friendly to customers.

Business NZ/KPMG Comment

Once all initiatives by IRD are taken into account, these collectively represent useful steps to reduce compliance costs on businesses, which should be a primary goal for IRD given tax remains the key issue in terms of priority and monetary cost. Although there have been prior discussion documents regarding moves to reduce business tax compliance costs for smaller businesses in recent years, we welcome further work in this area, and hope that the concerns expressed by submitters are fully taken on board.

Statistics New Zealand (SNZ)

SNZ outlined two broad initiatives regarding their relationship with business:

Improving Communications

SNZ has developed a series of initiatives (some in partnership with other departments) to improve their communication with business, which they believe will:

- Highlight the value of business respondents' contributions;
- Acknowledge business respondents' participation in completing SNZ surveys; and
- Raise the value proposition of statistics and SNZ to motivate business respondents into positive action.

In terms of specific initiatives, the two most significant aspects have been the establishment of the *Go Stats!* nationwide seminars that enable businesses to improve their utilisation of SNZ products and services, whilst also growing their statistical capability. The other has been the budget announcement of obtaining funding to make around 250 million pieces of information freely available, which businesses previously had to pay for. Other initiatives have included visits to businesses, building relationships with business organisations such as Business NZ, and enhancing communications, for example by thanking respondents for their contributions to SNZ surveys.

Delivering Real Reductions in Respondent Load at Firm Level

SNZ has undertaken two main initiatives that will see real reductions in respondent load for businesses over the next financial year:

1. Continuing to replace survey data with administrative data: By finding alternatives to surveying, SNZ has estimated that it surveyed 40% fewer businesses in 2006 than in 2002. In 2007/08, it expects to halve the load associated with the monthly Accommodation Occupancy Survey (which accounts for 25% of all burden hours imposed on businesses), and continue to reduce the sample for the Annual Frame Update survey, decreasing the sample size from 73,000 to 70,000 businesses.

2. Implementing the Respondent Load Strategy: This strategy (encompassing a comprehensive package of initiatives) is to be finalised in October 2007, with the goal of reducing respondent load for the next three years.

Business NZ/KPMG Comment: There has been a noticeable increase in the level of communication between Statistics New Zealand and the business community over the last 1-2 years, which we certainly encourage. While this is important for reasons such as business capability and growth, it is from the initiatives aimed at reducing respondent load that the real and direct benefits to lowering compliance costs will come. We look forward to the implementation of the respondent load strategy, and hope that as part of the increased communications with business SNZ takes the opportunity to notify the business community of the reduction in respondent loads on an ongoing basis.

Work and Income New Zealand (part of MSD)

As part of the Ministry of Social Development (MSD), the department outlined initiatives currently under way that should ensure employers experience minimal compliance costs. MSD noted that much of the compliance cost minimisation is directed to making sure employees receive the correct entitlement, and that any difficulties are identified and sorted out early to avoid ongoing problems requiring employers involvement.

Actions can be taken by MSD to prevent, deter and detect benefit overpayments and fraud and to recover debt incurred by clients as a result of overpayment or fraud. If a deduction notice is sent to a client, it authorises the Ministry to require a third party (such as an employer) to make deductions from any sum payable or that becomes payable by the debtor. However, it is intended that earlier intervention will minimise the need to take this step.

To reduce the overall compliance cost for businesses, MSD focuses its attention on intensive case management with increased emphasis on preventing overpayments occurring in the first instance and increasing the level of voluntary compliance with benefit obligations. The WINZ view is that effective case management and intervention will result in fewer employees incurring debt, which in turn will lessen the need for deductions from an employee's wages employers might otherwise have to make.

MSD has noted that an employer liaison process has been implemented in the South Island, and that the Ministry meets employers regularly to discuss issues such as getting them to remind staff of their obligation to contact WINZ to cancel their benefit when they return to work. These initiatives are focused on typically large employers, as well as sectors where work is often seasonal.

Business NZ/KPMG Comments: We support the approach taken by MSD in terms of early detection and prevention to ensure employers are not subsequently caught in the middle by way of having to deduct wages from an employee to recover benefit debt. Such procedures represent a compliance cost for employers, as well as imposing strain on the employer-employee relationship. While it is sensible to target groups most likely

to be affected by benefit overpayments, we would encourage MSD to ensure that these approaches are understood across all sectors.

3.3. COMPLIANCE COST TRENDS

At a glance

The 2007 results continue the trend of few respondents believing compliance costs had fallen. The majority response for most compliance cost areas was again 'no change', except for the Holidays Act and Employer Based Superannuation Schemes. The proportion of respondents reporting either a large or modest fall in any compliance cost area continued to be very minor. On balance, this meant all compliance cost area showed an upward trend. However, of the 21 specific compliance areas, 18 showed a decrease in their overall compliance cost trend score. This left the overall trend score for 2007 lower than for 2004, 2005 and 2006, with a move from indicating a 'large rise' to a 'modest rise' in compliance costs.

In this section respondents were asked to indicate the degree they perceived compliance costs to have increased or decreased over the preceding 12 months.

The 2007 results continue the trend of an overall increase in all compliance cost areas over the past 12 months. However, on a positive note, of the 21 specified compliance cost areas (excluding 'other' compliance costs), 18 showed a fall in their overall trend score between 2006 and 2007, up from 8 between 2005 and 2006. The overall score for all compliance costs areas again fell to 3.477 for 2007, which was the third consecutive fall after a strong increase in the overall trend score from 2003 to 2004. This means the overall score is now considered a 'modest rise', compared to a 'large rise' for the previous three years. While this is encouraging, the result is still disappointing from the view of a reduction in compliance costs for businesses generally, as the trend is downwards, but still showing compliance cost increases.

The compliance cost trend scores for each of the compliance cost areas are shown in Figure 7 below³.

The Holidays Act continues to be the main compliance cost area perceived to have increased. Its score value actually increased from 2006 (4.008) to 2007 (4.043), which is in line with the corresponding increase in the Holidays Act as a compliance cost priority as outlined in section 3.1 above. However, of equal note was the significant movement of ERSS for the 2007 survey. As a compliance cost trend area, ERSS has tended to be the last of the 21 specific areas asked about in the survey. The introduction of KiwiSaver has seen it record the second largest score for the 2007 survey (3.856), which means that from being categorised as a very low increase in 2006, in 2007 it has experienced a significantly large increase. Furthermore, only 41.4% of respondents perceived there had been no change or a decrease in compliance costs with ERSS in 2007, compared with more than double that number in 2006 (84.6%). At the other end of the scale, the least change was perceived for companies

³ The compliance cost trend score is a sum of the weighted average scores of each of the proportions of respondents selecting 'large rise', 'modest rise', 'no change', 'modest fall', and 'large fall'. The higher the score the more costs are perceived to have increased. The maximum possible score is 5.000 and the minimum possible score 1.000. The cost trend score does not attempt to assign a monetary amount.

and securities, with 86.3% considering there to be either no change or a fall – the largest combined percentage for any area since the survey began.

Figure 7: Compliance Cost Trends Scores by Compliance Cost Area (2007)

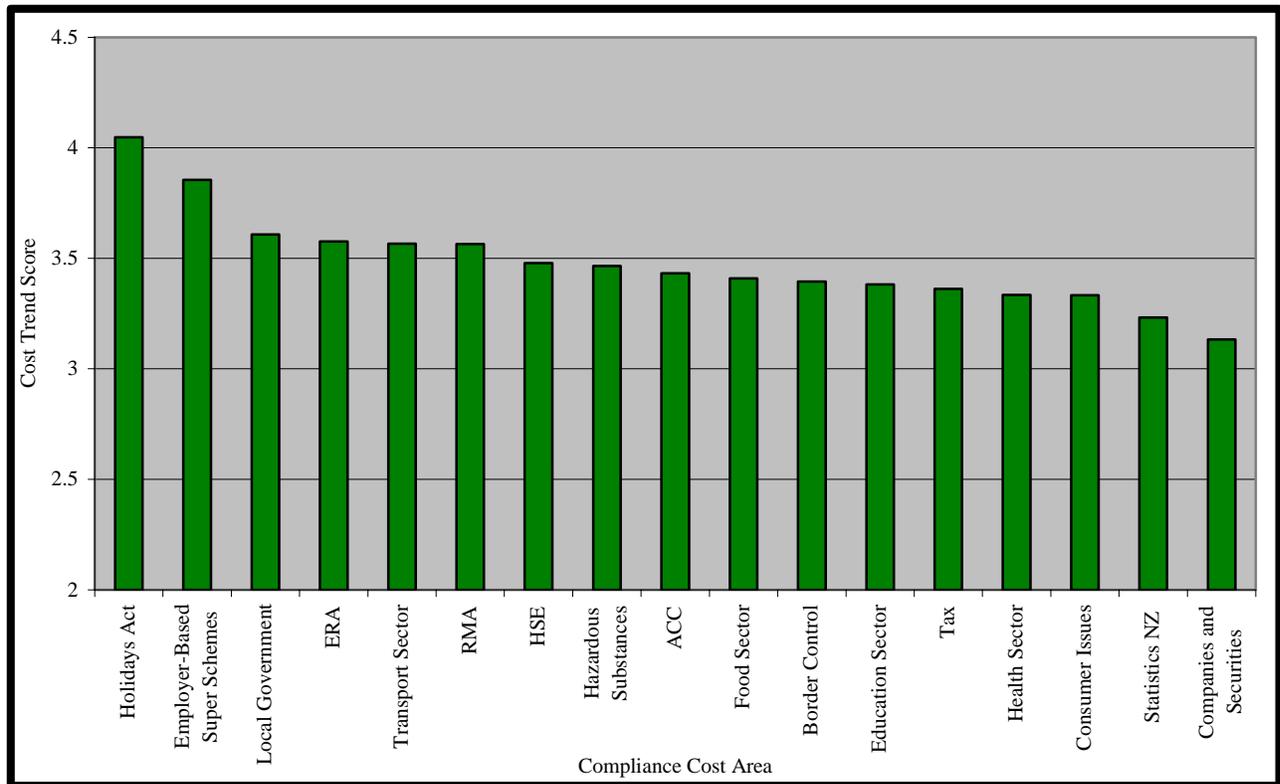
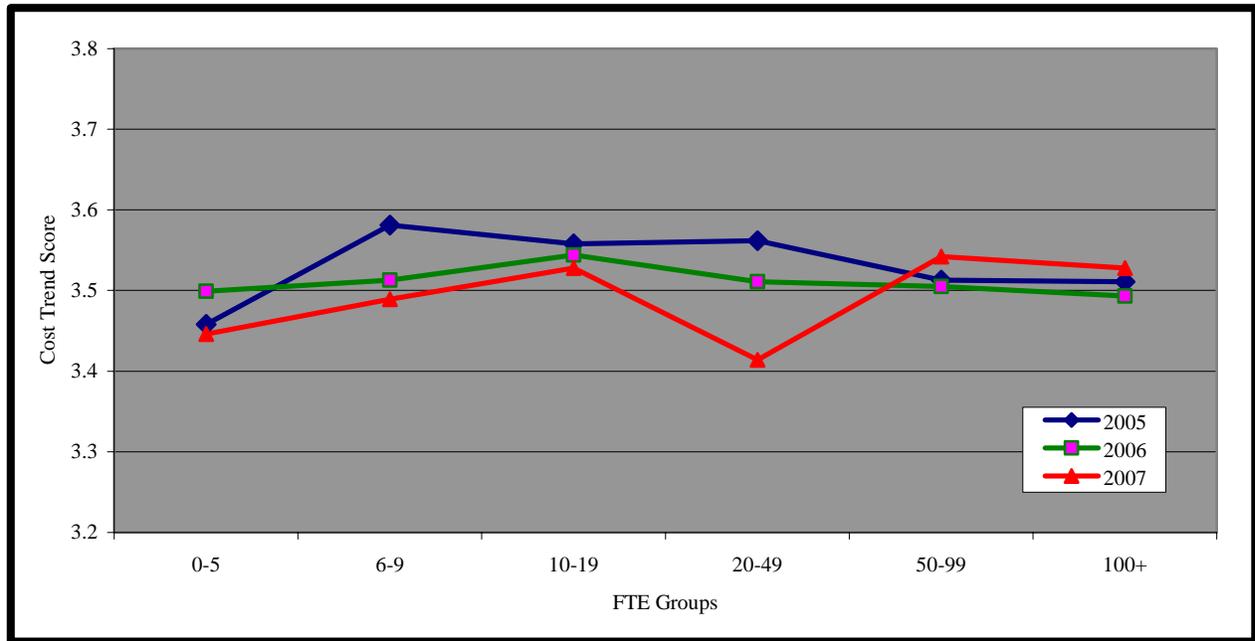


Figure 8 shows compliance cost trend scores by FTE size groups. While the results for most FTE sizes are similar to previous years, two matters arise with the 2007 results. First, the 0-49 FTE groups all record scores lower than 2005 and 2006, indicating a general trend downwards. However, there is little movement for the 50+ FTE groups, with compliance trend scores increasing slightly for the 2007 survey. Second, there is a noticeable dip in the trend score for the 20-49 FTE group that does not seem to be predicated on low values for a few compliance cost areas. Instead, of the 22 areas, the 20-49 FTE group had the lowest value for eight, with nine the second lowest. Given the percentage of those responding to the 2007 survey was very similar to the 2006 survey, this indicates a stronger fall in the rate of compliance cost increases for this FTE group, compared with the rest.

Figure 8: Compliance Cost Trend Scores by Size of Enterprise (2005-2007)



3.3.1 Respondent Comments – Compliance Cost Trends

If a respondent indicated a rating of either 1 (large fall) or 5 (large rise) when asked about compliance cost trends, they were asked to discuss reasons for giving that rating.

A total of 203 respondents provided comments.

General perception

In general, respondents felt that there had been an overall increase in compliance costs. Consistent with prior years, many respondents commented on recent changes to legislation and regulatory requirements resulting in increased compliance costs.

Businesses continue to be frustrated by constant legislative reform and the time that is required to keep abreast of it all. In particular, one respondent noted that “Understanding the changes made by government or local government policies and then implementing them takes a considerable amount of time. If you have to employ professionals to do it for you then cost escalates significantly.”

Accident Compensation Corporation (ACC)

Overall: Increase

We received only a few responses in relation to changes in ACC compliance costs.

One respondent noted that ACC’s costs seem to be totally out of order, “especially considering the difficulty self employed persons have in extricating any sort of compensation for time out of work.”

Education Sector

Overall: Increase

A number of respondents felt that education related regulatory changes have increased their compliance costs. In particular, respondents commented on the compliance burden created by the “20 free hours” of childcare rules.

Holidays Act

Overall: Increase

A number of respondents commented on the increase to a minimum 4 weeks of annual leave that they are now required to provide to staff. In general, respondents felt they had incurred extra costs in training relevant staff, upgrading payroll software and ensuring that employment agreements comply with this change.

Inland Revenue (IRD)

Overall: Increase

A large number of respondents felt that the implementation of the KiwiSaver regime was a shambles. One respondent noted that the whole regime was an “absolute fiasco” and that the “government was making promises to employees that haven’t been legislated”.

Respondents felt there were a lot of last minute changes that led to time and money being wasted due to ongoing uncertainty and that the government should have provided a longer implementation period for the new rules. Respondents also noted the large amount of time and expense that went into the initial setup of the regime.

Food Safety Authority (FSA)

Overall: Increase

A number of respondents commented on an increase in compliance costs arising from the need to undertake an audited and improved Food Safety programme this year. Another respondent commented that the dairy legislation that came into effect this year caused them “a supreme headache” and was very costly in terms of compliance.

Resource Management Act (RMA)

Overall: Increase

We received many comments in relation to costs associated with complying with the RMA. Respondents advised that the costs associated with seeking resource consents and permits are significant.

One respondent felt that “achieving resource consent is like trying to thread a camel through the eye of a needle”.

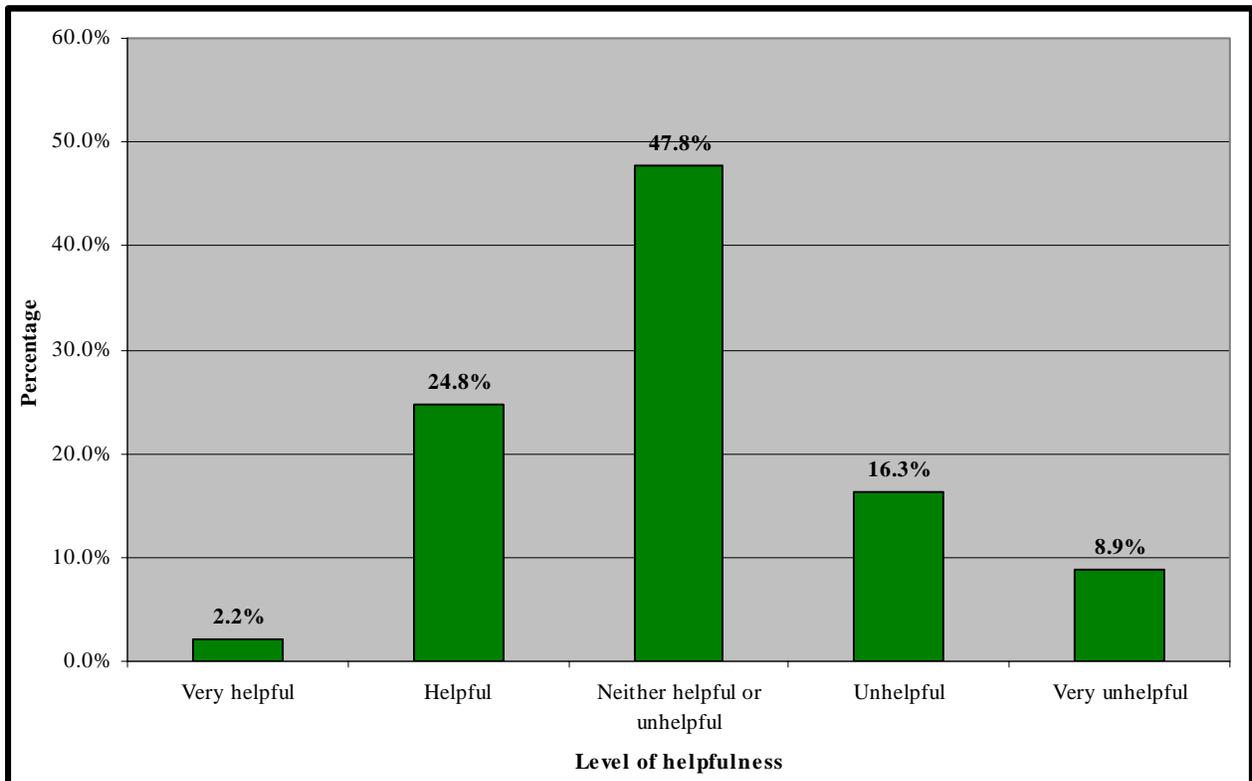
3.4 Helpfulness of Government Concerning KiwiSaver and Websites

3.4.1 Helpfulness of Government Concerning KiwiSaver

The 2007 survey questionnaire asked respondents to rate the Government in terms of its helpfulness in dealing with compliance issues associated with KiwiSaver. Overall, this was considered more helpful than unhelpful, as figure 9 shows, although there was still around one quarter of businesses who found the Government unhelpful at some level.

By FTE group, the larger the business the less likely it was to respond with 'neither helpful or unhelpful', i.e. 58.0% for the 0-5 FTE group, compared with only a 29.6% for the 100+ group. This result is not altogether surprising, as larger businesses would be more likely to be involved in complex issues associated with administering KiwiSaver, and have staff that require a greater detail of understanding. It appears that Government's communication with larger businesses in regards to KiwiSaver has not been ideal, as over 40% of 100+ FTE businesses found the Government to be unhelpful at some level, compared with around 18% for the 0-5 FTE group. It is highly probable that the changes announced in 'KiwiSaver Mark II' have created substantial uncertainty in terms of a clear understanding of compliance issues relating to KiwiSaver, especially for larger businesses.

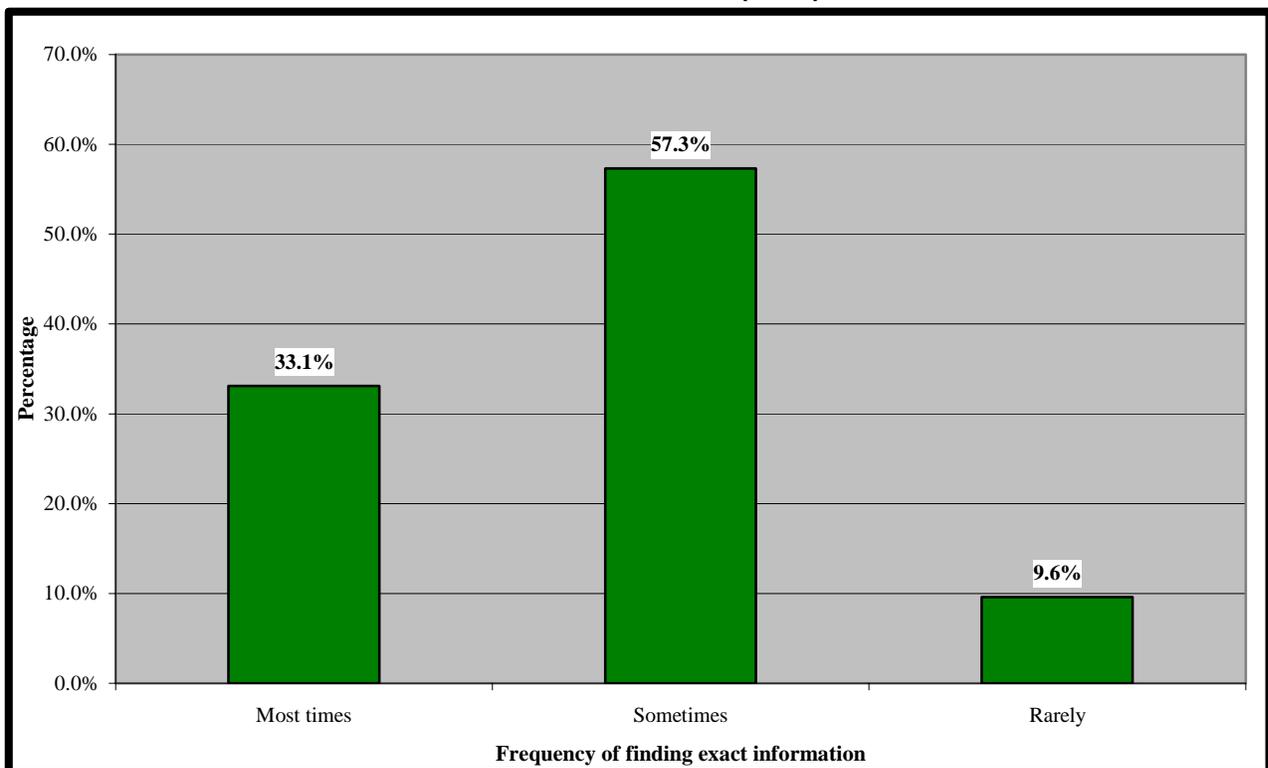
Figure 9: Overall Government's Helpfulness in terms of Compliance Issues associated with KiwiSaver (2007)



3.4.2 Helpfulness of Government Websites

The 2007 survey also asked the frequency of businesses finding the exact information required on a Government website. Generally speaking, the results were relatively encouraging, although there is certainly room for improvement. Figure 10 shows that a third of businesses were able to obtain exact information most times, while the majority (57.3%) responded that this occurred 'sometimes'. Around 10% stated that they rarely found the information they required. By FTE size, there was no significant departure from the overall results, although given the resources at hand, larger business (100+ FTEs) were more likely to obtain the information they required from a Government website.

Figure 10: Overall Frequency of Businesses finding Exact Information required on Government Websites (2007)



As well as being asked to indicate how useful they generally find Government websites in terms of obtaining the exact information they require, respondents were asked to list any government websites they found consistently hard to source information from or found consistently helpful as a source of information.

A total of 458 respondents provided a comment for helpful websites, and 243 for websites that were consistently found to be a problem.

General perception

In general, respondents found the following Government websites consistently helpful:

- IRD (approximately 54% of respondents who answered this question);
- Companies Office (approximately 23% of respondents);
- DoL (approximately 19% of respondents); and
- LTSA (approximately 4% of respondents).

Respondents consistently commented on the following government websites as being problematic:

- IRD (approximately 36% of respondents who answered this question);
- DoL (approximately 9% of respondents);
- NZIS (approximately 6% of respondents);
- SNZ (approximately 5% of respondents); and
- ACC (approximately 5% of respondents).

It is interesting to note that respondents rated IRD's website as both consistently helpful and consistently unhelpful as sources of sourcing information.

3.5. ESTIMATING TOTAL COMPLIANCE COSTS

At a glance

The ongoing increased proportion of respondents from smaller enterprises for the 2007 survey and the relatively lower number of large business respondents means quantifiable results again need to be interpreted with care. Tax compliance costs again made up the largest share of compliance costs for 2007 at 39.2%, down from 2005-2006 but still higher than 2003-2004. On an FTE group basis, total compliance costs fell for all sizes of business, with the exception of those with 100+ FTEs.

As in previous surveys, respondents were asked to estimate compliance costs incurred over the past 12 months across four broad areas:

- Tax-related compliance costs (PAYE, GST, fringe benefit tax, provisional tax, etc)
- Employment-related compliance costs (ERA, HSE, Holidays, KiwiSaver, ACC, etc)
- Environment-related compliance costs (RMA, local authority requirements, hazardous substances, border control and biosecurity, etc)
- Other compliance costs (Statistics New Zealand surveys, transport sector, consumer issues, companies and securities, health sector, education sector, etc)

Respondents were asked to quantify the total hours spent internally within the enterprise on each of the compliance cost areas. The average enterprise spent 540 hours per annum on all compliance cost requirements for 2007. This was the lowest total since the survey began in 2003. However, as in 2006, the change in composition of respondents for the 2007 survey has a large bearing on this. Those enterprises with 0-19 FTEs made up 76.7% of all respondents, compared with 72.6% in 2006 and only 59.6% in 2005. At the other end of the scale, the 100+ FTE group went from 17.7% of total respondents in 2005, to 8.0% in 2006 and only 5.3% in 2007. As the composition of the responses gets closer to that of the business population demographics, we would fully expect the overall average number of internal hours to fall, which has been the case. The overall total figure does not therefore give as true a picture of actual compliance costs as does the FTE costs by size of enterprise discussed below.

The cost of external advice also has to be taken into consideration to provide an overall estimate of compliance costs. In 2007 36.9% of respondents used some form of external advice in the four key areas, down from 39.6% in 2006 and 38.7% in 2005. The pattern for external advice across each compliance area showed use was down across all four key areas when comparing 2007 with 2006. External advice for tax continues to fluctuate, while advice for employment continues to track downwards.

In 2007 the average respondent's annual compliance burden came to a total \$29,578 per annum. This total cost was made up of two components:

- The average hours per annum spent within the enterprise on compliance issues, charged at a uniform rate of \$22.63 per hour⁴ (\$21.63 in 2006 and \$20.56 in 2005); and
- The cost of out-of-house advisers used for compliance issues

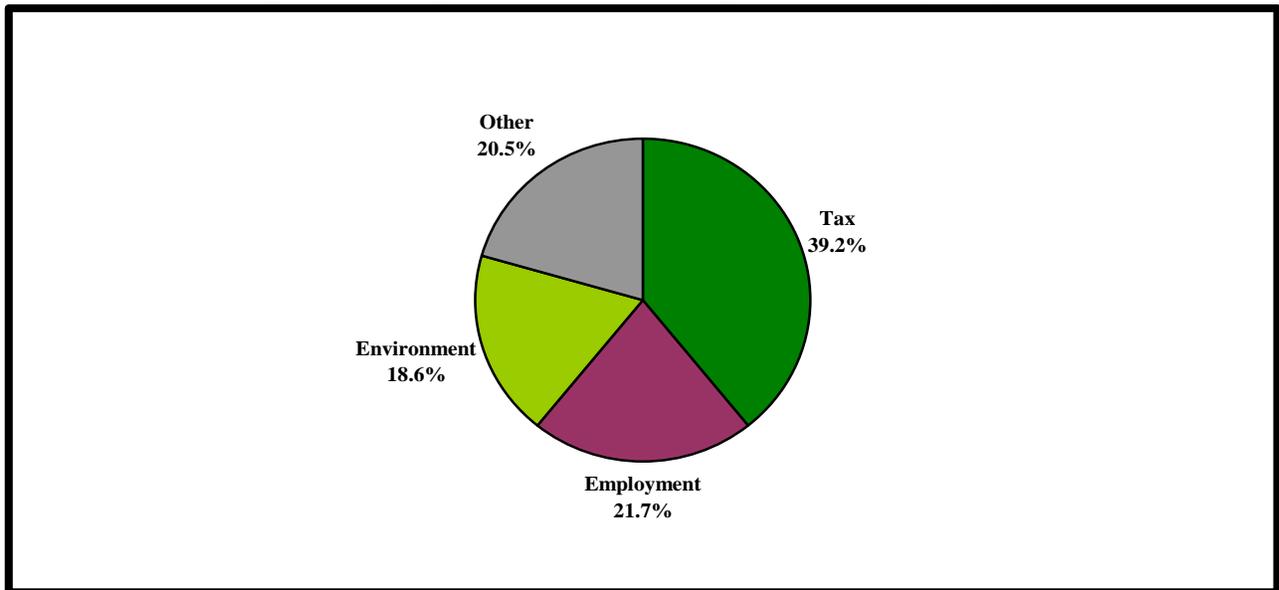
The 2007 value was 22.6% lower than the corresponding amount in 2006 (\$38,232), and can also be expressed as \$1,026 per FTE in 2007 (\$691 per FTE in 2006), or 0.44% of turnover (0.25% in 2006). It is important to point out that the average total cost by FTE and as a percentage of turnover has increased, again mainly because of the composition of the survey sample. The average size of FTEs has gone down from 139 in 2005, to 55 in 2006, to 29 in 2007 as a higher proportion of smaller firms completed the survey, thus driving the overall average up.

Therefore, when interpreting results figure 12, which breaks down average total per FTE by size of firm, provides the most accurate and comparable method to track compliance costs. By comparison with 2006, average total costs by FTE fell for four of the six groups, remained largely unchanged for the 10-19 group and rose for the 100+ group.

In 2007, total compliance costs were broken up into four categories (as figure 11 shows):

- 39% tax-related compliance costs (41% in 2006)
- 22% employment-related compliance costs (23% in 2006)
- 19% environment-related compliance costs (14% in 2006)
- 20% other compliance costs (22% in 2006).

Figure 11: Proportion of Total Compliance Costs (2007)

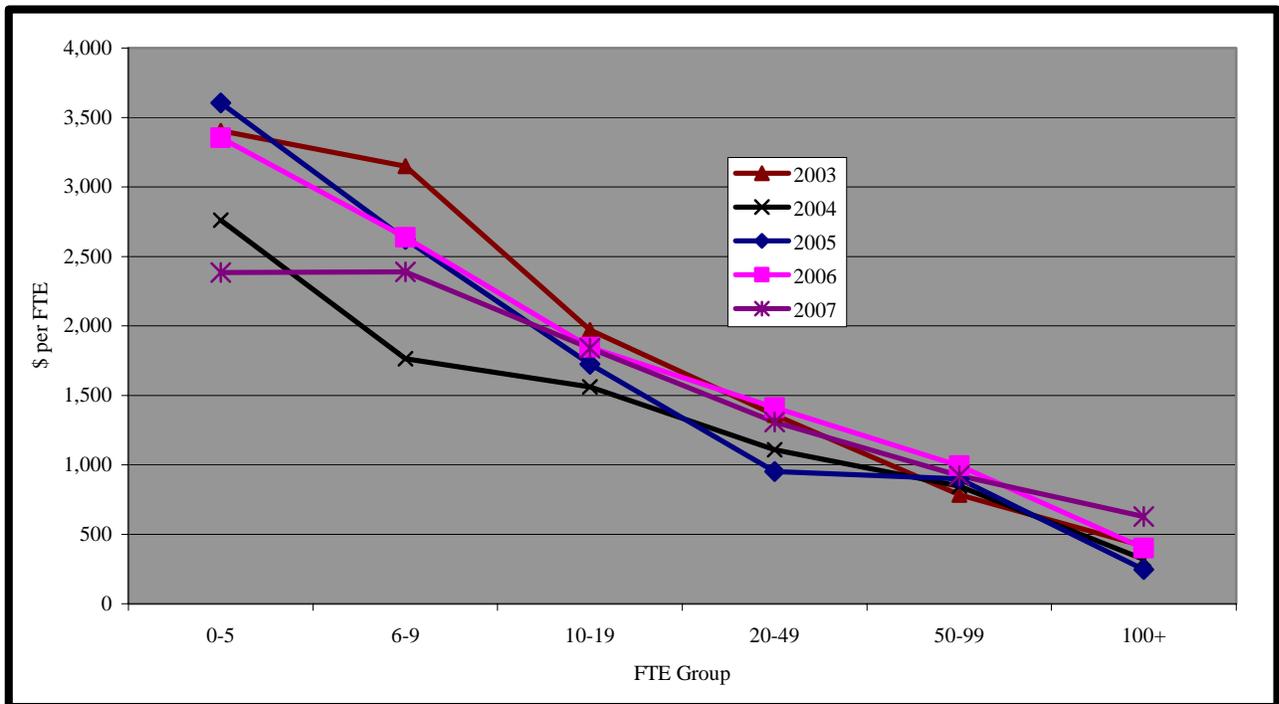


⁴ This amount is the average hourly earnings from the Quarterly Employment Survey for the year ended March 2007. It is a very conservative estimate in that it is likely to significantly underestimate the value of the time spent by managers and owners.

After five years' worth of data, Figure 12 provides a time series of data that allows an accurate picture of the actual costs of compliance on businesses. As we have typically seen, small enterprises have much higher compliance costs per employee compared to larger enterprises. However, the other interesting aspect is the clustering that is starting to develop for each FTE group. For the 10-19, 50-99 and 100+ FTE groups, there has been relatively little change in the average total cost per FTE over the last five years. The 20-49 FTE group has shown a series that is more dispersed, although typically between the \$1,000-\$1,500 range of values. The story is very different for the micro-small sized firms. Their values have had a much wider range, typically between \$2,400-\$3,600 for the 0-5 FTE group, and \$1,800-\$3,200 for the 6-9 FTE group.

While the increased proportion of small firms taking part over time helps to indicate where the true 'line' of compliance costs falls, we believe this is probably a minor reason for the dispersion. It is more likely to reflect the business capability of small firms versus large firms in terms of dealing with compliance issues. Given the regulatory changes businesses have incurred over the last five years, any compliance jolts introduced are more likely to be heavily felt amongst smaller firms, as their ability to deal with new or changed regulation is relatively lesser than that of large businesses, since the latter often have staff that can be allocated the task of understanding how and when compliance is required. These results highlight how policies that minimise compliance costs for smaller firms can help to minimise any deadweight cost to the economy.

Figure 12: Total Compliance Costs per FTE by Size of Enterprise (2005-2007)



3.5.1. TAX-RELATED COMPLIANCE COSTS

At a glance

The mean number of internal hours on tax-related compliance costs decreased from 274 in 2006 to 138 in 2007. The average cost of external advice also dropped from \$12,170 in 2006 to \$10,844 in 2007. This means the total average cost also decreased to \$11,592, although the average total cost by FTE rose from \$284 to \$402, because of the increased participation of smaller enterprises and the ongoing relative decrease in larger businesses taking part in the survey.

Table 3: Summary Comparison for Tax Compliance Costs (2005-2007)

Year	2005	2006	2007
Average total cost	\$21,166	\$15,716	\$11,592
Average total cost per FTE	\$151	\$284	\$402
Average mean annual hours spent within enterprise on tax (all sizes)	329	274	138.3
Average internal cost	\$6,762	\$5,931	\$3,130
Maximum annual hours spent by enterprise internally on tax*	100,000	15,000	5,000
Average external cost	\$19,501	\$12,170	\$10,844
Maximum annual amount spent by enterprise externally on tax*	\$2,228,163	\$1,000,000	\$1,000,000
Tax as a % of total compliance costs	40.0%	41.1%	39.2%
% of respondents who obtained information from Inland Revenue	82%	79%	75.9%
% of respondents who employed external tax advisers	73%	76%	72.7%
% of respondents who directly accessed tax legislation	48%	38%	30.0%
% of respondents who used other publications and advice	38%	32%	29.2%

* Extreme values such as those recorded for the number of hours spent on particular compliance costs and costs for external advice for 2003-2007 have been omitted when averages have been calculated so as to avoid the presence of outliers in the data, which could heavily influence the overall results.

In 2007 39.2% of total compliance costs were tax-related, the first time there was a decrease in the value compared with the previous year over the five-year history of the survey.

On average, 138 hours per annum within each respondent enterprise were devoted to tax-related compliance, which is the lowest figure since the survey began. The maximum number of hours spent by an enterprise on tax-related compliance in 2006 was 5,000, considerably less than the 15,000 and 100,000 recorded in 2006 and 2005 respectively.

Around 78% of respondents used out-of-house advisers on tax-related compliance issues for the 2007 survey, which was the second highest percentage since the survey began (the 2006 value being the highest at 81.4%). These respondents on average spent \$10,844 per annum for this advice, which was lower than all but the 2003 value.

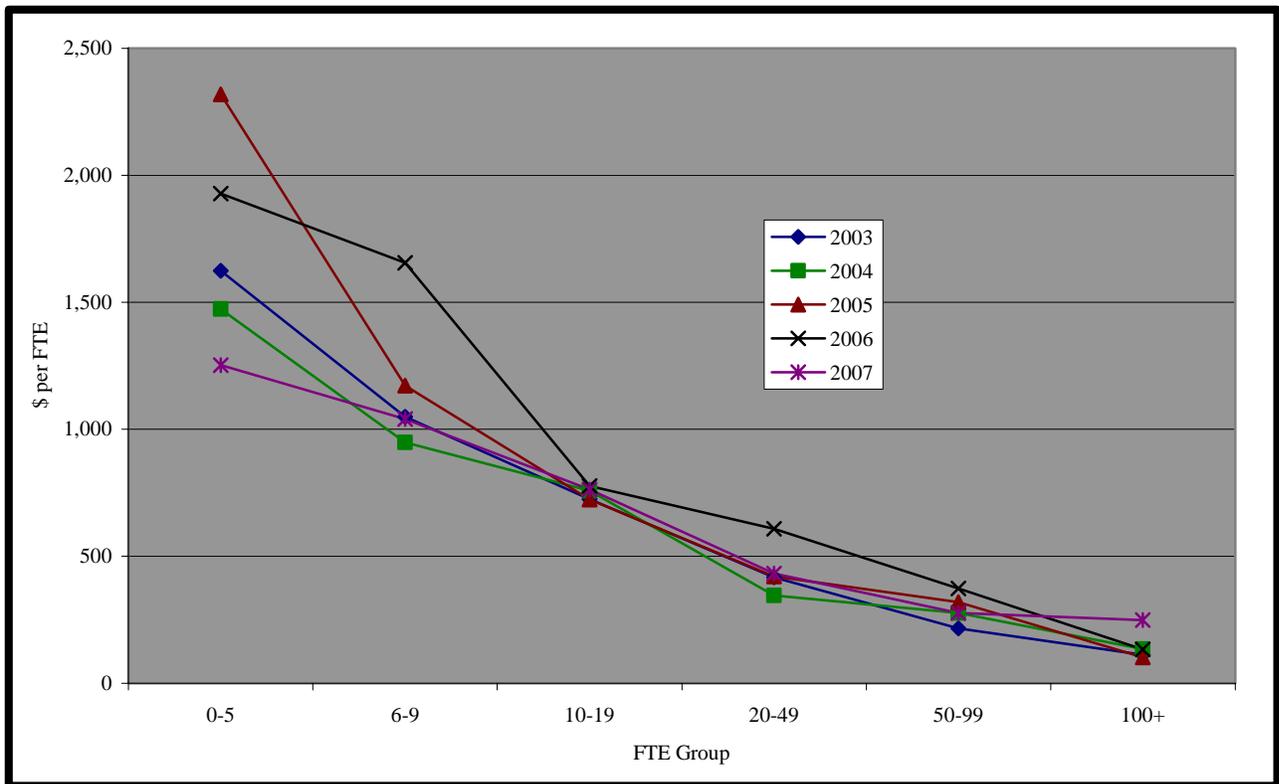
Respondents had average total tax-related compliance costs of \$11,592 in 2007, which was obviously lower than in previous years as average internal hours and average external cost were also lower. However, as previously discussed, the composition of

the sample for the 2007 survey played a significant part in these figures. As a result, on a per FTE basis, total tax-related compliance costs increased from \$284 to \$402, the highest total since the survey began.

The most popular source of external tax information and advice continues to be the IRD at 75.9%, although the 2007 value is towards the bottom end of the figures recorded since 2003. The remaining sources of information also experienced a slight dip in usage, with the largest decline being directly accessing tax legislation (30% in 2007, compared with 37.6% in 2006 and 47.6% in 2005). This substantive drop is due to the ongoing shift towards smaller enterprises, which simply do not often directly access tax legislation as a means of sourcing information.

The results by FTE size (see figure 13) show results over five years similar to that of total compliance costs shown in figure 12 above. The 10-19, 20-49, 50-99 and 100+ FTE groups have all remained largely unchanged since 2003. The 6-9 FTE group has also remained relatively unchanged, although the 2006 value tends to sit as an outlier for the five years of data. In comparison, the 0-5 FTE group produced a wide range of results (between \$1,250 to \$2,319), although it is encouraging to see the cost in 2007 for this group is the lowest value recorded since 2003. If we take the average value for each FTE group over the five years the survey has been running, the 12:1 ratio for costs comparing the 0-5 and 100+ FTE groups is the largest of any of the four main compliance cost areas.

Figure 13: Tax Compliance Costs per FTE by Size of Enterprise (2003-2007)



As has consistently been the trend in the survey, tax is a key compliance concern for respondents.

This last year has seen a considerable volume of tax changes, some already enacted and other merely announced. The managed funds industry has borne the brunt of these changes in terms of compliance costs, with the introduction of the Portfolio Investment Entity and Fair Dividend Rate rules, together with the introduction of KiwiSaver. The industry has spent considerable sums ensuring that their systems are up and running by the commencement of these regimes.

For other businesses, KiwiSaver has been a significant issue. Concerns with KiwiSaver and the hurried introduction of “KiwiSaver Mark II” have been a consistent theme in this year’s survey. Many businesses have expressed concerns around a perceived lack of assistance from Government agencies in preparing for KiwiSaver and a lack of consultation and time for implementation. Government might argue that the KiwiSaver framework was announced some time ago. However, the significant changes heralded in Budget 2007, including the introduction of compulsory employer contributions, have caused considerable impact. We expect the compliance cost spike to continue for the next two years as employers make KiwiSaver-related changes to their employment terms.

Fringe benefit tax (FBT) has again been raised as a significant tax compliance cost issue. This is despite last year’s amendments to the FBT rules. As we have consistently highlighted in the survey, real compliance cost savings in the FBT area will only be achieved if FBT is limited to real and substantial benefits that are provided in substitution for salary and wages, examples include motor vehicles and low interest loans.

In fact, the approaching reduction in the corporate tax rate to 30% could lead to increased FBT compliance costs, as the reduction has increased the differential between the top personal tax rate (39%) and the corporate tax rate.

Other tax policy initiatives will mean that businesses, and their advisors, are working hard to keep up to speed on upcoming tax changes. These initiatives include changes to the international tax rules, the tax treatment of partnerships and the associated persons rules.

As well as law changes, administrative activity can have a significant impact on compliance costs. This year has seen a restructuring of Inland Revenue and it remains to be seen whether the restructuring will make a real difference to service delivery and accordingly compliance costs. It has been pleasing to see Inland Revenue making increased use of technology to interact with taxpayers. The co-operation between the Companies Office and Inland Revenue (discussed elsewhere in this report) is a prime example of this.

Nevertheless, it is extremely disappointing to see Inland Revenue continue with its approach of not providing non binding rulings or guidance on tax laws for large businesses. This has real potential to increase compliance costs for taxpayers.

Recent changes to the penalties rules should have a positive impact on compliance costs, making it easier to resolve any issues arising from errors that are unavoidably made by even the most conscientious of taxpayers.

However, there are a significant number of tax cases before the courts dealing with the resolution of disputes with Inland Revenue. Although it is hoped that the vast majority of taxpayers will never find themselves faced with court proceedings, Inland Revenue's administration of the disputes resolution process (even before a dispute gets as far as the courts) can lead to a significant compliance cost burden, regardless of the actual amounts of tax. The outcome of a number of cases working through the courts in the next year will have significant impact on Inland Revenue's administration of disputes and accordingly taxpayers' compliance costs in resolving these disputes.

Given the higher relative compliance cost burden for small-medium businesses, it will be interesting to see what initiatives the upcoming Government discussion document on tax compliance cost saving measures for this business sector comes up with. Most welcome would be increased acknowledgement that small-medium businesses do not have the same resources as larger businesses and it is hoped that there will be more scope to ease the rules for this sector.

3.5.1a Respondent Comments – Tax Related Compliance Costs

As well as providing costs for tax compliance, respondents were given the opportunity to make comments on tax compliance costs. A total of 183 respondents provided comments.

General

Consistent with prior years, the majority of comments related to compliance costs associated with PAYE, FBT and Goods and Services Tax (GST).

Comments were once again made in that New Zealand's tax is too complicated, with people having to use professional tax advisors in order to protect themselves from excessive penalties.

One respondent noted that "The tax structure is essentially burdensome and could be streamlined in a number of ways. The government says repeatedly that they will look to reduce these costs but they are just playing political games."

A number of respondents felt that the majority of their time was taken up with calculating provisional tax payments and preparing their accounts for tax return purposes. However, as there were few specific comments, we have not included these areas in our summaries below.

Pay As You Earn (PAYE)

As in prior years, a number of respondents commented that PAYE compliance is very time consuming and expensive. A number of respondents commented that their costs are high due to the requirement to pay PAYE deductions to Inland Revenue twice monthly, even though they do not consider themselves to be large businesses.

One respondent commented that he “would like to pay PAYE once per month only” as it is more work to pay it twice monthly and harder on the business financially.

Fringe Benefit Tax (FBT)

Consistent with 2006, a number of respondents felt that FBT takes up the majority of their time and costs in relation to tax compliance. One respondent commented that FBT is “extraordinarily complex to administer correctly in accordance with the law”.

Another respondent noted that FBT consumes an exorbitant amount of time to manage and calculate, especially in relation to the individual employee wash-up calculation that has to be prepared annually.

Goods and Services Tax (GST)

A number of respondents felt that the majority of the time they spend on their tax compliance is on GST-related matters.

Respondents felt that GST requires continual bookwork and incurs ongoing costs, with one respondent commenting that “the consistent calculation of one-eighth on every invoiced figure tallies to a large sum of totally wasted time, cost and effort”.

As in 2006, many respondents also felt they are providing a service to the government by collecting GST on its behalf and are not compensated or even thanked.

3.5.2. EMPLOYMENT RELATED COMPLIANCE COSTS

At a glance

The average number of internal hours spent on employment was 187 in 2007, compared with 271 in 2006. The average cost of external advice also decreased to \$4,223. However, on an FTE basis, costs rose from \$158 in 2006 to \$223 in 2007, which was close to the 2003 result.

Table 4: Summary Comparison for Employment Compliance Costs (2005-2007)

Year	2005	2006	2007
Average total cost	\$13,782	\$8,747	\$6,418
Average total cost per FTE	\$99	\$158	\$223
Average mean annual hours spent within enterprise on employment costs (all sizes)	441.5	270.9	186.6
Average internal cost	\$9,077	\$5,860	\$4,223
Maximum annual hours spent by enterprise internally on employment costs	53,300	40,000	6,720
Average external cost	\$10,330	\$7,274	\$5,893
Maximum annual amount spent by enterprise externally on employment costs	\$2,000,000	\$120,000	\$200,000
Employment as a % of total compliance costs	26.0%	22.9%	21.7%
% of respondents who employed external employment advisers	45.5%	41.4%	37.3%

Employment-related issues as a share of total compliance costs for 2007 (21.7%) were again down from 2006 (22.9%), and the lowest value since the survey began.

The number of hours per annum within the enterprise devoted to employment-related compliance decreased from 271 in 2006 to 187 in 2007. The maximum number of hours spent by an individual enterprise on employment costs was 6,720, a considerable fall from the 40,000 in 2006 and 53,350 in 2005 (most likely due to a lower number of 100+ enterprises taking part in the 2007 survey).

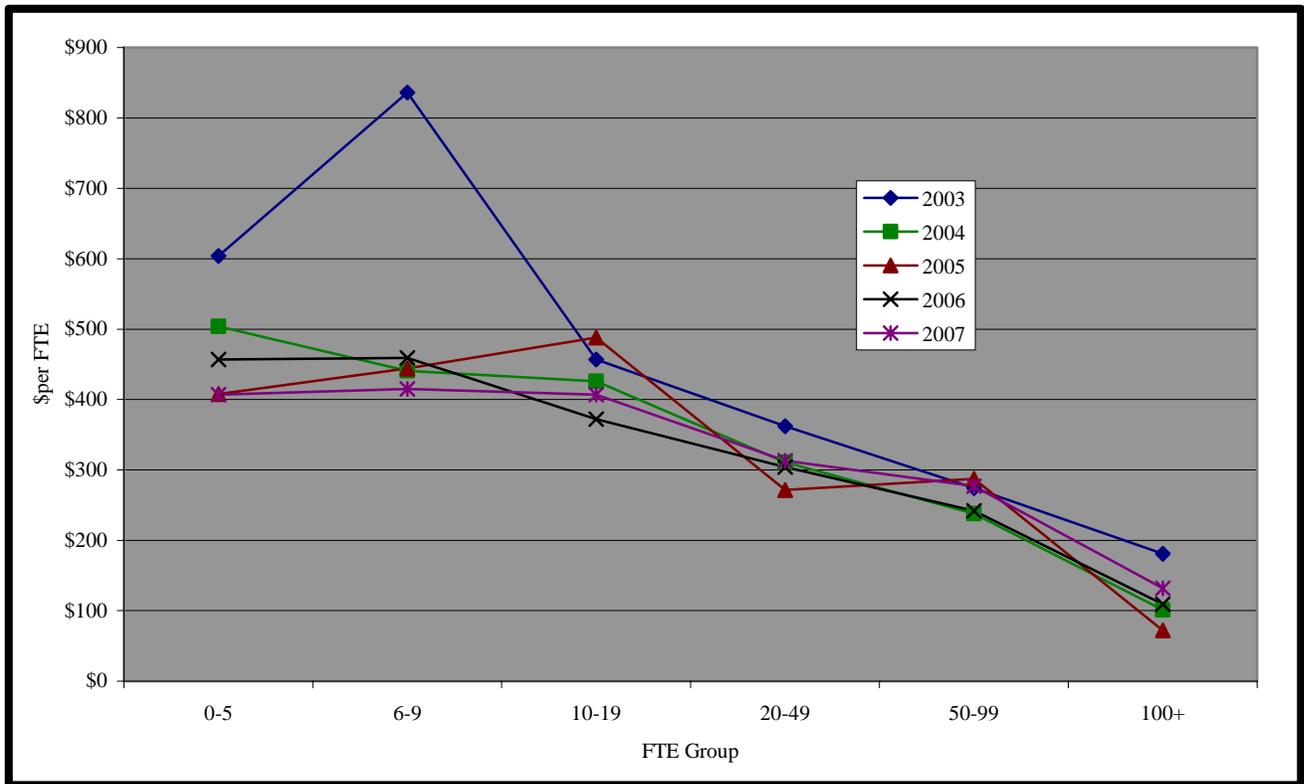
The share of respondents who employed external employment advisers has continued to fall since the survey began, with 37.3% using them during 2007, compared with 41.4% in 2006, and 55.9% in 2003 when the percentage value was at its highest. Respondents in 2007 spent on average \$5,893 per annum on advice, the lowest value over the five-year history of the survey. The maximum annual amount spent by an enterprise on external advice for employment-related compliance requirements was \$200,000, up on the \$120,000 in 2006 but considerably lower than the \$2,000,000 maximum value for 2005.

Respondents had average total employment-related compliance costs of \$6,418 in 2007, a drop from \$8,747 in 2006. However, on a per FTE basis, total employment-related compliance costs rose from \$158 in 2006 to \$223 in 2007.

Results for employment compliance costs per FTE by enterprise size in figure 14 show values for 2007 largely within the range recorded over the last five years. However, it is interesting to note that apart from the high values recorded for the 0-5 and 6-9 FTE group when the survey began, the remaining values over the five years have been very consistent, with employment costs per FTE ranging between \$400-\$500 for the 0-5, 6-9

and 10-19 FTE groups, and then tracking downwards as the size of the enterprise increases.

Figure 14: Employment Compliance Costs per FTE by Size of Enterprise (2005-2007)



It is important to recall that 2003 saw amendments to the HSE Act, which required businesses to make significant one-off changes to workplace practices, resulting in 2003 being a particularly costly year. In comparison, the changes to the Holidays Act in 2004 involved comparatively fewer changes to the workplace, therefore lower actual compliance costs, as most costs would have been in the form of increased wage and salary entitlements, which are not deemed compliance costs. In December 2004 there were further changes to the ERA, relating to passing on collective terms and conditions to individual employment agreements, vulnerable employees, personal grievances and so on. In April 2007, four weeks' annual leave was formally introduced, while on 1 July 2007 KiwiSaver officially began.

Looking at the effect of KiwiSaver on employment costs, there may have been an expectation that costs associated with KiwiSaver would have lifted average costs by the various FTE sizes. However, the results by FTE group for 2007 are very similar to previous years. There are two likely reasons for this. Firstly, as outlined above, there have been substantive across the board changes in the employment area over the last few years, which may mean the introduction of KiwiSaver is simply a substitute for previous costs, causing the 2007 results to be similar to previous years. Also, the full costs of KiwiSaver for employers in terms of compliance are yet to be fully realised, especially since the changes in KiwiSaver Mark II only come into effect in April 2008.

Therefore, while there has been a marked increase in the compliance cost priority and trend of ERSS, as well as some businesses already experiencing sizeable costs associated with KiwiSaver, it is probable that costs associated with the scheme will peak in the next few years before they start to come back down.

3.5.2a Respondent Comments – Employment Related Compliance Costs

As well as providing costs for employment compliance, respondents passed comment on employment related compliance costs. A total of 150 respondents provided comments.

General

Respondents commented that employment-related compliance issues continue to be very time-consuming and costly.

Consistent with last year, there was a general consensus that there is a lot of pressure for businesses to keep up to date with any legislative changes and to ensure compliance in all areas, for example the Employment Relations Act, the Holidays Act, and the KiwiSaver regime. One respondent noted that “KiwiSaver and the increase in leave entitlements within 6 months have put great strain on our company to meet these obligations. Our compliance costs have increased internally and externally, with the need to use out of house advisors and attend numerous seminars.”

Employment Relations Act (ERA)

Consistently with prior years, many respondents felt that the ERA provides significant compliance costs. One respondent commented that they avoid taking on employees because of these costs and the risk of legal action, “these factors are proving to be a big barrier to expansion of business”.

A number of employers commented that they face significant costs when employing new employees or dismissing existing employees. The general feeling amongst respondents continued to be that the law in this area favours employees and that employers must “tip toe” around these matters so as not to cause personal grievance complaints from employees.

Health and Safety in Employment Act

A number of respondents noted they incur high costs in ensuring that they are OSH compliant. In general, respondents felt there is a lot of planning and paperwork required in this area and, as it is too expensive to hire an outside consultant, they spend a lot of time on health and safety themselves. One respondent commented that “OSH paperwork is very irrelevant and often hard to understand for my employees which involves me having to type up explanations of my circumstances to accompany every OSH form”.

Holidays Act

Many respondents continue to feel that interpreting and implementing the Holidays Act is a large employment-related compliance cost.

In particular, the law introduced to allow employees four weeks of holidays per annum has caused many businesses additional costs in negotiating and redrafting existing employment agreements. Many respondents noted that the legislation in this area is difficult to understand and apply to their particular situation.

KiwiSaver regime

A large number of respondents felt that the introduction of the KiwiSaver regime has led to significant employment-related compliance costs. In general, employers found the regime to be very confusing and poorly implemented. This has led to a significant amount of time and cost being incurred in trying to keep up with their obligations as employers.

One respondent commented that the implementation of KiwiSaver had involved “a lot of media PR from the Government with no substance to back it up.”

3.5.3. ENVIRONMENT RELATED COMPLIANCE COSTS

At a glance

In 2007 the average enterprise spent approximately 95 hours on environment-related compliance, almost the identical amount of time as 2006. The percentage of respondents who engaged external advice fell slightly for 2007, while the average external cost rose. On an FTE basis, costs were the highest since the survey began in 2003.

Table 5: Summary Comparison for Environmental Compliance Costs (2005-2007)

Year	2005	2006	2007
Average total cost	\$8,100	\$5,195	\$5,499
Average total cost per FTE	\$58	\$94	\$191
Average mean annual hours spent within enterprise on Environmental costs (all sizes)	140.4	94.6	95.0
Average internal cost	\$2,887	\$2,046	\$2,150
Maximum annual hours spent by enterprise internally on environmental costs	50,000	200,000	10,000
Average external cost	\$32,770	\$20,367	\$21,685
Maximum annual amount spent by enterprise externally on environmental costs	\$2,000,000	\$500,000	\$500,000
Environmental costs as a % of total compliance costs	15.3%	13.6%	18.6%
% of respondents who employed external environmental advisers	16.1%	16.1%	15.7%

For 2006, 18.6% of total compliance costs were for environment-related issues, the highest figure over the history of the survey.

The number of hours per annum spent within the enterprise on environment-related compliance issues was largely unchanged for 2007 by comparison with 2006. However, the maximum annual hours spent by an enterprise on environment-related compliance requirements fell back to 10,000 in 2007, compared with a high of 200,000 in 2006.

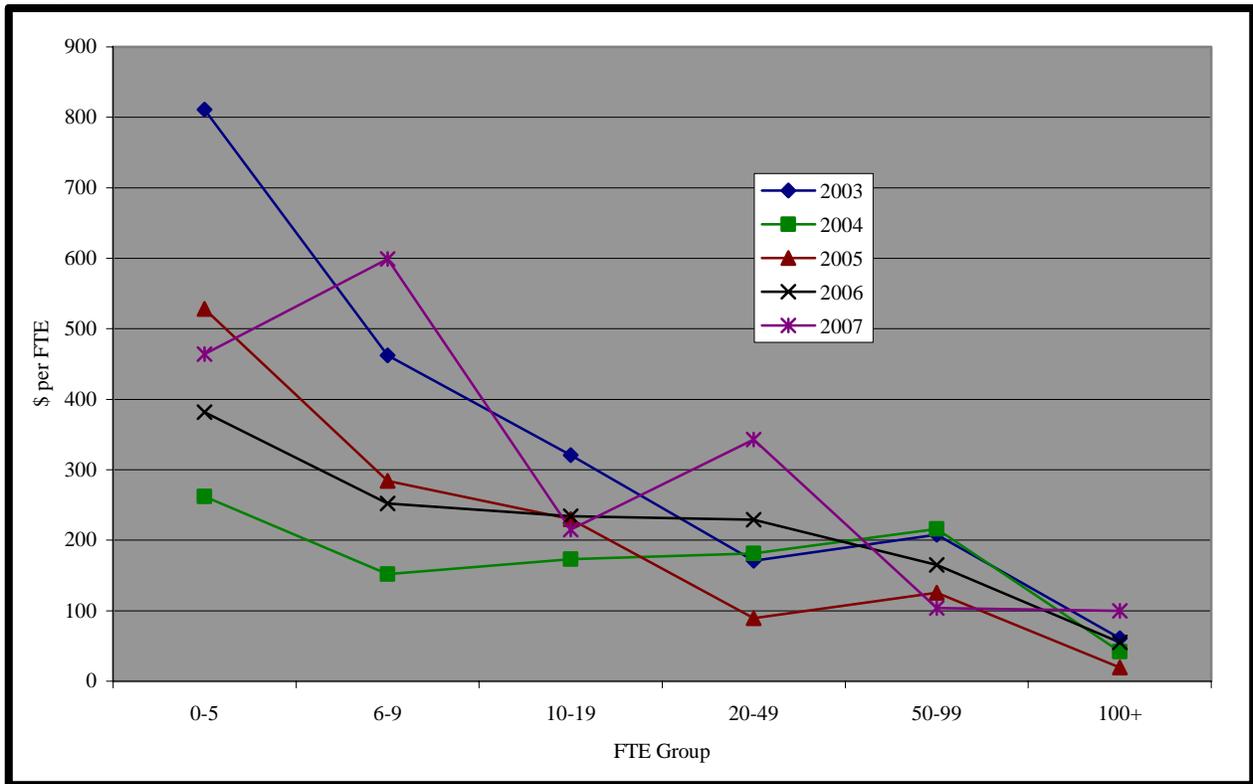
The proportion of respondents using out-of-house advisers on environment-related compliance issues fell slightly in 2007 (15.7%), compared with the value of 16.1% recorded in both 2005 and 2006. These respondents on average spent \$21,685 per annum on advice, up on the \$20,367 in 2006. The maximum amount spent by an enterprise on external advice for environment-related compliance requirements was \$500,000, the same value as in 2006.

Respondents had average total environment-related compliance costs of \$5,499 in 2007, up on the \$5,195 recorded in 2006. On a per FTE basis, total employment-related compliance costs increased from \$94 in 2006 to \$191 in 2007, which was the highest value recorded since the survey began.

Figure 15 shows 2007 displaying varied results by FTE group compared with the more lineal trends in previous years. In particular, the 6-9 and 20-49 FTE groups experienced their highest values during the five years the survey has been running. These spikes were due to high external environmental costs for a group of enterprises in these

categories, typically in the construction, electricity, gas & water, and transport & storage sectors. While the values were significant (as a group ranging from \$80,000 to \$500,000), they were still within the acceptable range to remain as part of the formal data set. However, if these results were taken out, it would move the 6-9 FTE value for 2007 to just below the 2003 value, with the 20-49 FTE value moving within the mid range of previous results.

Figure 15: Environmental Compliance Costs per FTE by Size of Enterprise (2003-2007)



3.5.3a Respondent Comments – Environment Related Compliance Costs

As well as providing costs, respondents also commented on environmental related compliance costs. A total of 70 respondents provided comments.

General

As in prior years, a large number of comments received related to the compliance costs associated with the Resource Management Act (RMA). This year many respondents also commented on environment compliance costs arising from local government regulations.

Once again, it appears that the nature and extent of any environment-related compliance costs ultimately depend on the nature of the enterprise, and any specific projects that may be undertaken during the year, such as building alterations.

Resource Management Act (RMA)

As in previous years, a number of respondents commented on the high environment-related compliance costs associated with the RMA, with many respondents noting that it is very costly and time consuming to apply for and retain the consents required under the Act.

Many respondents noted that receiving resource consents involves a significant amount of time and cost, due to the delays that usually arise. One respondent commented that “it took 8 months to get a consent that should have taken 20 days” and that they were held up by regional council staff on a “power trip”.

Local Authority Requirements

A number of respondents felt that the requirements put in place by their local authorities, such as the District Council or Regional Council, are a large environment-related compliance cost. Respondents considered that local authorities overcharge for services provided, such as the granting of consents. In particular, one respondent commented that “Local Councils and Regional Councils are beauracritic thieves.”

By contrast, another respondent noted that although they had to spend a lot of time meeting Regional Council guidelines, advice on meeting the guidelines was provided free by the Council.

3.5.4. OTHER COMPLIANCE COSTS

At a glance

The average enterprise spent 119 hours on other compliance requirements over 2007, which was the lowest value compared with previous results. On average, enterprises spent \$20,941 on advice relating to other compliance requirements for the year, while firms responding to the ‘other’ costs section by FTE group showed the highest result over the five year history of the survey.

Table 6: Summary Comparison for ‘Other’ Compliance Costs (2005-2007)

Year	2005	2006	2007
Average total cost	\$9,963	\$8,574	\$6,069
Average total cost per FTE	\$72	\$155	\$211
Average mean annual hours spent within enterprise on ‘other’ costs (all sizes)	245.8	212.2	119.2
Average internal cost	\$5,054	\$4,590	\$2,710
Maximum annual hours spent by enterprise internally on ‘other’ compliance costs	65,000	40,000	11,440
Average external cost	\$28,238	\$23,308	\$20,941
Maximum annual amount spent by enterprise externally on ‘other’ costs	\$1,000,000	\$2,000,000	\$3,000,000
‘Other’ costs as a % of total compliance costs	18.8%	22.4%	20.5%
% of respondents who employed external advisers	18.3%	19.3%	16.2%

Table 6 shows that for 2007 20.5% of total compliance costs were for ‘other’ issues (i.e. those that were neither tax, employment, or environment-related issues). This was a mid-range value when examining results since 2003.

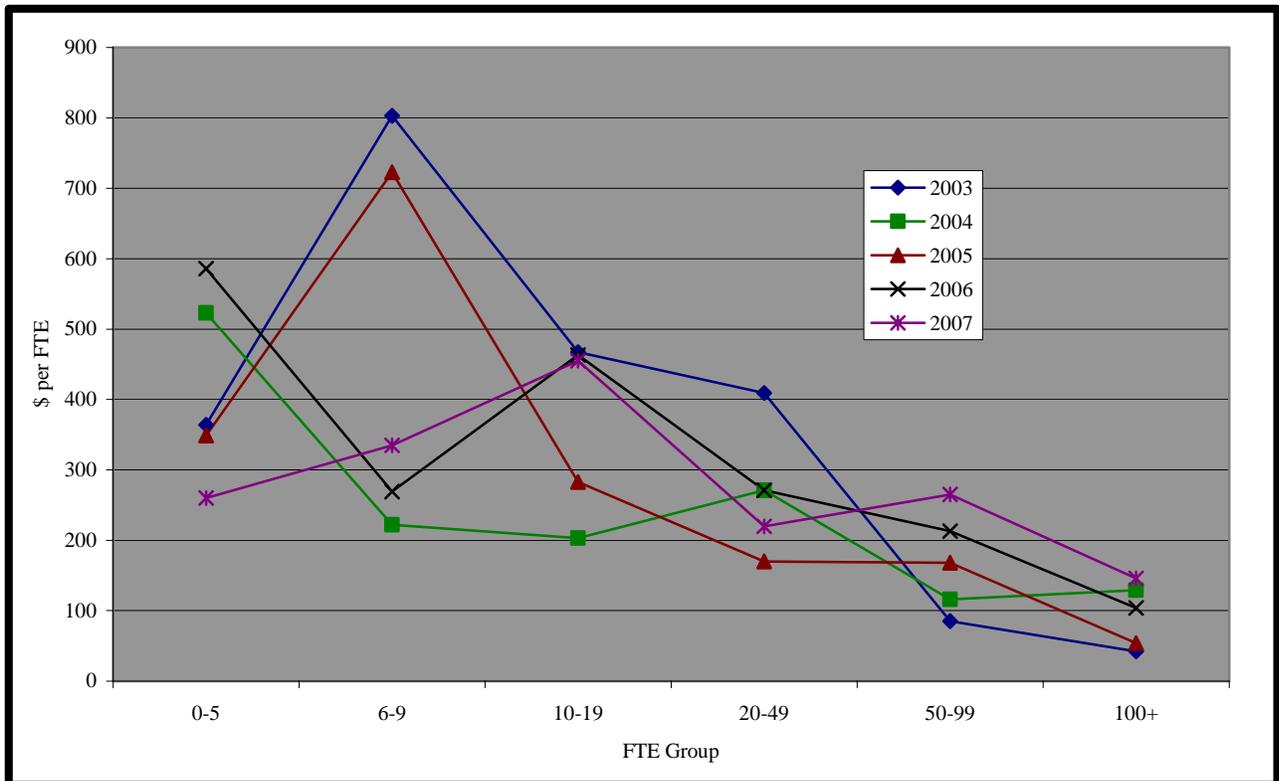
The average number of hours per annum spent within the enterprise on ‘other’ compliance issues decreased from 212.2 in 2006 to 119.2 in 2007 – the lowest result for the history of the survey. The maximum annual hours spent by an enterprise on ‘other’-related compliance requirements was 11,440, again down from the previous year.

The proportion of respondents that used out-of-house advisers on ‘other’ compliance issues decreased from 19.3% in 2005 to 16.2% in 2007. These respondents on average spent \$20,941 per annum on advice, which was below the values in 2005 and 2006, but still well above the 2003 and 2004 results. The maximum amount spent by an enterprise on external advice for ‘other’ compliance requirements was \$3,000,000, which was the highest maximum value recorded for a single year. However, it is important to reiterate that these large values have not been included in the analysis for any of the five years because of the extreme influence large values have on results overall.

Respondents had average ‘other’ compliance costs of \$6,069 in 2007, with only 2004 recording a lower value. On a per FTE basis, ‘other’ compliance costs were again the highest recorded since the survey began, at \$211, with the 2006 result (\$155) in second place.

Figure 16 shows a trend of falling costs per FTE. Of the four broad compliance cost groups, the 'other' group is generally less likely to show real trend patterns from year to year, because it encompasses all other compliance costs, which could be affected with any number of legislative changes or amendments to regulations. The pattern for 2007 seems to be show less variation across the FTE groups compared with previous years, with results peaking for the 10-19 group, compared with either the 0-5 or 6-9 groups for the years 2003-2006.

Figure 16: 'Other' Compliance Costs per FTE by Enterprise Size (2003-2007)



3.5.4a Respondent Comments – 'Other- Related Compliance Costs

As well as providing costs for 'other' compliance, respondents made comment on 'other'-related compliance costs. A total of 206 respondents provided extra comments.

General

The most significant "other" compliance costs were:

1. SNZ surveys;
2. Companies and Securities Law;
3. Education issues, such as dealing with the Tertiary Education Commission and the New Zealand Qualifications Authority;
4. Consumer issues;

5. Transport issues;
6. Legal fees; and
7. Health Sector

Other compliance cost areas mentioned were: Charities Commission requirements, Liquor Licensing, health sector certification, Customs documentation and reporting to the Ministry of Social Development.

3.5.5. Respondent Ideas

The last section of the survey was designed to obtain details of any ideas respondents might have to reduce compliance costs.

A total of 315 respondents provided a comment and we received a variety of responses, with the main themes being:

- Abandon the “one size fits all” approach (i.e. small enterprises should not be treated exactly the same as large organisations with big staffing resources);
- More online forms and returns – these reduce the cost of printing as well as allowing for a form to be instantaneously transmitted to the appropriate authority; and
- Provide adequate time for the implementation of new legislation (e.g. KiwiSaver).