



**REPORT OF THE  
BUSINESS NEW ZEALAND – KPMG COMPLIANCE  
COST SURVEY  
AUGUST 2003**

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## 1. INTRODUCTION

Most in the business community accept that compliance requirements are a necessary part of doing business. However, if these requirements are overly complex and onerous they can create significant costs. This is particularly so for small businesses, which face disproportionately higher compliance costs and penalties for non-compliance. According to the 2001 Report of the Ministerial Panel on Business Compliance Costs, high compliance costs stifle innovation, hinder competitiveness, deter compliance, and discourage firms from growing and taking on more staff.

This report provides the results of a survey on business compliance costs conducted by Business New Zealand in conjunction with KPMG. It is the first of what we intend to be an annual survey, painting a picture of compliance cost levels and trends. The survey was conducted predominantly among firms and enterprises belonging to the regional associations constituting Business New Zealand<sup>1</sup>, as well as some clients of KPMG.

This report will be critical for the ability of the business community to monitor compliance cost trends and will enable more effective advocacy for a more business-friendly policy and regulatory environment, including lower compliance costs. Policy makers should also find the report to be of interest as it provides an up-to-date snapshot of the business community's priorities for action on compliance costs.

This report presents a comprehensive overview of the results of the survey, but given the extensive nature of the data collected, there are many areas where further investigation could be undertaken. As this survey will be repeated in 2004, suggestions for improving survey design and methodology would be welcomed.

We would like to take this opportunity to express our great appreciation to the 760 survey respondents for the valuable time they made available to complete the survey and for providing their insights on compliance issues.

Simon Carlaw  
Chief Executive  
Business New Zealand

Alan Isaac  
National Chairman  
KPMG

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<sup>1</sup> These regions are the Employers' and Manufacturers' Association (Northern); Employers' and Manufacturers' Association (Central); Canterbury Employers' Chamber of Commerce; Canterbury Manufacturers Association; and Otago-Southland Employers' Association.

## **2. SUMMARY OF FINDINGS**

This section provides a summary of the findings of the survey, details of which are contained in the rest of the report.

The respondents were asked to provide their top compliance cost priorities, their experience of the helpfulness of central and local government agencies, and their perceptions of the trend of compliance costs over the past 12 months. They were also asked for an estimate of the number of hours spent within the enterprise and the external costs they had incurred in complying with tax, employment, environmental and other compliance costs over the past 12 months.

### **2.1 Respondent Profile**

760 enterprises responded to the survey, employing over 49,000 full-time equivalents. 19.3% of these enterprises had 5 or fewer employees and at the other extreme, 13.2% had 100 or more employees.

29.0% of respondent enterprises had annual turnover (excluding GST) of less than \$1 million, while 3.9% reported turnover of over \$50 million. Aggregate turnover amounted to over \$6 billion (exclusive of GST).

The respondents were spread throughout the country. 66.4% of enterprises were from the North Island and 33.6% from the South Island.

There was also a wide representation of industries, with manufacturing being the largest single sector with 29.8% of respondents. The service sectors grouped together provided 56.9% of respondents.

### **2.2 Top Compliance Cost Priorities**

35.5% of respondents selected tax as their top compliance cost priority, followed by the health and safety in employment (HSE) (22.8%), employment relations (10.5%), and ACC (7.9%).

However, when combining the respondents' top three priorities, HSE came out on top (64.9%), followed closely by tax (60.8%), and with employment relations (47.6%) and ACC (38.7%) further behind.

Past surveys of business compliance costs have found tax to be the top priority by large margins. It is clear that recent changes to employment legislation, particularly HSE, has had a dramatic impact on reordering the issues of priority. Likely changes to the Holidays Act and Employment Relations Act and possible moves on pay equity will only continue this trend.

However, on the positive side, this survey indicates that recent tax simplification initiatives may be helping improve perceptions on tax-related compliance costs.

## **2.3 Helpfulness of Central and Local Government Agencies**

The Inland Revenue Department (IRD) had the most contact from respondents over the preceding 12 months (89.6%). Over half of respondents also reported contact with ACC, Work and Income NZ, and Statistics NZ. At the other extreme the Environmental Risk Management Authority (ERMA) had the lowest degree of contact with respondents (10.5%).

Encouragingly, all the agencies listed in the survey were considered by more respondents to be very helpful or helpful compared to very unhelpful or unhelpful.

Respondents considered the Companies Office to be the most helpful agency, regardless of enterprise size, industry, or region, which indicates that it might be a good model for other agencies.

ERMA was considered to be the least helpful agency, but recent announcements on HSNO and ERMA may help improve perceptions in future surveys.

## **2.4 Compliance Cost Trends**

Almost all respondents considered that there had either been an increase in compliance costs or no change in compliance costs over the past 12 months. This was regardless of the compliance cost area. In fact, there were only 14 respondents (1.8%) who did not select 'increase' to at least one of the compliance cost areas. Of those 14 respondents, 11 simply chose 'no change' for all the areas.

The area that respondents perceived to have had the largest increases in compliance costs was HSE (where over 83% of respondents considered costs to have increased), followed by ACC and employment relations.

The area that respondents perceived to have had the least change in compliance costs was border control (where almost 80% of respondents considered there had been no change), followed by RMA and the transport sector.

The numbers of respondents who considered that compliance costs had fallen over the previous 12 months was tiny across every area – in fact, not a single respondent considered that compliance costs for HSE had fallen. Tax issues and companies and securities law recorded the most respondents who considered costs to have fallen (but only around 3% in each case).

These findings are consistent with the responses on compliance cost priorities, where concerns about employment-related compliance costs are clearly increasing.

## **2.5 Estimating Total Compliance Costs**

The average enterprise spent 1,312 hours per annum on compliance requirements (around 20 hours per FTE on average). However, the internal cost is not the only factor – many enterprises also pay for external advice, particularly on tax and employment-related compliance requirements.

In total, the survey found that the average respondent's annual compliance burden came to \$52,724 per annum. This total cost was made up of two components:

- The average hours per annum spent within the enterprise on compliance issues, which was charged at a uniform rate of \$19.04 per hour<sup>2</sup>.
- The cost of out-of-house advisers used for compliance issues.

The average total cost of \$52,724 per annum can also be expressed as \$812 per FTE employee or 0.65% of turnover.

Small enterprises had very high compliance costs per employee or percent of turnover compared to larger enterprises. For example, the survey found that enterprises in the 0-5 FTE group spent 271 hours per year internally on compliance costs (around 85 hours per FTE) and incurred total costs of \$10,793 (around \$3,405 per FTE or 1.14% of turnover).

On an industry basis, the primary industry reported the highest compliance costs. Respondents from the Northland/Auckland and Canterbury regions reported relatively low compliance costs.

### *Tax*

30.1% of total compliance costs were for tax-related issues.

On average, 316 hours per annum were consumed within each respondent enterprise on tax-related compliance issues (at an average cost of \$6,008 per annum). The maximum annual hours spent by an enterprise on tax-related compliance requirements was 40,000.

In addition, 77% of respondents used out-of-house advisers on tax-related compliance issues and these on average spent \$11,817 per annum for advice. The maximum annual amount spent by an enterprise on external advice for tax-related compliance requirements was \$550,000.

While 78% of respondents used IRD information for advice, only 42% used tax legislation as a source of information.

### *Employment*

29.4% of total compliance costs were for employment-related issues.

On average, 550 hours per annum were spent within the enterprise on employment-related compliance issues (an average cost of \$10,466 per annum). The maximum annual hours spent by an enterprise on employment-related compliance requirements was 32,000.

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<sup>2</sup> This amount is the average hourly earnings from the Quarterly Employment Survey for the year ended February 2003. It is a conservative estimate in that it is likely to underestimate the value of the time spent by managers and owners.

In addition, 55% of respondents used out-of-house advisers on employment-related compliance issues and these on average spent \$8,625 per annum on advice. The maximum annual amount spent by an enterprise on external advice for employment-related compliance requirements was \$800,000.

### *Environmental*

24.5% of total compliance costs were for environment-related issues.

On average, 185 hours per annum were spent within the enterprise on environment-related compliance issues (at an average cost of \$3,516 per annum). The maximum annual hours spent by an enterprise on environment-related compliance requirements was 10,000.

In addition, 18% of respondents used out-of-house advisers on environment-related compliance issues and these on average spent \$39,871 per annum on advice. The maximum annual amount spent by an enterprise on external advice for environment-related compliance requirements was \$1.8 million.

### *Other*

16.0% of total compliance costs were for 'other' issues (i.e., those that were non tax, employment, or environment-related issues).

On average, 261 hours per annum were spent within the enterprise on other (i.e., non tax, employment or environmental-related) compliance issues (at an average cost of \$4,962). The maximum annual hours spent by an enterprise on other compliance requirements was 20,000.

In addition, 18% of respondents used out-of-house advisers on other compliance issues and these enterprises spent \$17,954 per annum on advice. The maximum annual amount spent by an enterprise on external advice for other compliance requirements was \$800,000.

## **2.6 International Comparisons**

Making international comparisons of compliance cost levels is always difficult due to each country having a very different regulatory burden and therefore costs. However, in 2001 an OECD study attempted to make such a comparison – albeit for a limited range of countries. The Business New Zealand – KPMG survey's results were not inconsistent with the OECD's key findings, particularly that of small businesses bearing a disproportionately high compliance burden.

### **3. METHODOLOGY**

#### **3.1 Target Population**

The target population was identified as any New Zealand enterprise, since the aim of the survey was to collect information on business compliance costs in New Zealand.

Business New Zealand has an appropriately broad sub-population base in which to conduct a survey on business compliance costs through the member enterprises of its five regional associations (Employers' and Manufacturers' Association (Northern); Employers' and Manufacturers' Association (Central); Canterbury Employers' Chamber of Commerce; Canterbury Manufacturers' Association; and Otago Southland Employers' Association).

#### **3.2 Questionnaire Design, Consultation, and Testing**

The inspiration for the survey came from discussions between staff of Business New Zealand and KPMG on the need for the business community to be able to rigorously assess trends in the compliance burden and quantify the costs of compliance. Business New Zealand and KPMG agreed that an annual survey of the business community would provide invaluable information to assist in advocating for lower compliance costs and a more business-friendly regulatory environment.

The methodology for the survey was inspired by two main sources:

- The ANZ-Business New Zealand Performance of Manufacturing Index (PMI), which has been running since August 2002 as a monthly survey of activity in the manufacturing sector.
- A 1992 study carried out by Sanford and Haseldine, *The Compliance Costs of Business Taxes in New Zealand*. As this survey was focused on tax compliance costs, Business New Zealand adapted the methodology for use across the remaining compliance cost areas.

With KPMG's assistance, Business New Zealand designed an initial questionnaire, which was sent to Statistics New Zealand, Inland Revenue Department, and Ministry of Economic Development for their information and comment. The survey was also discussed with individual members of the 2001 Ministerial Panel on Business Compliance Costs.

After a revised questionnaire was developed, testing took place with selected members of the regional associations to ensure rigorous trialing of the survey and to minimise misinterpretation of questions by respondents.

#### **3.3 Delivery of the Survey**

Through its monthly experience of the delivering PMI, and the successful delivery of a major skills and training survey, Business New Zealand decided to use a web-based delivery option.

A high proportion of businesses currently have e-mail and Internet access and Business New Zealand has found that the web-based option is user-friendly results in a relatively high response rate. Importantly, a web-based survey also has considerable time and cost advantages over phone or paper-based surveys.

However, Business New Zealand did make a paper-based version available for those who could access the website but still wished to complete the survey. 11 of the 760 responses received were paper-based.

The URL addresses for the survey were set up using the Employers' and Manufacturers' Association (Central) web-survey system. Six URL links were established, one for each of the five regional associations and one for the use of KPMG. This meant that individual branding could be displayed.

### **3.4 Data Capture and Confidentiality**

The regional associations were assigned with sending the survey into the field by e-mailing the URL links to their members. The survey was sent out to the population of the regional associations with e-mail access<sup>3</sup>.

The regional associations sent an e-mail message to each participant informing them of the background and aims of the survey, along with a URL link to the survey and a unique identification number that the respondent would input when completing the survey.

Only the regional association and the respondent knew what their identification number was and the relationship between the number and the enterprise was not disclosed to any other party, including either Business New Zealand or KPMG. After respondents submitted their responses over the web, the data was automatically transferred to a data capture system, run by an independent IT contractor.

To avoid respondents submitting information more than once, a cookie control was set up by the IT contractor, which automatically stored a random code onto the respondent's PC. If the respondent tried to submit the survey again, they would be taken to the URL link that informed them that they had already completed the survey. As the code was random, it did not have any connection with the respondent's identification number and the cookie code was not retained on any database, so further assuring the confidentiality of respondents.

Considering the length of the survey and the burden this might have placed on some respondents, the regional associations also provided incentives for participation, which involved those submitting a response being entered into a prize draw run by each regional association.

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<sup>3</sup> KPMG also e-mailed the recipients of its *taxmail* electronic newsletter with a URL link inviting them to participate in the survey if they had not already been previously contacted by one of Business New Zealand's regional associations. This provided some additional responses, but over 95% of respondents were identified as having completed the survey via one of the regional associations.

### **3.5 Field Time**

The survey was conducted over a two-week period from 30 June to 11 July 2003. After the initial e-mail was sent out by the regional associations to notify the respondents of the survey and provide them with a link to the respective website, a reminder e-mail was sent by the respective regional associations to those who had not yet completed the survey.

### **3.6 Final Dataset**

760 responses were received. After the survey was closed, the raw dataset was sent to Business New Zealand, with the data compiled and analysed by Business New Zealand staff using SPSS statistical software.

### **3.7 Limitations to the Dataset**

The survey was conducted within the population of members of Business New Zealand's five regional associations. As such, it is not a fully representative sample of New Zealand enterprises as set out in Statistics New Zealand's Business Demography Statistics.

For example, the number of respondents has a bias towards medium and large sized enterprises with relatively fewer micro or small enterprises. In terms of industry sector, manufacturing was significantly over-represented while property and business services were significantly under-represented. Regionally, the South Island was over-represented, while the lower half of the North Island was under-represented.

However, while these limitations may impact upon the overall results, the breakdowns by enterprise size, industry, and region nevertheless provide credible data for even those areas that were under-represented. For example, even though only 19% of respondents had five or fewer employees (compared to 84% of the population), this still constituted 147 respondents.

In summary, the important point to note is that the survey results are indicative rather than conclusive.

### **3.8 Follow Up**

The survey asked respondents to indicate whether they would be prepared to participate in a more detailed survey to measure compliance costs over a period of time. 233 respondents answered 'yes', which was an encouraging result. We intend to contact a selection of these respondents to undertake a more detailed longitudinal survey.

### **3.9 Future Surveys**

This survey is the first of what will be an annual survey and in future we intend to base some of the key results to 100 to enable the generation of indices.

## 4. RESPONDENT PROFILE

### 4.1 Number of Respondents

There were 760 respondents to the survey.

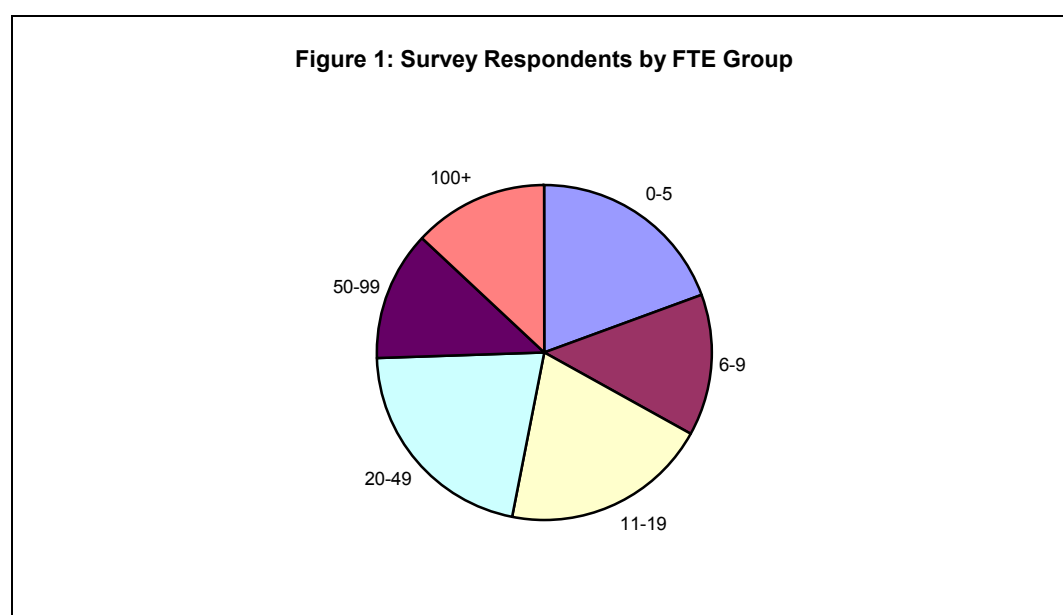
### 4.2 Size of Enterprise

Table 1 groups survey respondents by the number of people they employ. The table shows that 19.4% of respondents employed five or fewer full time equivalent employees (FTEs). In contrast, Statistics New Zealand's Business Demography Statistics<sup>4</sup> show that just 83.9% of New Zealand enterprises employ five or fewer FTEs.

**Table 1: Respondents by Number of Full Time Equivalent Employees**

Number of FTEs	Number of respondents	Percent of total valid responses	Population (Business Demography Statistics)
0-5	147	19.4%	83.9%
6-9	105	13.8%	7.3%
10-19	151	19.9%	7.6%
20-49	163	21.5%	
50-99	93	12.3%	0.7%
100+	100	13.2%	0.5%
<b>Total valid responses</b>	<b>759</b>	<b>100.0%</b>	<b>100.0%</b>
Did not respond	1	--	--

These findings are illustrated as a pie chart in Figure 1.



<sup>4</sup> Statistics New Zealand Business Demography Statistics, February 2002. These statistics are published annually. The February 2003 data is due for release in October 2003.

Table 2 provides an alternative measure of enterprise size by grouping respondents by annual turnover (excluding GST). The analysis indicates a large proportion (71%) of respondents reporting turnover of over \$1 million. Although the Business Demography Statistics do not report on turnover, the results are likely to be another indication that there is a relatively high proportion of medium and larger size enterprises.

**Table 2: Respondents by Annual Turnover (excluding GST)**

Annual turnover (Excluding GST)	Number of respondents	Percent of total valid responses
\$99,999 or less	28	3.8%
\$100,000-\$499,999	96	12.9%
\$500,000-\$999,999	91	12.2%
\$1,000,000-\$1,999,999	121	16.3%
\$2,000,000-\$4,999,999	139	18.7%
\$5,000,000-\$9,999,999	98	13.2%
\$10,000,000-\$19,999,999	84	11.3%
\$20,000,000-\$49,999,999	57	7.7%
\$50,000,000+	30	4.0%
<b>Total valid responses</b>	<b>744</b>	<b>100.0%</b>
Did not respond	16	

### 4.3 Geographic Region

Table 3 shows respondents by regional council area in which the enterprise is predominantly located, and compares the respondent profile with the geographic unit population. It shows that Canterbury and Otago each had somewhat higher proportions of responses compared to their respective populations of enterprises.

**Table 3: Respondents by Regional Council Area**

Regional council area	Number of respondents	Percent of total valid responses	Population (Business Demography Statistics)
Northland	8	1.1%	3.5%
Auckland	274	36.1%	35.1%
Waikato	56	7.4%	8.9%
Bay of Plenty	41	5.4%	6.1%
Gisborne	3	0.4%	0.9%
Hawkes Bay	12	1.6%	3.3%
Taranaki	17	2.2%	2.4%
Manawatu-Wanganui	27	3.6%	4.9%
Wellington	65	8.6%	11.9%
Marlborough	3	0.4%	1.2%
Nelson-Tasman	12	1.6%	2.3%
West Coast	5	0.7%	0.8%
Canterbury	150	19.8%	12.0%
Otago	71	9.3%	4.6%
Southland	14	1.8%	2.2%
<b>Total valid responses</b>	<b>758</b>	<b>100.0%</b>	<b>100.0%</b>
Did not respond	2	--	--

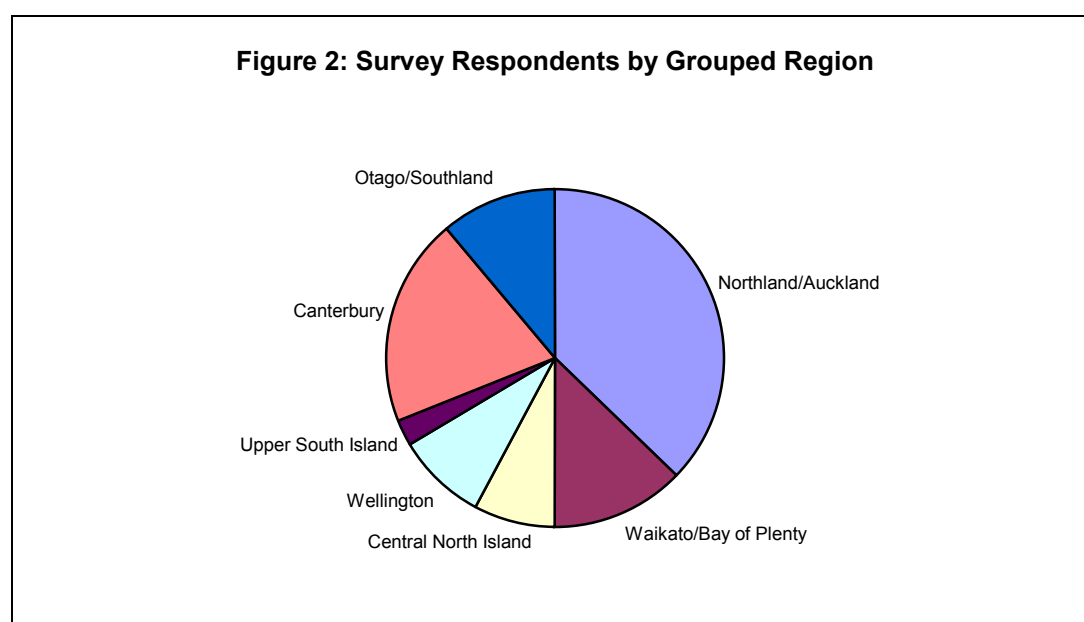
For the purpose of analysing the results, the regional council areas were consolidated into grouped regions as listed in Table 4 below. With the exception of

the Upper South Island, all of grouped regions had over 50 respondents. This helped to reduce, to an extent, the influence a single enterprise could have over the overall results for that group. The consolidation also helped to smooth the degree to which some sectors were represented.

**Table 4: Respondents by Grouped Region**

Grouped region	Number of respondents	Percent of total valid responses	Population (Business Demography Statistics)
Northland/Auckland	282	37.2%	38.6%
Waikato/Bay of Plenty	97	12.8%	15.0%
Central North Island (Gisborne, Hawkes Bay, Taranaki, & Manawatu-Wanganui)	59	7.8%	11.5%
Wellington	65	8.6%	11.9%
Upper South Island (Marlborough, Nelson-Tasman, & West Coast)	20	2.6%	4.3%
Canterbury	150	19.8%	12.0%
Otago/Southland	85	11.2%	6.8%
<b>Total valid responses</b>	<b>758</b>	<b>100.0%</b>	<b>100.0%</b>
Did not respond	2	--	--

These findings are illustrated as a pie chart in Figure 2.



#### 4.4 Industry

Table 5 shows the number and proportion of respondents by ANZSIC group and compares the profile with the population as shown previously for FTEs and region.

The sectors that were most highly represented in the survey were: electricity, gas, and water; manufacturing; communication services; education, health, and community services; and agriculture, forestry, fishing, and mining. Meanwhile, the sectors that were less well represented were: property and business services; construction; accommodation, cafes, and restaurants; and retail trade.

**Table 5: Respondents by ANZSIC Group**

ANZSIC group	Number of respondents	Percent of total valid responses	Population (Business Demography Statistics)
Agriculture	28	3.7%	4.1%
Forestry, fishing, and mining	23	3.0%	
Manufacturing	226	29.8%	7.1%
Electricity, gas, and water	8	1.1%	0.1%
Construction	42	5.5%	11.4%
Wholesale trade	58	7.6%	6.2%
Retail trade	49	6.5%	12.3%
Accommodation, cafes, and restaurants	14	1.8%	3.5%
Transport and storage	35	4.6%	3.8%
Communication services	18	2.4%	1.2%
Finance and insurance services	28	3.7%	4.0%
Property and business services	80	10.5%	30.6%
Government administration and defence	7	0.9%	0.6%
Education, health, and community services	106	14.0%	7.2%
Cultural, recreational, and personal services	37	4.9%	7.9%
<b>Total valid responses</b>	<b>759</b>	<b>100.0%</b>	<b>100.0%</b>
Did not respond	1		

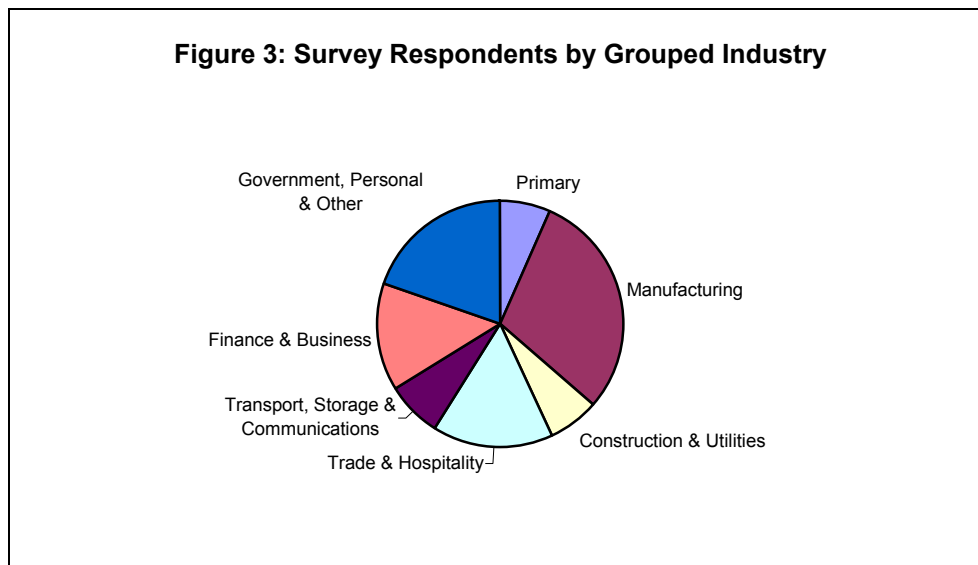
For the purpose of the analysis of results, the ANZSIC industry sectors were consolidated into the grouped industries listed in Table 6 below. With the smallest of these consolidated groups containing 50 respondents, the consolidation helped to ensure that the groups were large enough to reduce, at least to an extent, the influence a single enterprise could have on the results for a particular group.

The consolidation also helped to smooth the degree to which some sectors were represented.

**Table 6: Respondents by Grouped Industries**

Industry group	Number of respondents	Percent of total valid responses	Population (Business Demography Statistics)
Primary (agriculture, forestry, fishing, and mining)	51	6.7%	4.1%
Manufacturing	226	29.8%	7.1%
Construction and utilities (construction, electricity, gas, and water)	50	6.6%	11.5%
Trade and hospitality (Wholesale and retail trade, accommodation, cafes, and restaurants)	121	15.9%	22.0%
Transport, storage, and communication	53	7.0%	5.0%
Finance and business services (finance, insurance, property and business services)	108	14.2%	34.6%
Government, personal and other services (government, defence, education, health, community, cultural, and personal services)	150	19.8%	15.7%
<b>Total valid responses</b>	<b>759</b>	<b>100.0%</b>	<b>100.0%</b>
Did not respond	1	--	--

These findings are illustrated as a pie chart in Figure 3.



#### 4.5 Average Size of Enterprise by FTE Group, Industry, and Region

As Table 1 showed above, the respondent population has an over-representation of medium-large enterprises. This is further expressed in tables 7-9 below indicating the survey respondent average FTE numbers by FTE group, industry and region in comparison with their population averages (as measured in the Business Demography Statistics).

Because of the influence of a few very large enterprises on the respondent average sizes, the tables also include median values, which provide a more accurate picture of size profile.

**Table 7: Average Respondent FTE Numbers by FTE Group**

FTE Group	Average size of survey respondents (FTEs)	Median size of respondent (FTEs)	Average FTE size for Population (Business Demography Stats)
0-5	3.17	3.0	1.43
6-9	7.20	7.0	6.94
10-19	13.25	13.0	18.76
20-49	30.50	30.0	
50-99	67.97	70.0	67.68
100+	347.71	175.0	239.27
<b>All sizes</b>	<b>64.94</b>	<b>16.0</b>	<b>4.74</b>

**Table 8: Average Respondent FTE Numbers by Grouped Industries**

Grouped Industry	Average size of respondents (FTEs)	Median size of survey respondents (FTEs)	Average FTE size for Population (Business Demography Stats)
Primary	53.49	14.0	3.06
Manufacturing	66.36	24.0	10.96
Construction & utilities	74.69	30.0	3.26
Trade & hospitality	36.10	11.0	5.24
Transport, storage & communications	66.58	24.0	6.19
Finance & business services	110.89	9.5	2.27
Government, personal & other services	53.07	14.0	7.75
<b>All industries</b>	<b>64.94</b>	<b>16.0</b>	<b>4.74</b>

**Table 9: Average Respondent FTE Numbers by Grouped Regions**

Grouped Region	Average size of respondents (FTEs)	Median size of survey respondents (FTEs)	Average FTE size for Population (Business Demography Stats)
Northland/Auckland	92.88	25.5	4.62
Waikato/Bay of Plenty	42.66	15.0	4.36
Central North Island	93.22	24.0	4.82
Wellington	55.96	21.0	5.18
Upper South Island	24.30	14.0	4.33
Canterbury	42.02	8.0	5.12
Otago/Southland	35.69	13.0	4.92
<b>New Zealand</b>	<b>65.03</b>	<b>16.0</b>	<b>4.74</b>

## 5. PRIORITY COMPLIANCE AREAS

### 5.1 Overall Findings

The respondents were asked to assign their three highest priorities to a list of compliance cost areas. The results are illustrated in Figure 4 and details set out in Table 10.

Traditionally, Tax has been the clear 'winner' in surveys of compliance cost priorities. On this occasion, although it remained comfortably the most popular choice for first priority, when adding up the top three priorities it was beaten into second place by health and safety in employment (HSE).

One possible explanation for this is that the overall survey profile has a bias towards medium and larger enterprises, and manufacturers. Meanwhile, micro and small enterprises and the commercial services industry were both significantly under-represented among respondents. This is important as small and micro enterprises and the commercial services industry both placed significantly higher priority on tax than any other size or industry did (see tables 8 and 9 below).

However, policy developments are also likely to be having an impact:

- Recent tax simplification initiatives could be having a positive influence on the business community's perceptions around tax compliance.
- Other compliance issues have increased their relative importance. For example, it is likely that the high priority assigned by so many respondents to HSE reflects the impact of the HSE Amendment Act, which took effect in May 2003.

The relative importance placed on HSE, employment relations, and holidays is notable. Again, it is likely to be in part a reflection of bias towards medium to larger enterprises and manufacturing enterprises, both of which attached a higher priority to these employment-related compliance costs. However, recent policy developments might also be resulting in a structural shift in priorities of the business community:

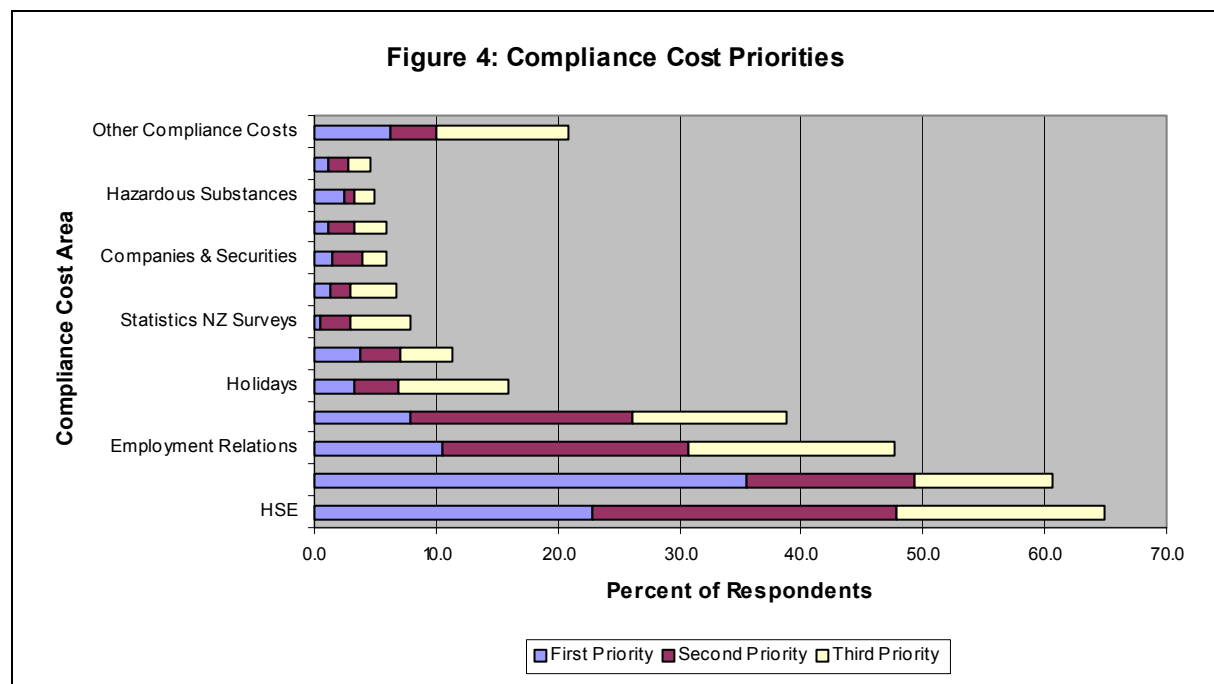
- Changes made to the HSE Act in 2003 and the Employment Relations Act in 2000 have both increased compliance costs.
- The proximity of the survey to the recent HSE amendments may have caused a temporary 'blip' in this year's survey. Next year's survey will give a better indication of whether the high priority persists.
- 'Noise' over changes pending to the Holidays Act, a review of the Employment Relations Act, and pay equity may be causing a higher degree of concern among employers and lifting the profile of these issues.

ACC is unsurprisingly a high priority for respondents for all enterprise sizes, industries, and regions, which is consistent with the findings of the 2001 Ministerial Panel on Business Compliance Costs.

However, a result that is less consistent with the Ministerial Panel’s findings was the position of the RMA. Considering the Ministerial Panel devoted much comment and 43 of its 162 recommendations to the Resource Management Act (RMA), the RMA appears to be a relatively low priority to respondents, being in sixth place. There are four possible reasons:

- Improved implementation of the RMA by local authorities and increased resources for the Environment Court since 2001 might be helping to reduce delays and costs.
- In common with the tax situation, other issues could have become of relatively higher priority to respondents over recent years (e.g., HSE).
- Most significantly though, the vast majority of businesses will never have anything to do with the RMA in a given year and it impacts upon some industries more than others (e.g., the primary industries).
- Compliance costs usually only become apparent when an enterprise makes a resource consent to a local authority. The survey did not ask this question, but when analysing the results for those respondents that had contact with a local authority over the previous 12 months, the RMA did lift in relative importance, to fifth place.

Another high profile compliance issue has been hazardous substances, with the Government recently announcing positive changes in this area. Like with the RMA, relatively few businesses have to cope with the hazardous substances regime – only 10% of respondents had any dealings with the Environmental Risk Management Authority over the previous twelve months. It is not surprising then that it had a low priority among respondents relative to the likes of HSE, tax, employment relations and ACC.



**Table 10: Compliance Cost Priorities**

Compliance cost area	First priority		Second priority		Third priority		Total (1,2,3)	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
HSE	173	22.8%	190	25.0%	130	17.1%	493	64.9%
Tax	270	35.5%	105	13.8%	87	11.4%	462	60.8%
Employment relations	80	10.5%	154	20.3%	128	16.8%	362	47.6%
ACC	60	7.9%	139	18.3%	95	12.5%	294	38.7%
Holidays	25	3.3%	27	3.6%	69	9.1%	121	15.9%
RMA	29	3.8%	25	3.3%	32	4.2%	86	11.3%
Statistics NZ surveys	4	0.5%	18	2.4%	38	5.0%	60	7.9%
Local government	10	1.3%	12	1.6%	29	3.8%	51	6.7%
Companies & securities	11	1.4%	19	2.5%	15	2.0%	45	5.9%
Consumer issues	9	1.2%	16	2.1%	20	2.6%	45	5.9%
Hazardous substances	18	2.4%	7	0.9%	13	1.7%	38	5.0%
Transport sector	9	1.2%	12	1.6%	14	1.8%	35	4.6%
Border control	14	1.8%	7	0.9%	8	1.1%	29	3.8%
Other compliance costs	48	6.3%	29	3.8%	82	10.8%	159	20.9%
<b>Total valid responses</b>	<b>760</b>	<b>100.0%</b>	<b>760</b>	<b>100.0%</b>	<b>760</b>	<b>100.0%</b>	<b>2280</b>	<b>300.0%</b>

## 5.2 Priority by Size of Enterprise

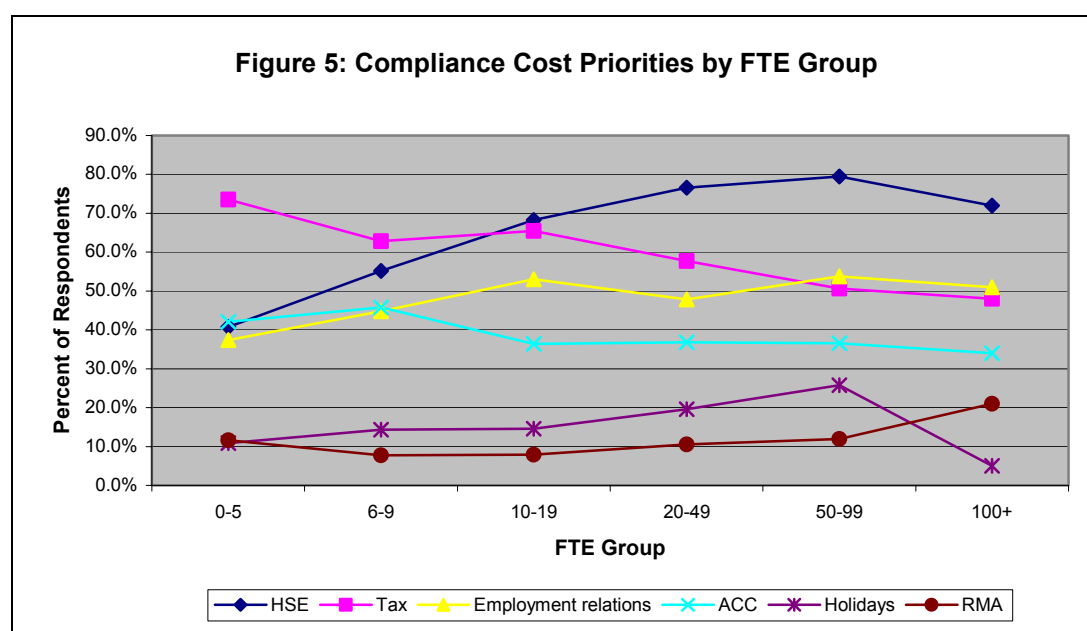
Table 11 shows the sum of the top three priorities by the number of FTEs employed and, as alluded to above, it shows an important trend: the relative importance of tax (and to a lesser extent ACC) steadily declines as the size of the enterprise increases, while in contrast the employment related compliance cost areas all increase in priority as the enterprise size increases – although there is a slight dip once the enterprise becomes ‘large’ (i.e., over 100 FTEs).

This clear trend is probably due to the fact that micro and small enterprises can avoid many of the employment-related compliance costs until they begin to grow and employ more staff, whereas there is virtually no escaping the tax compliance burden, which can be very onerous even for medium to large enterprises.

**Table 11: Compliance Cost Priorities by FTE Group**

Compliance cost area	0-5	6-9	10-19	20-49	50-99	100+	All Sizes
HSE	40.8%	55.2%	68.3%	76.6%	79.5%	72.0%	64.9%
Tax	73.5%	62.8%	65.5%	57.7%	50.6%	48.0%	60.8%
Employment relations	37.4%	44.8%	53.0%	47.8%	53.8%	51.0%	47.6%
ACC	42.1%	45.8%	36.4%	36.8%	36.6%	34.0%	38.7%
Holidays	10.9%	14.3%	14.6%	19.6%	25.8%	5.0%	15.9%
RMA	11.6%	7.7%	7.9%	10.5%	11.9%	21.0%	11.3%
Statistics NZ surveys	11.5%	6.8%	5.3%	8.5%	6.5%	8.0%	7.9%
Local government	9.5%	11.5%	5.9%	3.7%	5.4%	5.0%	6.7%
Companies & securities	11.5%	3.9%	6.7%	3.0%	1.1%	8.0%	5.9%
Consumer issues	10.2%	2.9%	5.3%	4.2%	4.3%	8.0%	5.9%
Hazardous substances	4.1%	9.6%	2.7%	4.9%	3.3%	7.0%	5.0%
Transport sector	9.5%	3.0%	4.6%	2.4%	3.3%	4.0%	4.6%
Border control	4.8%	4.9%	2.6%	3.1%	4.3%	4.0%	3.8%
Other compliance costs	22.4%	27.6%	21.2%	20.8%	14.0%	18.0%	20.9%

The line chart in Figure 5 illustrates the change in relative priorities for HSE, tax, employment relations, ACC, holidays, and RMA according to the size of enterprise.



### 5.3 Priority by Industry

Table 12 shows the sum of the top three priorities for each of the grouped industries. The results should not be surprising, particularly where specific compliance requirements impact specifically on certain sectors. For example, compliance costs associated with the RMA and border control are both of very high relative priority for the primary industries, and transport sector compliance costs are a similar order of priority to the transport, storage and communications industries.

Looking beyond the more obvious industry-specific compliance requirements, HSE is a particularly high priority for the manufacturing and construction and utilities industries, while tax is of a similar order of priority to the trade and hospitality and the finance and business services industries. Holiday requirements are of particularly high priority to the service sectors compared to the primary, manufacturing, and construction and utilities industries.

The particularly high priority for 'other compliance costs' recorded for personal and other services is likely to reflect the sector-specific compliance costs faced by the education and health sectors, which are a significant component of that grouped industry.

**Table 12: Compliance Cost Priorities by Grouped Industry**

Compliance cost area	Primry	Manu- factng	Cnstrn & Util	Trade & Hsp	Tpt, Strg & Coms	Fin & Bus	Govt, Pers & Other	All Ind
HSE	52.9%	79.6%	90.0%	56.2%	62.3%	42.6%	62.0%	64.9%
Tax	45.1%	57.1%	60.0%	71.1%	66.1%	75.9%	51.3%	60.8%
Employment relations	33.4%	47.8%	36.0%	51.2%	41.4%	50.0%	53.4%	47.6%
ACC	35.2%	38.1%	40.0%	38.8%	43.3%	37.1%	39.3%	38.7%
Holidays	3.9%	15.4%	4.0%	18.2%	20.8%	20.4%	18.7%	15.9%
RMA	37.3%	11.0%	22.0%	5.8%	7.6%	5.6%	9.4%	11.3%
Statistics NZ surveys	9.8%	9.7%	6.0%	7.5%	5.7%	11.1%	4.0%	7.9%
Local government	9.9%	4.4%	6.0%	9.2%	3.8%	7.4%	8.0%	6.7%
Companies & securities	9.9%	3.5%	6.0%	4.1%	5.7%	16.7%	2.0%	5.9%
Consumer issues	2.0%	3.1%	2.0%	10.8%	7.6%	10.2%	5.3%	5.9%
Hazardous substances	9.8%	9.4%	2.0%	5.0%	1.9%	1.8%	1.3%	5.0%
Transport sector	5.9%	3.1%	6.0%	4.1%	18.9%	2.8%	2.7%	4.6%
Border control	21.6%	4.4%	0.0%	5.8%	0.0%	0.9%	0.0%	3.8%
Other compliance costs	23.5%	13.7%	20.0%	12.5%	15.1%	17.6%	42.7%	20.9%

## 5.4 Priority by Region

Table 13 shows the sum of the top three priorities for each of the grouped regions. It is interesting to note the following points:

- Employment-related compliance costs seem to be of considerably higher priority in the northern and central regions of the North Island, compared to Wellington and the South Island.
- Tax compliance costs seem to be of particularly high priority in the metropolitan regions (Northland/Auckland, Wellington, and Canterbury) compared to the provincial regions.
- RMA, local government, and (oddly) transport sector compliance costs all appear to be of significantly higher priority to South Islanders than North Islanders.

**Table 13: Compliance Cost Priorities by Grouped Region**

Compliance cost area	Nthld/ Akld	Waik/ BOP	Cent Nth Is	Wgtn	Upper Sth Is	Ctby	Otago/ Sthld	NZ
HSE	69.5%	66.0%	69.4%	56.9%	55.0%	61.3%	58.8%	64.9%
Tax	64.9%	54.6%	50.9%	67.7%	60.0%	66.1%	48.2%	60.8%
Employment relations	48.9%	55.7%	50.8%	44.5%	30.0%	42.0%	48.2%	47.6%
ACC	34.7%	43.3%	39.0%	44.6%	45.0%	36.7%	42.3%	38.7%
Holidays	17.4%	26.0%	18.7%	12.3%	15.0%	9.9%	11.8%	15.9%
RMA	10.3%	6.2%	15.3%	6.1%	20.0%	11.4%	20.0%	11.3%
Statistics NZ surveys	7.1%	5.2%	3.4%	12.2%	5.0%	12.7%	5.9%	7.9%
Local government	6.1%	4.2%	6.8%	6.2%	15.0%	8.0%	9.5%	6.7%
Companies & securities	6.4%	3.0%	0.0%	7.7%	5.0%	8.7%	4.7%	5.9%
Consumer issues	6.0%	2.0%	6.8%	6.2%	10.0%	6.6%	3.5%	5.9%
Hazardous substances	6.0%	4.2%	8.5%	4.6%	5.0%	4.0%	2.4%	5.0%
Transport sector	2.5%	3.1%	0.0%	4.6%	10.0%	6.7%	11.8%	4.6%
Border control	3.6%	0.0%	5.1%	4.6%	5.0%	5.4%	4.7%	3.8%
Other compliance costs	16.6%	23.7%	25.5%	21.6%	25.0%	20.7%	28.6%	20.9%

## 6. HELPFULNESS OF GOVERNMENT AGENCIES

### 6.1 Overall Findings

The respondents were asked firstly to indicate whether they'd had contact with a given central or local government agency over the preceding 12 months. If the answer was 'yes', they were then asked to indicate the degree of helpfulness of that agency.

Table 14 shows that the degree of contact with Government agencies varies markedly – from 89.6% of respondents having had contact with the IRD to just 10.5% having had contact with ERMA. Apart from the IRD, three other agencies had had contact with more than 60% of respondents (ACC, local authority, and WINZ).

Encouragingly, all agencies had higher totals for 'very helpful' and 'helpful' responses than the totals for 'very unhelpful' and 'unhelpful' responses. However, the degree of helpfulness varied somewhat among agencies.

The agency found to be most helpful was the Companies Office, with a helpfulness score<sup>5</sup> of 3.104, well ahead of the next most helpful agency, the NZ Customs Service. The Companies Office also recorded the most respondents finding it to have been 'very helpful' and the least number of respondents who had found it to be 'very unhelpful'.

The agency found to be least helpful was the Environmental Risk Management Authority (ERMA), with a helpfulness score of 2.541, well behind of the next least helpful agency, Statistics NZ. ERMA also recorded the most respondents finding it to have been 'very unhelpful' and the least number of respondents who had found it to be 'very helpful'.

**Table 14: Helpfulness of Government Agencies**

Agency	Respondents selecting 'yes' to contact		Percentage breakdown of those respondents who answered 'yes' to contact				
	Number	Percent	Very Helpful (4)	Helpful (3)	Un-Helpful (2)	Very Un-Helpful (1)	Helpful Score
ACC	513	67.5%	9.9%	64.3%	19.9%	5.8%	2.781
Companies Office	347	45.7%	27.7%	57.1%	13.0%	2.3%	3.104
Dept of Labour	289	38.0%	11.8%	55.0%	27.0%	6.2%	2.724
ERMA	80	10.5%	8.8%	51.3%	25.0%	15.0%	2.541
IRD	681	89.6%	10.0%	59.2%	24.5%	6.3%	2.729
Local authority	474	62.4%	11.0%	57.8%	24.7%	6.5%	2.733
MAF	137	18.0%	19.7%	49.6%	21.9%	8.8%	2.802
Customs	263	34.6%	13.7%	61.6%	20.5%	4.2%	2.848
OSH	355	46.7%	13.0%	58.9%	22.8%	5.4%	2.797
Statistics NZ	437	57.5%	10.1%	55.1%	27.7%	7.1%	2.682
Transport agency	273	35.9%	14.3%	58.6%	22.0%	5.1%	2.821
WINZ	459	60.4%	12.0%	54.7%	25.7%	7.6%	2.711

<sup>5</sup> The 'helpfulness score' is a sum of the weighted scores of each column (the number assigned to each column is weighted by the proportion of respondents). 4 is the maximum possible score and 1 the minimum possible score.

On the basis of these results the relative performance of each agency are grouped in Table 15 below. The Companies Office is the only 'excellent' performer. Although there are no 'poor' performers, ERMA comes very close.

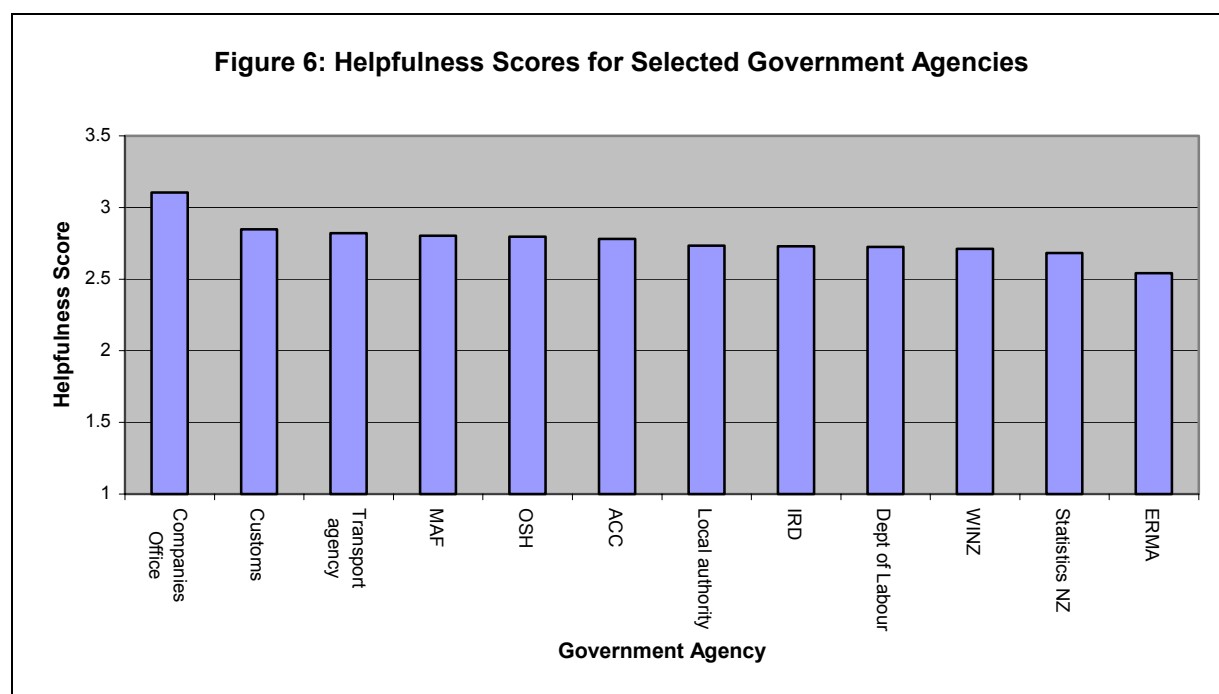
The Companies Office's consistently good performance may in part be due to what is widely regarded to be a very user-friendly website. It may also be a reflection of the relative ease to register a company in New Zealand.

ERMA's relatively poor outcome is not surprising considering the complexity of the HSNO regime it administers and the issues raised in a critical report to the Government on the agency's performance. It is to be hoped that implementation of the report's recommendations and recently announced changes to the HSNO regime will help to improve the perceptions around both HSNO and ERMA.

**Table 15: Grouping of Agencies by Perceived Helpfulness Scores**

Excellent (+3.000)	Good (2.750-2.999)	Fair (2.500-2.749)	Poor (1.000-2.490)
Companies Office (3.104)	Customs (2.848) Transport agency (2.821) MAF (2.802) OSH (2.797) ACC (2.781)	Local authority (2.733) IRD (2.729) Dept of Labour (2.724) WINZ (2.711) Statistics NZ (2.682) ERMA (2.541)	

The helpfulness scores for each government agency are illustrated in the form of a bar chart in Figure 6 below.



## 6.2 Helpfulness by Size of Enterprise

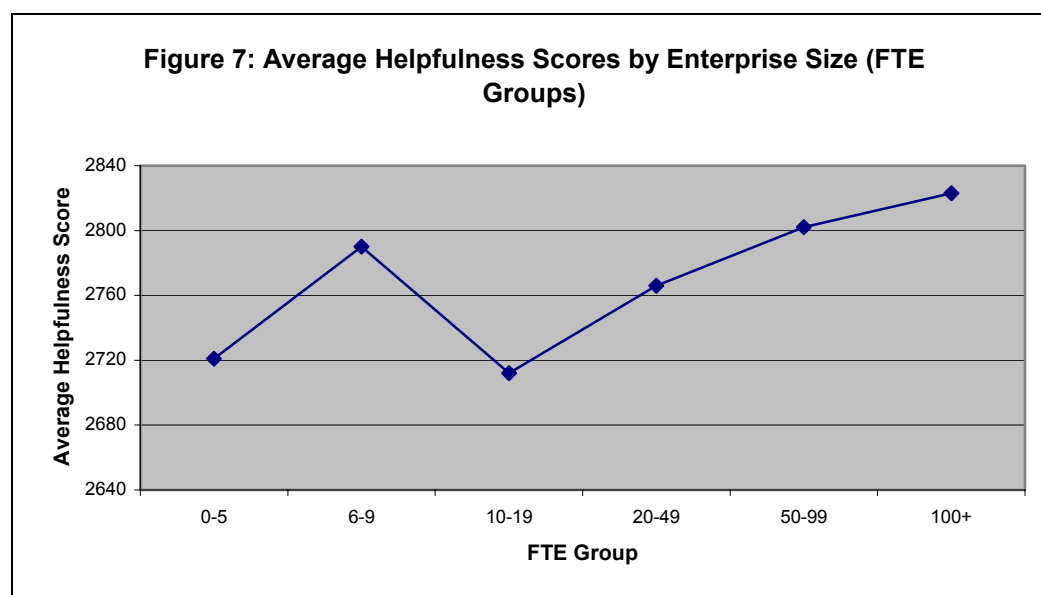
Table 16 shows the net helpfulness score that each agency received by FTE group. Generally speaking most agencies were perceived by respondents to be least helpful by micro enterprises (0-5 FTE group) with satisfaction increasing with the size of enterprise.

However, for several agencies there was a dip in the overall trend amongst the 10-19 and, to a lesser extent, 20-49 FTE groups. This is illustrated clearly in Figure 7 below. It is hard to say why this might be the case, but it could be that medium-sized enterprises are not as well catered for or are more easily forgotten when policies and processes are developed specifically to help micro and small businesses.

The Companies Office was consistently the most helpful agency across all FTE groups. The only helpfulness scores under 2.500 were recorded for ERMA among the 0-5, 10-19, and 20-49 FTE groups (these are shown as shaded boxes).

**Table 16: Helpfulness of Government Agencies by FTE Group**

Agency	0-5	6-9	10-19	20-49	50-99	100+	All Sizes
ACC	2.629	2.719	2.670	2.778	2.868	3.000	2.781
Companies Office	3.081	3.106	3.127	3.114	3.100	3.075	3.104
Dept of Labour	2.650	2.882	2.627	2.834	2.652	2.688	2.724
ERMA	2.375	2.636	2.368	2.477	2.846	2.500	2.541
IRD	2.771	2.674	2.794	2.638	2.847	2.659	2.729
Local authority	2.594	2.773	2.655	2.755	2.813	2.825	2.733
MAF	2.818	2.857	2.750	2.666	2.852	2.952	2.802
Customs	2.955	2.879	2.844	2.783	2.722	2.917	2.848
OSH	2.630	2.593	2.731	2.788	2.820	2.940	2.797
Statistics NZ	2.661	2.673	2.675	2.675	2.719	2.706	2.682
Transport agency	2.733	3.054	2.718	2.946	2.667	2.780	2.821
WINZ	2.754	2.635	2.584	2.739	2.721	2.838	2.711
<b>Average (all agencies)</b>	<b>2.721</b>	<b>2.790</b>	<b>2.712</b>	<b>2.766</b>	<b>2.802</b>	<b>2.823</b>	



### 6.3 Helpfulness by Industry

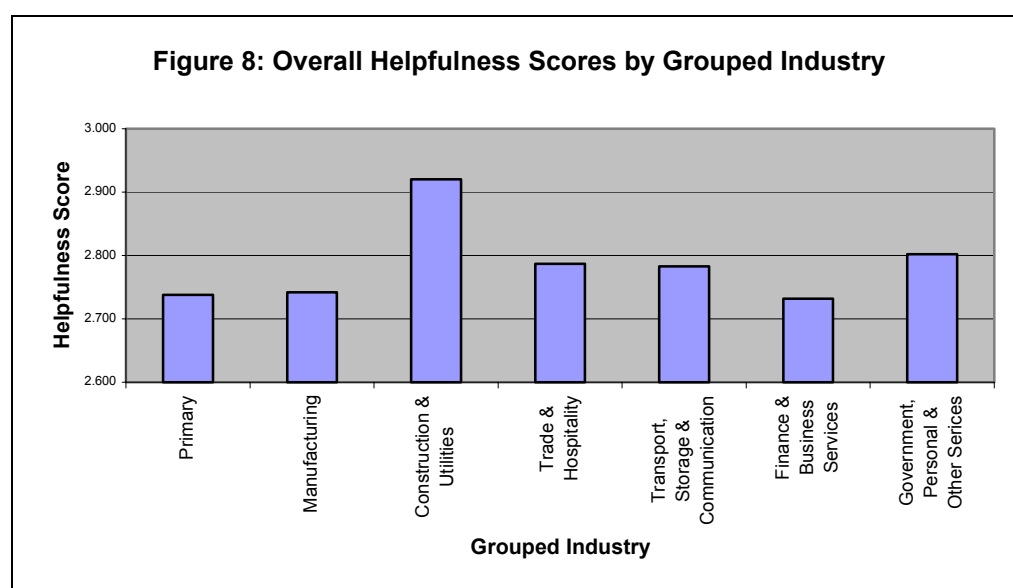
Table 17 shows the net helpfulness score that each agency received by grouped industry. Overall, the construction and utilities industry had the most positive impression of the helpfulness of all agencies, followed by personal and other services. Meanwhile, the finance and business services industry had the least positive impression, followed closely by the primary industry.

The Companies Office was recorded helpfulness scores of over 3.000 consistently across all industry groups, making it an excellent performer. By contrast, ERMA recorded helpfulness scores of under 2.500 (i.e., poor) for three of the industry groups, with another group only just making it over 2.500.

**Table 17: Helpfulness of Government Agencies by Grouped Industry**

Agency	Primry	Manu- factng	Cnstrn & Util	Trade & Hsp	Tpt, Strg & Coms	Fin & Bus	Govt, Pers & Other	All Ind
ACC	2.758	2.830	2.872	2.877	2.853	2.551	2.757	2.781
Companies Office	3.063	3.000	3.080	3.042	3.333	3.218	3.062	3.104
Dept of Labour	2.476	2.753	2.765	2.531	2.762	2.686	2.826	2.724
ERMA	2.353	2.583	3.000	2.727	2.000	2.500	2.444	2.541
IRD	2.848	2.663	2.689	2.765	2.592	2.772	2.787	2.729
Local authority	2.769	2.705	2.821	2.719	2.759	2.614	2.790	2.733
MAF	2.679	2.673	3.000	3.000	3.071	2.818	3.000	2.802
Customs	2.857	2.750	3.429	2.868	3.000	2.652	3.000	2.848
OSH	2.560	2.806	2.938	2.650	2.840	2.679	2.895	2.797
Statistics NZ	2.667	2.680	2.667	2.651	2.733	2.754	2.648	2.682
Transport agency	3.000	2.750	3.000	2.878	2.667	2.778	2.796	2.821
WINZ	2.821	2.705	2.778	2.727	2.786	2.767	2.613	2.711
<b>Average, all agencies</b>	<b>2.738</b>	<b>2.742</b>	<b>2.920</b>	<b>2.787</b>	<b>2.783</b>	<b>2.732</b>	<b>2.802</b>	

The average helpfulness score across all agencies for each grouped industry is illustrated in the form of a bar chart in Figure 8.



## 6.4 Helpfulness by Region

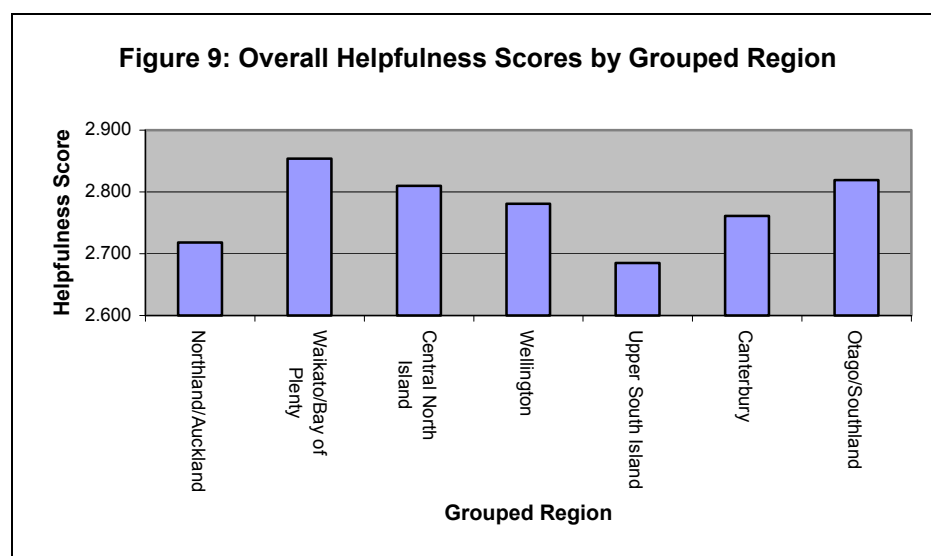
Table 18 shows the net helpfulness score that each agency received by grouped region. Overall, the Waikato/Bay of Plenty region had the most positive impression of the helpfulness of all agencies, followed by Otago/Southland. Meanwhile, the Upper South Island region had the least positive impression, followed by Canterbury<sup>6</sup>.

Again, the Companies Office achieved scores consistently over 3.000 across all regions. By contrast, there were two regions where ERMA's helpfulness scores dropped below 2.500.

**Table 18: Helpfulness of Government Agencies by Grouped Region**

Agency	Nthld/ Akld	Waik/ BOP	Cent Nth Is	Wgtn	Upper Sth Is	Ctby	Otago/ Sthld	NZ
ACC	2.768	2.859	2.953	2.652	2.800	2.700	2.857	2.781
Companies Office	3.036	3.250	3.000	3.057	3.000	3.192	3.059	3.104
Dept of Labour	2.617	2.949	2.500	2.731	3.000	2.814	2.750	2.724
ERMA	2.353	3.000	2.636	2.667	1.000	2.583	2.667	2.541
IRD	2.735	2.756	2.698	2.614	2.947	2.735	2.694	2.729
Local authority	2.642	2.746	3.024	2.800	3.000	2.702	2.699	2.733
MAF	2.772	2.813	2.889	2.750	2.500	2.611	3.050	2.802
Customs	2.735	2.917	2.800	3.053	3.333	2.964	2.824	2.848
OSH	2.710	2.873	2.758	3.000	2.667	2.717	2.905	2.797
Statistics NZ	2.681	2.705	2.636	2.667	2.429	2.702	2.696	2.682
Transport agency	2.895	2.625	2.914	2.708	2.769	2.865	2.816	2.821
WINZ	2.675	2.750	2.909	2.667	2.769	2.549	2.814	2.711
<b>Average, all agencies</b>	<b>2.718</b>	<b>2.854</b>	<b>2.810</b>	<b>2.781</b>	<b>2.685</b>	<b>2.761</b>	<b>2.819</b>	

The average helpfulness score across all agencies for each grouped industry is illustrated in the form of a bar chart in Figure 9.



<sup>6</sup> With regard to the Upper South Island, the lower number of respondents in this region resulted in some volatility, particularly when assessing the scores of some of the individual agencies.

## 7. COMPLIANCE COST TRENDS

### 7.1 Overall Findings

The respondents were asked to indicate the degree to which compliance costs had increased or decreased over the preceding 12 months.

Table 19 shows that almost all respondents commented on each of the compliance cost areas, with all the tax, ACC, and employment-related compliance cost areas boasting response rates of well over 95% of respondents.

A notable feature of the table is the distinct lack of respondents who considered their compliance costs to have fallen over the past 12 months, even modestly. In fact, there were only 14 respondents (1.8%) who did not select 'increase' to at least one of the compliance cost areas. Of those 14 respondents, 11 simply chose 'no change' for all the areas.

Interestingly, the only compliance cost areas to show much in the way of falls were those within the tax area and the companies and securities area. Not a single respondent considered HSE costs to have fallen.

In most areas there were large proportions of 'no change' respondents and this was particularly so for border control, RMA, hazardous substances, transport sector, companies and securities, and Statistics NZ surveys (all over 70% no change).

In contrast, 'no change' respondents were a minority for HSE, employment relations, ACC, holidays, and 'other compliance costs'. The largest proportions of 'large rise' respondents were also recorded in these areas. This is a clear reflection of the view survey respondents had on the significant changes to employment-related legislation over recent years and the impact on their enterprises.

The values under the cost trend<sup>7</sup> column again reflect the concern respondents have about employment-related compliance costs – the net scores for HSE, employment relations, ACC and holidays are significantly higher than for other compliance cost areas (with the exception of 'other compliance costs'). Please note that the net cost value does not attempt to assign a monetary amount – it simply indicates the degree to which respondents consider costs to have risen or fallen for each agency.

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<sup>7</sup> The 'cost trend score' is a sum of the weighted scores of each of the columns (the number assigned to each column is weighted by the proportion of respondents). The higher the score the more costs are perceived to have risen for each agency. 5 would be the maximum possible score and 1 the minimum possible score.

**Table 19: Compliance Cost Trends over the Preceding 12 Months**

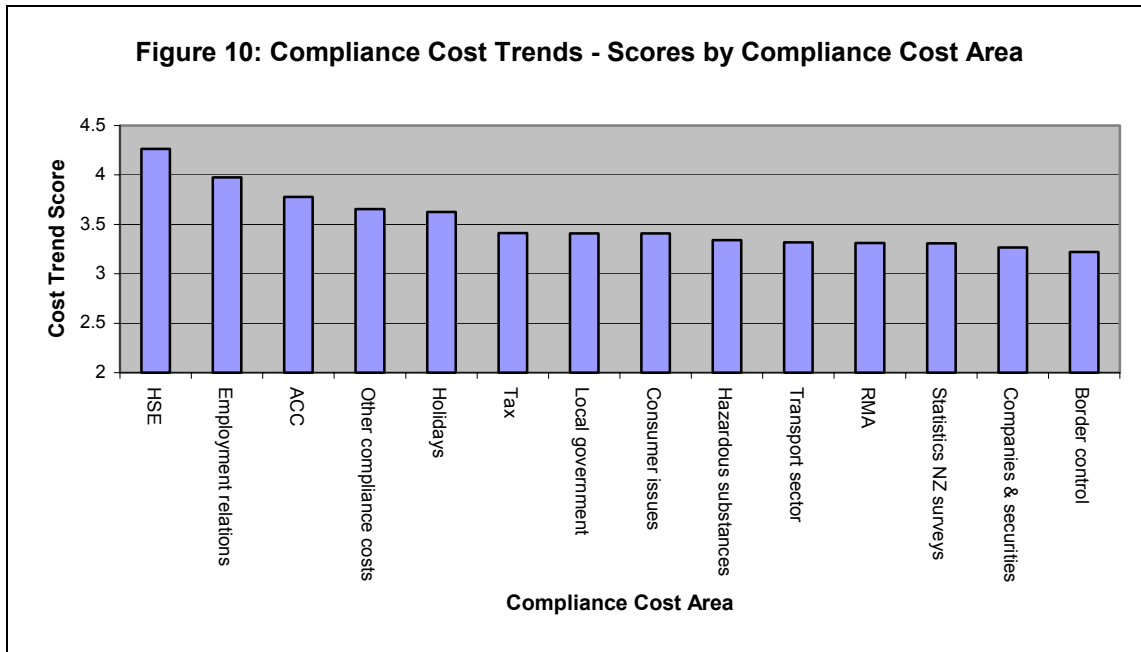
Compliance Area	Cost	Percent of respondents commenting	Large Rise (5)	Modest Rise (4)	No Change (3)	Modest Fall (2)	Large Fall (1)	Cost Trend Score
Tax – PAYE		98.9%	5.6%	37.0%	54.4%	2.9%	0.1%	3.450
Tax – FBT		96.1%	8.5%	28.5%	59.5%	3.0%	0.5%	3.414
Tax – GST		98.8%	5.3%	27.2%	64.6%	2.9%	0.0%	3.349
Tax – Prov Tax		95.4%	6.2%	26.1%	66.3%	1.4%	0.0%	3.372
Tax – Other deductions		96.3%	7.5%	35.4%	54.8%	2.2%	0.1%	3.480
<i>Average, all Tax</i>		<i>97.1%</i>	<i>6.6%</i>	<i>30.8%</i>	<i>59.9%</i>	<i>2.5%</i>	<i>0.1%</i>	<i>3.413</i>
ACC		97.4%	16.2%	46.6%	35.8%	1.4%	0.0%	3.777
HSE		96.2%	43.2%	40.1%	16.7%	0.0%	0.0%	4.264
Employment relations		96.4%	25.5%	47.2%	26.6%	0.5%	0.1%	3.974
Holidays		97.8%	11.0%	41.0%	47.4%	0.5%	0.0%	3.625
Statistics NZ surveys		96.1%	3.8%	24.4%	70.4%	1.4%	0.0%	3.307
Local government		95.5%	7.4%	27.1%	64.5%	0.8%	0.1%	3.410
RMA		90.0%	7.9%	15.6%	76.0%	0.4%	0.0%	3.310
Hazardous substances		92.9%	8.5%	17.6%	73.4%	0.6%	0.0%	3.340
Transport sector		92.0%	5.6%	21.3%	72.4%	0.6%	0.1%	3.317
Consumer issues		91.6%	7.5%	26.4%	65.5%	0.6%	0.0%	3.409
Companies & securities		94.3%	5.2%	19.9%	71.4%	3.2%	0.3%	3.265
Border control		89.6%	4.0%	15.3%	79.7%	0.9%	0.1%	3.221
Other compliance costs		92.9%	12.3%	41.1%	46.3%	0.3%	0.0%	3.655

On the basis of these results the cost trend scores for each compliance cost area are grouped in Table 20 below. This table confirms the comments above and illustrate quite clearly the perception respondents have on the cost increases in the employment-related area as opposed to other compliance cost areas.

**Table 20: Grouping of Compliance Cost Area by Perceived Scores**

Very Large Increase (Over 4.000)	Large Increase (3.500-3.999)	Modest Increase (3.000-3.499)	Decrease (1.000 – 2.999)
HSE (4.264)	Employment relations (3.974) ACC (3.777) Other compliance costs (3.655) Holidays (3.625)	Tax – Other source deductions (3.480) Tax – PAYE (3.450) Tax – FBT (3.414) Local government (3.410) Consumer issues (3.409) Tax – Prov Tax (3.372) Tax – GST (3.349) Hazardous substances (3.340) Transport sector (3.317) RMA (3.310) Statistics NZ surveys (3.307) Companies & securities (3.265) Border control (3.221)	

The cost trend scores for each compliance cost area are illustrated in the form of a bar chart in Figure 10 below.



## 7.2 Compliance Cost Trends by Size of Enterprise

Table 21 shows compliance cost trend scores for each of the compliance cost areas by FTE group. The key feature of this table was that as enterprises grow beyond 5 employees overall costs were more likely to be perceived to have increased. This is particularly so for the 6-9 and the 10-19 FTE groups. The perceptions then level off and if anything ease slightly for the 20-49 and 50-99 FTE groups, but then jump again for enterprises with over 100 FTEs.

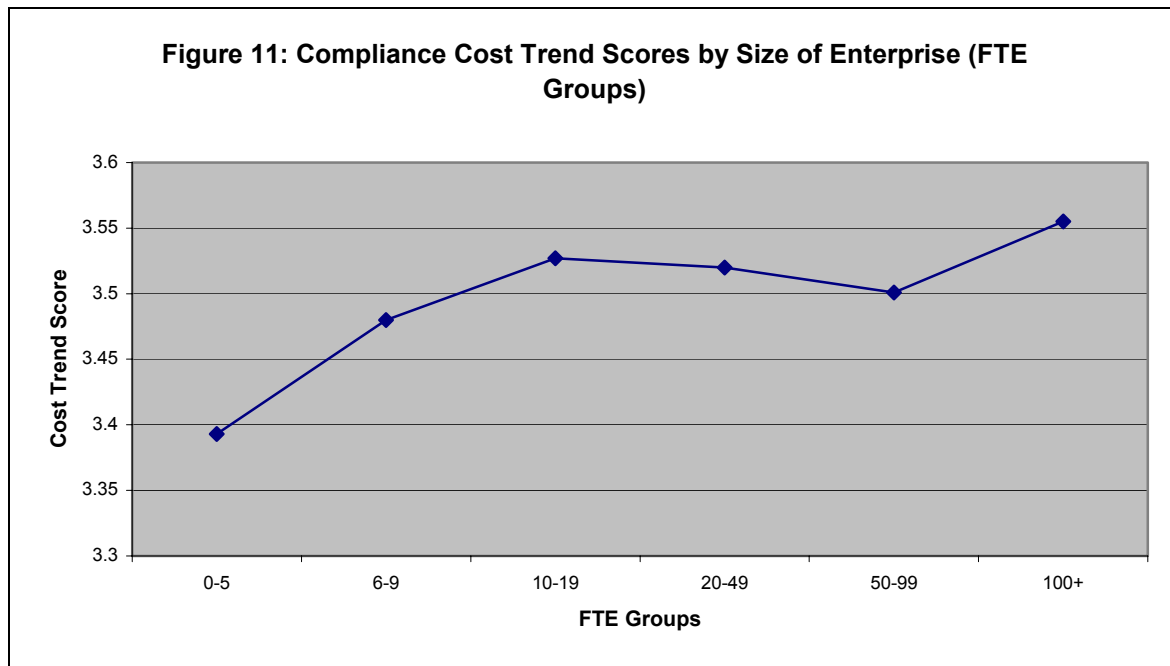
For the employment-related compliance cost areas the costs increased more steadily as FTE size increased. For example, the cost trend score for HSE increased steadily from 3.837 for the 0-5 FTE group to 4.500 for the 100+ FTE group. A similar trend was experienced for employment relations, ACC, and holidays.

With regard to the tax compliance areas, cost trends were perceived to be of a fairly similar magnitude (modest increase) regardless of the enterprise size.

**Table 21: Compliance Cost Trend Score by FTE Group**

Compliance Cost Area	0-5	6-9	10-19	20-49	50-99	100+	All sizes
Tax – PAYE	3.382	3.514	3.516	3.472	3.402	3.388	3.450
Tax – FBT	3.229	3.360	3.360	3.506	3.543	3.547	3.414
Tax – GST	3.411	3.413	3.354	3.350	3.217	3.302	3.349
Tax – Prov Tax	3.380	3.426	3.357	3.414	3.264	3.358	3.372
Tax – Other deductions	3.230	3.426	3.567	3.485	3.576	3.653	3.480
<i>Average, all Tax</i>	<i>3.326</i>	<i>3.428</i>	<i>3.431</i>	<i>3.445</i>	<i>3.400</i>	<i>3.450</i>	<i>3.413</i>
ACC	3.624	3.735	3.797	3.812	3.804	3.928	3.777
HSE	3.837	4.091	4.342	4.407	4.457	4.500	4.264
Employment relations	3.701	3.911	4.143	3.953	4.154	4.031	3.974
Holidays	3.500	3.581	3.704	3.659	3.685	3.619	3.625
Statistics NZ surveys	3.230	3.243	3.364	3.340	3.286	3.372	3.307
Local government	3.389	3.451	3.418	3.373	3.413	3.442	3.410
RMA	3.256	3.319	3.274	3.297	3.326	3.444	3.310
Hazardous substances	3.233	3.274	3.304	3.384	3.337	3.547	3.340
Transport sector	3.311	3.326	3.397	3.354	3.187	3.261	3.317
Consumer issues	3.420	3.381	3.504	3.393	3.359	3.360	3.409
Companies & securities	3.182	3.208	3.211	3.257	3.196	3.315	3.265
Border control	3.173	3.189	3.201	3.257	3.264	3.239	3.221
Other compliance costs	3.582	3.784	3.674	3.652	3.578	3.684	3.655
<b>Average</b>	<b>3.393</b>	<b>3.480</b>	<b>3.527</b>	<b>3.520</b>	<b>3.501</b>	<b>3.555</b>	

Figure 11 illustrates these findings in the form of a line graph.



### 7.3 Compliance Cost Trends by Industry

Table 22 shows the compliance cost trend scores for each of the compliance cost areas by grouped industry. Overall, the primary industry perceived costs to have increased to the greatest extent (and this was consistent across almost all compliance cost areas), followed by manufacturing. The transport, storage, and communications industry perceived costs to have increased to the least extent, followed by finance and business services. However, it is important to note that with the exception of the primary industry, there is not a great difference between the highest and lowest overall trend scores by industry.

All industry groups were considered HSE and employment relations cost trends to have increased the most, with HSE's perceived increases being particularly large for the construction and utilities, primary, and manufacturing industry groups.

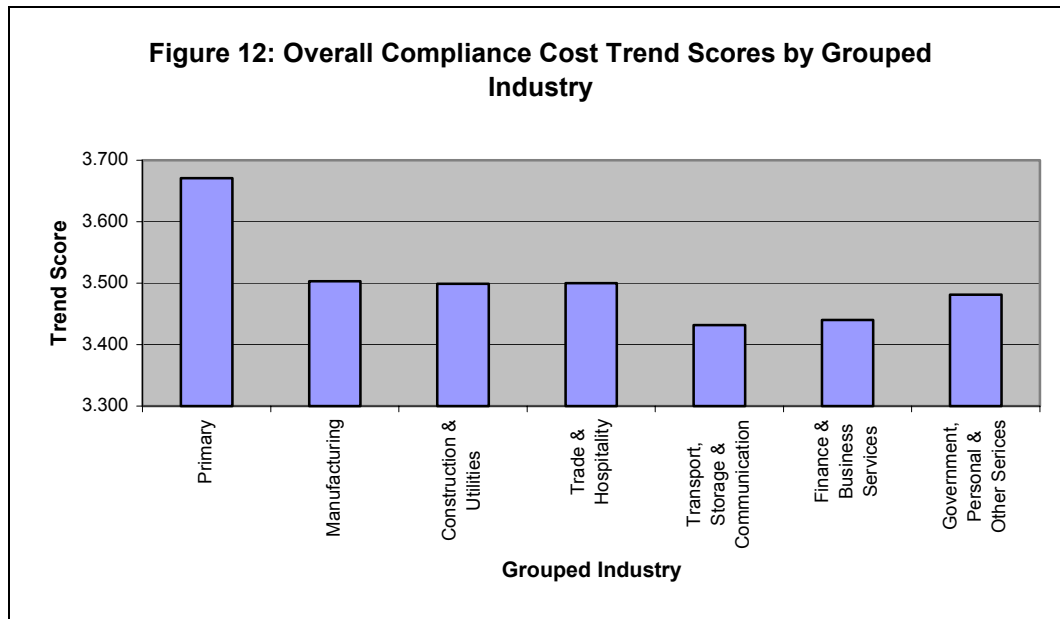
The trend scores for the tax compliance cost areas and ACC were very consistent across all industry groups, although PAYE and other source deductions were of greater concern to the primary industry, and FBT to the manufacturing industry.

Compliance cost trends for the RMA, hazardous substances, and border control were of significantly greater concern to the primary industry than others, with the exception perhaps of manufacturers. Respondents in the government, personal and other services industry had a clear perception that the 'other compliance costs' area had increased significantly.

**Table 23: Compliance Cost Trend Scores by Grouped Industry**

Compliance Cost Area	Primry	Manu- factng	Cnstn & Util	Trade & Hsp	Tpt, Strg & Coms	Fin & Bus	Govt, Pers & Other	All Ind
Tax – PAYE	3.667	3.396	3.354	3.504	3.491	3.435	3.439	3.450
Tax – FBT	3.354	3.545	3.340	3.422	3.377	3.449	3.226	3.414
Tax – GST	3.275	3.241	3.271	3.425	3.283	3.435	3.463	3.349
Tax – Prov Tax	3.460	3.299	3.417	3.444	3.333	3.462	3.321	3.372
Tax – Other deductions	3.608	3.525	3.553	3.431	3.365	3.481	3.418	3.480
<i>Average, all Tax</i>	<i>3.473</i>	<i>3.401</i>	<i>3.387</i>	<i>3.445</i>	<i>3.370</i>	<i>3.452</i>	<i>3.373</i>	<i>3.413</i>
ACC	3.878	3.785	3.820	3.750	3.731	3.748	3.776	3.777
HSE	4.460	4.389	4.510	4.161	4.137	4.081	4.182	4.264
Employment relations	4.220	4.083	3.920	3.922	3.849	3.887	3.894	3.974
Holidays	3.720	3.635	3.480	3.612	3.604	3.613	3.658	3.625
Statistics NZ surveys	3.480	3.294	3.224	3.299	3.280	3.221	3.373	3.307
Local government	3.551	3.412	3.522	3.393	3.275	3.317	3.447	3.410
RMA	3.816	3.307	3.455	3.224	3.240	3.175	3.272	3.310
Hazardous substances	3.900	3.482	3.256	3.278	3.196	3.082	3.220	3.340
Transport sector	3.560	3.268	3.372	3.357	3.585	3.204	3.223	3.317
Consumer issues	3.447	3.308	3.442	3.548	3.240	3.384	3.504	3.409
Companies & securities	3.250	3.258	3.304	3.366	3.192	3.283	3.199	3.265
Border control	3.681	3.300	3.024	3.234	3.216	3.097	3.056	3.221
Other compliance costs	3.745	3.522	3.711	3.625	3.380	3.563	3.993	3.655
<b>Average</b>	<b>3.671</b>	<b>3.503</b>	<b>3.499</b>	<b>3.500</b>	<b>3.432</b>	<b>3.440</b>	<b>3.481</b>	

Figure 12 illustrates the average trend score for all compliance cost areas by grouped industry in the form of a bar chart.



#### 7.4 Compliance Cost Trends by Region

Table 24 shows compliance cost trend scores for each of the grouped regions. Although there is not a great deal separating the highest from the lowest trend scores, respondents from the Central North Island region perceived that costs had trended highest, followed by Waikato/Bay of Plenty and Otago/Southland. Canterbury respondents perceived costs to have increased the least, followed by Wellington.

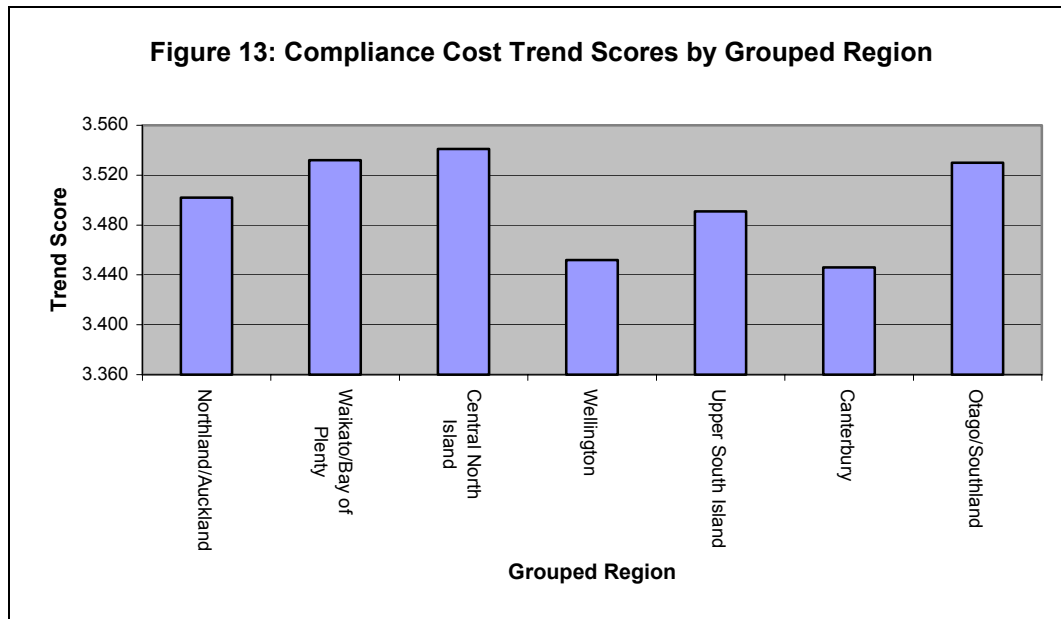
Respondents from all regions considered HSE and employment relations costs to have increased the most. ACC costs were of particular concern to the Waikato/Bay of Plenty region. 'Other compliance costs' were considered by Otago/Southland respondents to have increased significantly compared to other regions. Costs for local government and the RMA were perceived to have increased more to respondents from the provincial regions.

In common with the industry analysis above, the trend scores for the tax compliance cost areas were relatively even across the country, with the exception of the Upper South Island where the cost trend scores were in most cases significantly lower. Overall, it appears that respondents from the South Island and Wellington had somewhat lower perceptions of increases in tax compliance costs than those in the rest of the North Island.

**Table 24: Compliance Cost Trend Scores by Grouped Region**

Compliance Cost Area	Nthld/ Akld	Waik/ BOP	Cent Nth Is	Wgtn	Upper Sth Is	Ctby	Otago/ Sthld	NZ
Tax – PAYE	3.484	3.515	3.475	3.354	3.500	3.412	3.376	3.450
Tax – FBT	3.480	3.398	3.441	3.367	3.263	3.369	3.341	3.414
Tax – GST	3.327	3.406	3.448	3.281	3.150	3.380	3.333	3.349
Tax – Prov Tax	3.375	3.376	3.293	3.410	3.263	3.397	3.363	3.372
Tax – Other deductions	3.509	3.538	3.569	3.431	3.211	3.420	3.463	3.480
<i>Average, all Tax</i>	<i>3.435</i>	<i>3.447</i>	<i>3.445</i>	<i>3.369</i>	<i>3.277</i>	<i>3.396</i>	<i>3.375</i>	<i>3.413</i>
ACC	3.722	3.926	3.864	3.769	3.842	3.717	3.833	3.777
HSE	4.323	4.316	4.220	4.381	4.105	4.100	4.294	4.264
Employment relations	4.063	3.948	3.897	3.984	4.111	3.814	4.012	3.974
Holidays	3.728	3.642	3.610	3.609	3.500	3.455	3.624	3.625
Statistics NZ surveys	3.345	3.379	3.386	3.185	3.158	3.254	3.274	3.307
Local government	3.363	3.489	3.483	3.302	3.550	3.374	3.531	3.410
RMA	3.250	3.315	3.411	3.317	3.474	3.265	3.456	3.310
Hazardous substances	3.347	3.316	3.448	3.197	3.421	3.299	3.430	3.340
Transport sector	3.266	3.362	3.411	3.279	3.632	3.276	3.385	3.317
Consumer issues	3.373	3.484	3.509	3.373	3.294	3.341	3.532	3.409
Companies & securities	3.258	3.315	3.263	3.246	3.211	3.292	3.215	3.265
Border control	3.251	3.124	3.255	3.102	3.368	3.227	3.253	3.221
Other compliance costs	3.579	3.730	3.750	3.547	3.778	3.635	3.850	3.655
<b>Average</b>	<b>3.502</b>	<b>3.532</b>	<b>3.541</b>	<b>3.452</b>	<b>3.491</b>	<b>3.446</b>	<b>3.530</b>	

Figure 13 illustrates the average trend score for all compliance cost areas by grouped region in the form of a bar chart.



## 8. ESTIMATING TOTAL COMPLIANCE COSTS

### 8.1 Overall Findings

The respondents were asked to estimate the compliance costs they incurred over the past 12 months across four broad areas:

- Tax compliance costs;
- Employment compliance costs (e.g., employment relations, holidays, HSE, ACC etc);
- Environmental compliance costs (e.g., RMA, local authority, hazardous substances, border control etc); and
- Other compliance costs (e.g., Statistics NZ surveys, transport sector, consumer issues, companies and securities requirements etc).

Respondents were asked to estimate the annual number hours spent within the enterprise on each of these areas. They were then asked whether they had engaged any external advisers on each of those areas over the previous 12 months, and if so they were asked to estimate the total cost of this work.

When applying a cost to the annual hours, a rate of \$19.04 was used – the average hourly earnings from Statistics New Zealand’s Quarterly Employment Survey for the year ended February 2003. This is a conservative estimate in that it is likely to underestimate the value of the time spent by managers and owners.

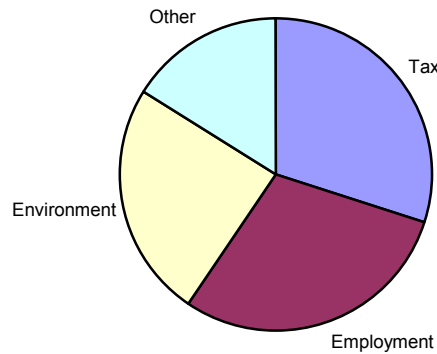
Table 25 shows the results for each of the four broad compliance cost areas. Adding the average total costs for each of the four broad compliance cost areas provides a total compliance cost estimate of \$52,724 per enterprise (or \$812 per FTE, or 0.65% of turnover).

Tax compliance costs make up 30.1% of total costs, employment compliance costs 29.4% of total costs, environment compliance costs 24.5% of total costs, and other compliance costs 16.0% of total costs (see Figure 14 below for a pie chart illustrating this breakdown).

**Table 25: Summary of Total Compliance Costs**

	<b>Tax</b>	<b>Employment</b>	<b>Environment</b>	<b>Other</b>
Mean annual hours spent within the enterprise	315.6	549.7	184.7	260.6
Average internal cost	\$6,008	\$10,466	\$3,516	\$4,962
% of respondents answering the section that used external advice	83.3%	58.3%	23.6%	19.5%
Average external cost	\$11,817	\$8,625	\$39,871	\$17,954
Average total cost	\$15,859	\$15,495	\$12,906	\$8,464
Average total cost by FTE	\$244	\$239	\$199	\$130
Average total cost as % of turnover	0.19%	0.19%	0.16%	0.10%
% of total compliance costs	30.1%	29.4%	24.5%	16.0%

**Figure 14: Proportion of Total Compliance Costs**



Analysis of total compliance costs by size of enterprise, industry and region follow in sub-sections 8.1.1, 8.1.2, and 8.1.3 below. More detailed information on each of the four broad compliance cost areas is contained in sections 8.2, 8.3, and 8.4 that follow.

### 8.1.1 Total Compliance Costs by Enterprise Size

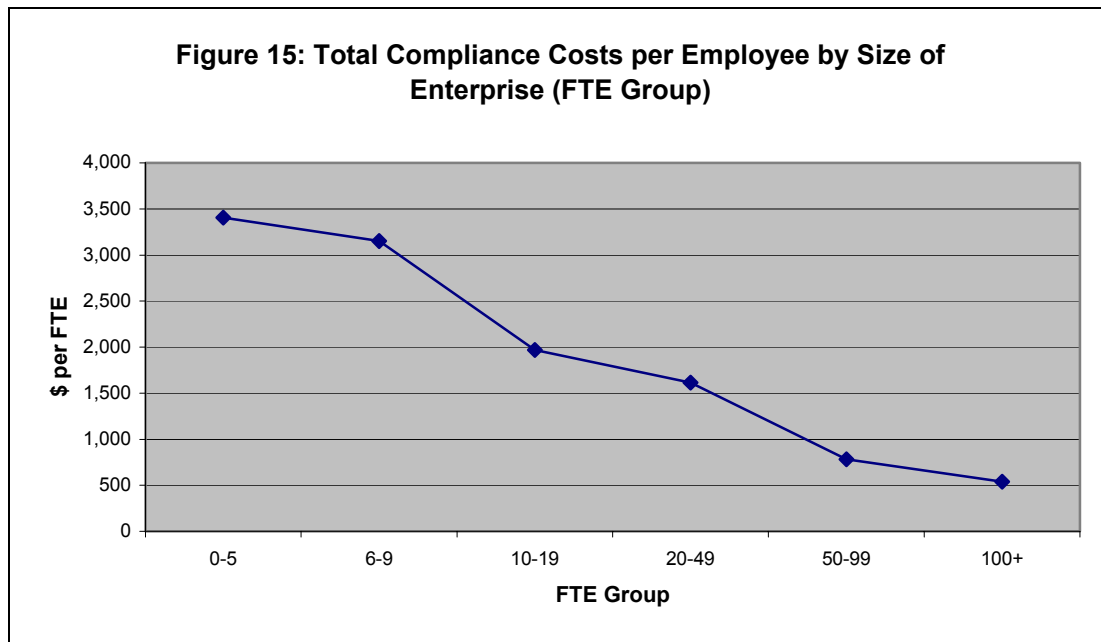
Table 26 shows total compliance costs by FTE group. While total average costs are very large for the 100+ FTE group, they become relatively small on a per FTE basis, particularly when compared to the smaller sized enterprises. The key points to note are that:

- Average total costs per FTE are very high (over \$3,000 per FTE) for enterprises with 0-9 FTEs. Costs fall but remain relatively high for enterprises employing 10-19 and 20-49 FTEs, but fall significantly for the 50-99 and 100+ FTE groups.
- Average total costs as a percent of turnover are very significant (over 1% of turnover) for enterprises in 0-5, 6-9, and 10-19 FTE groups, before falling steadily and levelling off for the larger groups. However, there is a noticeable rise for the 100+ FTE group, which appears to be a reflection of a significantly lower turnover to FTE ratio for respondents in the 100+ FTE group.
- It is also noticeable that as enterprises become larger they become more likely to engage external assistance.

**Table 26: Summary of Total Compliance Costs by FTE Group**

	0-5	6-9	10-19	20-49	50-99	100+	All Sizes
Mean annual hours spent within the enterprise	271.0	654.0	743.0	1,025.0	1,376.2	4,713.0	1,312.1
Average internal cost	\$5,160	\$12,452	\$14,147	\$19,514	\$26,203	\$89,736	24,982
% of respondents that used external advice	33.3%	45.7%	46.1%	47.0%	51.3%	58.7%	46.2%
Average external cost	\$21,610	\$26,873	\$31,429	\$101,328	\$57,068	\$181,974	\$78,286
Average total cost	\$10,793	\$22,682	\$26,103	\$49,231	\$53,142	\$187,054	\$52,798
Average total cost by FTE	\$3,405	\$3,150	\$1,970	\$1,614	\$782	\$538	\$813
Average total cost as % of turnover	1.14%	1.06%	1.09%	0.66%	0.37%	0.62%	0.65%

The trend showing total compliance costs declining for larger enterprises is clearly evident in Figure 15 below.



### 8.1.2 Total Compliance Costs by Industry

Table 27 shows total compliance costs by grouped industry. Particularly noticeable are the very high external costs recorded by the construction and utilities industry. Part of this is a result of one very large enterprise recording a very high estimate for external advice on environmental compliance costs.

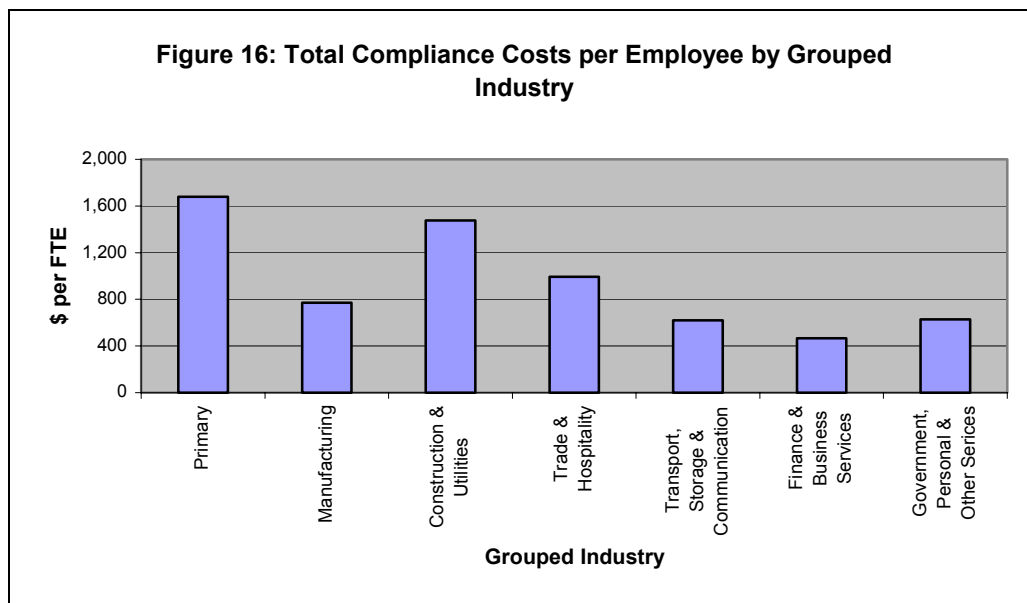
Also noticeable are the high costs for the primary industry, both on an FTE and turnover basis. The main component of these costs was environment – not surprising considering the exposure land-based industries have to the RMA.

The finance and business services and the government, personal and other services industries both have relatively high average total costs as a percent of turnover (but relatively low on an FTE basis).

**Table 27: Summary of Total Compliance Costs by Industry**

	Primry	Manu- factng	Cnstn & Util	Trade & Hsp	Tpt, Strg & Coms	Fin & Bus	Govt, Pers & Other	All Ind
Mean annual hours spent within the enterprise	1,465.4	1,492.3	1,897.4	1,087.8	1,195.4	1,174.7	1,054.7	1,310.6
Average internal cost	\$27,901	\$28,413	\$36,125	\$20,710	\$22,758	\$22,336	\$20,082	\$24,952
% of respondents that used external advice	56.9%	48.1%	45.0%	46.4%	45.7%	42.4%	42.2%	46.2%
Average external cost	\$120,119	\$58,326	\$285,216	\$38,810	\$45,596	\$87,963	\$42,541	\$78,267
Average total cost	\$89,757	\$51,169	\$110,342	\$35,800	\$41,238	\$51,747	\$33,303	\$52,724
Average total cost by FTE	\$1,678	\$771	\$1,477	\$992	\$619	\$467	\$628	\$812
Average total cost as % of turnover	1.18%	0.54%	0.68%	0.35%	0.41%	1.11%	0.85%	0.65%

Figure 16 illustrates total compliance costs per employee for each of the grouped industries in the form of a bar chart.



### 8.1.3 Total Compliance Costs by Region

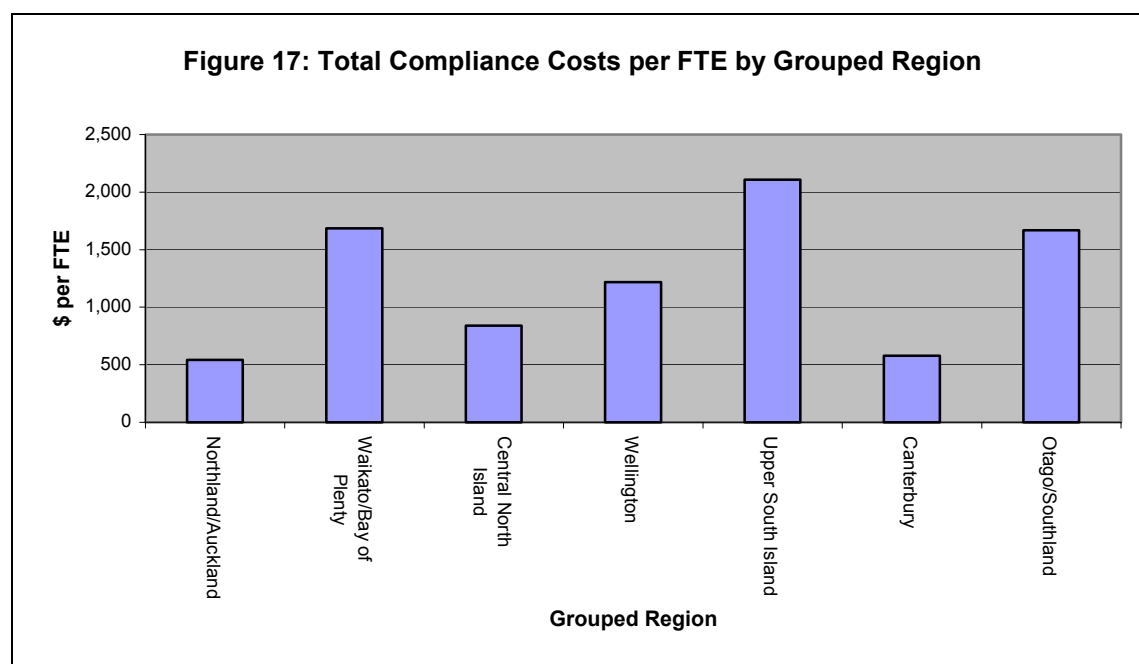
Table 28 shows total compliance costs by region. Most noticeable is the high degree of variation among regions. Much of this can be explained by some very high estimates of annual hours and costs of external advice by single enterprises in some regions for some of the areas. Adjusting by numbers of FTE and turnover helps ameliorate some of these variances.

It is particularly noticeable how low total average costs are for the Northland/ Auckland and Canterbury regions when expressed per FTE and as a percent of turnover.

**Table 28: Summary of Current Compliance Costs by Grouped Region**

	<b>Nthld/ Akl</b>	<b>Waik/ BOP</b>	<b>Cent Nth Is</b>	<b>Wgtn</b>	<b>Upper Sth Is</b>	<b>Ctby</b>	<b>Otago/ Sthld</b>	<b>NZ</b>
Mean annual hours spent within the enterprise	1,269.9	1,510.5	2,767.7	1,492.6	1,775.2	625.1	1,149.6	1311.8
Average internal cost	\$24,178	\$28,761	\$52,696	\$28,418	\$33,800	\$11,902	\$21,887	\$24,967
% of respondents that used external advice	48.0%	47.4%	45.9%	48.0%	52.2%	40.7%	52.1%	46.2%
Average external cost	\$68,449	\$157,024	\$54,604	\$86,676	\$47,863	\$31,911	\$93,609	\$82,309
Average total cost	\$50,405	\$71,885	\$78,273	\$68,243	\$51,226	\$24,282	\$59,573	\$52,745
Average total cost by FTE	\$543	\$1,685	\$840	\$1,219	\$2,108	\$578	\$1,669	\$812
Average total cost as % of turnover	0.43%	1.15%	0.90%	1.08%	1.11%	0.47%	0.92%	0.65%

Figure 17 illustrates total compliance costs per employee by grouped region in the form of a bar chart. The high degree of regional variability discussed above is clearly evident.



## **8.2 TAX COMPLIANCE COSTS**

### **8.2.1 Overall Findings**

92.9% of all respondents answered the Tax section. The average enterprise spent approximately 316 hours on tax-related compliance costs over the preceding 12 months. Charging this at our uniform charge-out rate of \$19.04 per hour provides an average cost of \$6,008 for the year, or around \$93 per FTE.

The maximum annual hours spent by an enterprise on tax-related compliance requirements was 40,000.

83.3% of those respondents who answered the Tax section also engaged external assistance for taxation matters. On average, these enterprises spent \$11,817 on tax advice for the year, or around \$182 per FTE.

The maximum annual amount spent by an enterprise on external advice for tax-related compliance requirements was \$550,000.

On average, firms responding to the Tax section had total tax compliance costs of \$15,859 for the preceding 12 months, or around \$244 per FTE and 0.19% of turnover. Overall, 30.1% of total compliance costs were in the tax area.

The Tax section also asked respondents what sources of external advice and information on tax matters they had accessed over the previous 12 months. 78% accessed IRD information (e.g., publications, website, call centre etc) and 79% employed external tax advisers, agents and intermediaries. 42% of respondents directly accessed tax legislation and 36% used other publications and advice.

As a reality check the survey also asked respondents whether the estimates of external advice had included the costs of preparing the enterprise's annual accounts. This is due to concerns that have been raised in the past that including these costs can overstate tax compliance costs (although on balance they are likely to be required for other compliance cost areas, e.g., companies and securities requirements). 47% of respondents said that they had included these costs, most of them smaller enterprises.

## 8.2.2 Tax Compliance Costs by Size of Enterprise

Table 29 shows the tax compliance costs incurred by FTE group. Unsurprisingly, the total hours spent (and cost) within the enterprise grew with the number of FTEs, however, the cost per FTE fell substantially from \$689 for the 0-5 FTE group to \$69 for the 50-99 FTE group and \$66 for 100+ FTE group. A similar trend is apparent for costs of external tax advisers.

When adjusting for FTEs, tax compliance costs were high for small enterprises but fell to relatively modest levels once an enterprise employed more than 50 FTEs. This trend is set out very clearly in Figure 18 below.

On a turnover basis, the costs tended to stabilise once an enterprise employed over 20 FTEs, but there was a significant increase for respondents in the 100+ FTE group. As discussed under section 8.1.1 above, this is a reflection of a significantly lower ratio of turnover to FTEs for the respondents in the 100+ FTE group compared to those in the 50-99 FTE group.

Tax compliance costs make up almost half (47.7%) of total compliance costs for the 0-5 FTE group, compared to the average for all sizes of 30.1%.

**Table 29: Tax Compliance Costs by FTE Group**

	0-5	6-9	10-19	20-49	50-99	100+	All Sizes
Mean annual hours spent within enterprise on Tax	114.6	152.5	211.6	203.3	245.4	1196.3	315.9
Average internal cost	\$2,183	\$2,903	\$4,029	\$3,870	\$4,672	\$22,777	\$6,015
% of respondents that used external advice	76.4%	91.3%	83.3%	84.3%	81.6%	85.9%	83.3%
Average external cost	\$3,885	\$5,095	\$6,695	\$10,485	\$12,230	\$39,108	\$11,836
Average total cost	\$5,152	\$7,555	\$9,608	\$12,710	\$14,653	\$56,359	\$15,881
Average total cost by FTE	\$1,625	\$1,049	\$725	\$417	\$216	\$162	\$245
Average total cost as % of turnover	0.54%	0.35%	0.40%	0.17%	0.10%	0.19%	0.65%
Tax as a % of total compliance costs	47.7%	33.3%	36.8%	25.8%	27.6%	30.1%	30.1%

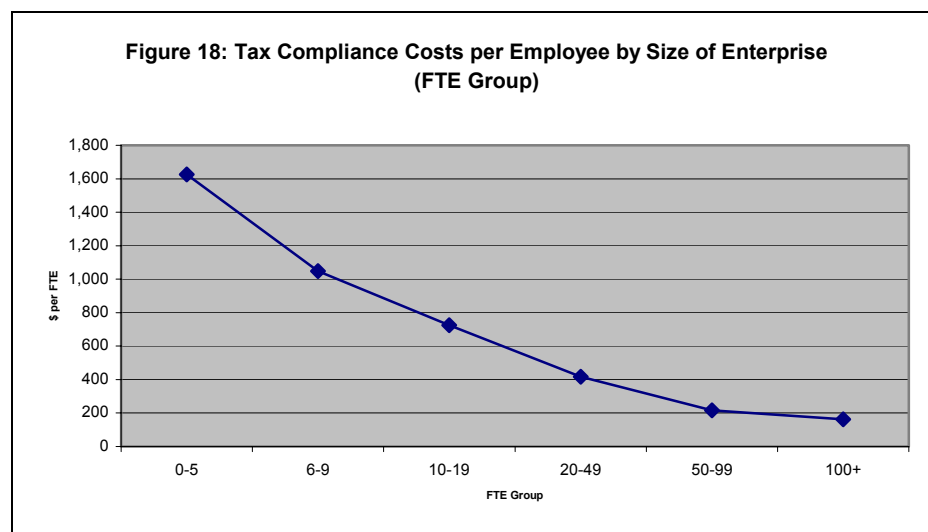


Table 30 shows the sources of external tax information and advice by FTE group. It seems that the smallest enterprises are more likely to go without any external advice, even IRD information.

Use of out-of-house tax advisers, agents, and intermediaries, peaks at around 83% for the 50-99 FTE group.

Particularly noticeable is that only a small minority of the 0-5 FTE group accesses legislation, with legislation only becoming a significant source of information for larger enterprises. The same trend is evident for 'other publications and advice'.

**Table 30: Sources of External Tax Information and Advice by FTE Group**

Source of Advice and/or Information	0-5	6-9	10-19	20-49	50-99	100+	All Sizes
IRD (e.g., publications, website, call centre)	68.7%	82.9%	82.1%	74.2%	77.4%	83.0%	77.5%
Legislation (e.g., Income Tax Act, GST Act)	21.8%	39.0%	40.4%	45.5%	59.1%	58.0%	42.4%
Out of house tax advisers, agents and intermediaries	72.8%	75.2%	80.8%	79.8%	82.8%	81.0%	78.6%
Other publications or advice	25.2%	35.2%	35.7%	27.6%	49.5%	56.0%	36.3%

Table 31 illustrates the proportion of respondents that included the preparation of their annual accounts in their estimate of costs of external advice on tax by FTE group. It shows clearly that the larger the enterprise the less likely that respondents included these costs – particularly for the 50-99 and 100+ FTE groups.

**Table 31: Cost of Preparing Annual Accounts Included in External Advice Cost Estimate?**

FTE Group	Yes	No
0-5	75.5%	24.5%
6-9	53.6%	46.4%
10-19	46.5%	53.5%
20-49	42.2%	57.8%
50-99	28.2%	71.8%
100+	25.3%	74.7%
<b>All sizes</b>	<b>46.7%</b>	<b>53.3%</b>

### 8.2.3 Tax Compliance Costs by Industry

Table 32 shows tax compliance costs by grouped industry. The highest tax compliance costs are faced by the finance and business services industry group, which should not be unsurprising considering the presence of finance, insurance, property, and business services within that group.

The trade and hospitality industry group has the highest tax compliance cost on a per FTE basis, which is consistent with the fact that enterprises are likely to be smaller in the services that make up this group (i.e., wholesale and retail trades, accommodation, cafes and restaurants).

However, on a turnover basis, the finance and business services industry had by far the highest tax compliance costs.

The government, personal and other services grouped industry has by far the lowest tax compliance costs across all measures, which again should not be surprising considering that many of the services within that industry group (i.e., government administration, defence, health, education, community, recreation, and other services) will be dominated by not-for-profit organisations.

Tax as a percent of total compliance costs was highest for the trade and hospitality industry (37.6%) and lowest for the government, personal and other services industry (13.3%).

**Table 32: Tax Compliance Costs by Industry**

	Primry	Manu- factng	Cnstn & Util	Trade & Hsp	Tpt, Strg & Coms	Fin & Bus	Govt, Pers & Other	All Ind
Mean annual hours spent within enterprise on Tax	201.1	400.5	286.9	314.3	302.7	461.8	129.6	315.6
Average internal cost	\$3,829	\$7,626	\$5,462	\$5,983	\$5,762	\$8,792	\$2,468	\$6,008
% of respondents that used external advice	93.4%	84.4%	89.1%	90.2%	78.8%	85.0%	70.9%	83.3%
Average external cost	\$13,042	\$11,582	\$18,207	\$9,548	\$10,384	\$16,256	\$7,981	\$11,817
Average total cost	\$16,056	\$17,396	\$21,690	\$14,593	\$13,950	\$22,609	\$5,658	\$15,859
Average total cost by FTE	\$300	\$262	\$290	\$404	\$210	\$204	\$107	\$244
Average total cost as % of turnover	0.21%	0.18%	0.13%	0.14%	0.14%	0.49%	0.14%	0.19%
Tax as a % of total compliance costs	17.9%	34.0%	19.7%	37.6%	30.6%	25.7%	13.3%	30.1%

Figure 19 below illustrates tax-related compliance costs per employee for each grouped region in the form of a bar chart.

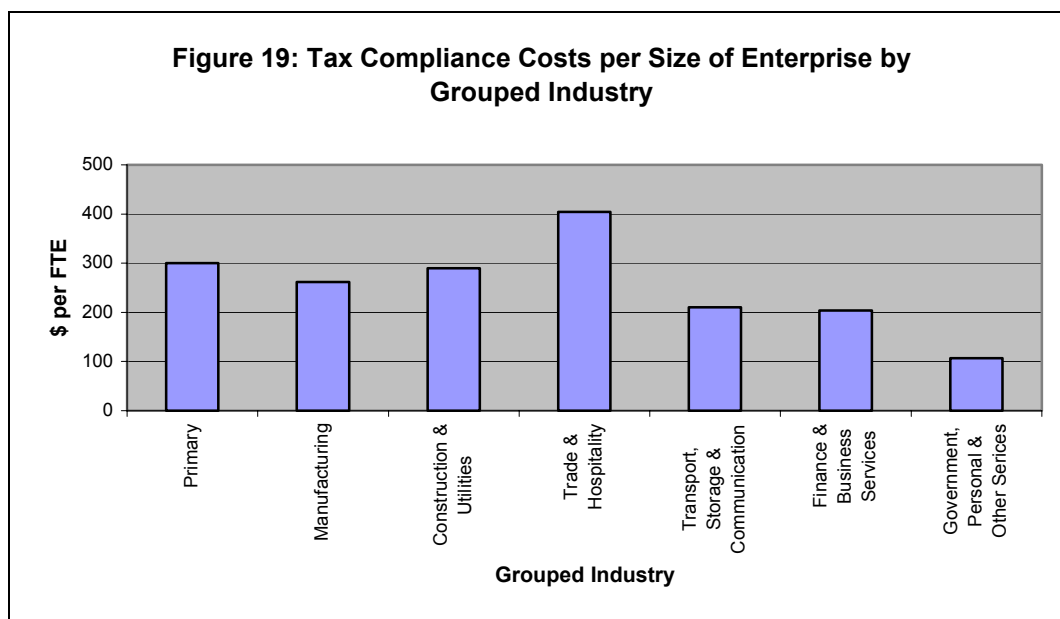


Table 33 shows the sources of external tax information and advice by industry group. Enterprises in the trade and hospitality industry group were more likely to go without any external advice, which is again a reflection more of the smaller sized businesses in that industry.

The primary industry was most likely to use out of house tax advisers, agents, and intermediaries. In contrast, the commercial services and government, personal and other services industry groups were least likely to use out-of-house advisers. This is probably because more enterprises in those industries have greater capacity to deal in-house with tax issues, which is confirmed by their greater use of tax legislation.

**Table 33: Sources of External Tax Information and Advice by Industry**

Source of Advice and/or Information	Primry	Manu- factng	Cnstn & Util	Trade & Hsp	Tpt, Strg & Coms	Fin & Bus	Govt, Pers & Other	All Ind
IRD (e.g., publications, website, call centre)	72.5%	78.3%	84.0%	70.2%	75.5%	86.1%	76.7%	77.5%
Legislation (e.g., Income Tax Act, GST Act)	35.3%	38.9%	52.0%	29.8%	43.4%	51.2%	46.0%	42.4%
Out of house tax advisers, agents and intermediaries	92.2%	78.8%	86.0%	86.8%	84.9%	70.2%	62.7%	78.6%
Other publications or advice	31.4%	38.1%	50.0%	36.4%	28.3%	31.4%	34.7%	36.3%

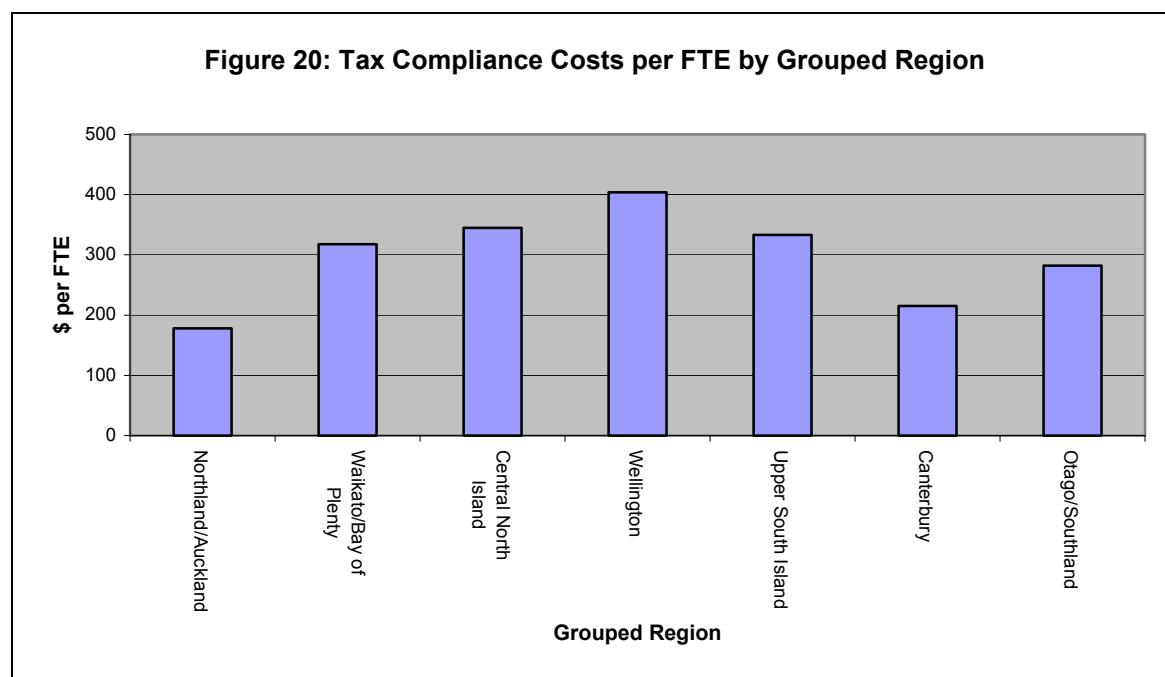
## 8.2.4 Tax Compliance Costs by Region

Table 34 (further illustrated by Figure 20 preceding the Table) shows tax compliance costs by grouped region. The first point to note are the very high relative costs (particularly on a turnover basis) for the Central North Island and Wellington regions, due to the influences of a single large enterprise in each region that submitted very high estimates for annual hours and costs of external advice. The footnotes explain the impact on each region's results when removing the outlier influence – the averages return close to the national averages.

Having made these adjustments, annual hours spent within the enterprise and costs of external advice are highest for respondents in the Northland/Auckland and Wellington regions. However, Northland/Auckland's internal costs become much lower when expressed on both an FTE and turnover basis, which is a reflection of the higher proportion of larger enterprises in that region's respondent population.

Tax compliance costs appear to be significantly lower in the three South Island regions than in any of the North Island regions, although this is perhaps a reflection of the lower proportion of larger enterprises in the South Island's respondent population. When adjusting on an FTE basis, the average costs are not significantly different and are if anything on the high side.

Tax as a percent of total compliance costs fluctuated by region, with the highest figures for Central North Island (41.1%) and Wellington (39.9%) and the lowest figures for and Upper South Island (15.8%), Otago/Southland (16.9), and Waikato/Bay of Plenty (18.9%).



**Table 34: Tax Compliance Costs by Grouped Region**

	Nthld/ Akld	Waik/ BOP	Cent Nth Is <sup>8</sup>	Wgtn <sup>9</sup>	Upper Sth Is	Ctby	Otago/ Sthld	NZ
Mean annual hours spent within enterprise on Tax	279.3	277.0	967.8	527.6	176.6	143.2	193.9	316.0
Average internal cost	\$5,317	\$5,274	\$18,427	\$10,046	\$3,362	\$2,727	\$3,692	\$6,008
% of respondents that used external advice	89.7%	79.8%	73.2%	81.7%	94.4%	78.6%	81.8%	83.3%
Average external cost	\$12,460	\$10,402	\$18,754	\$21,069	\$5,013	\$8,008	\$7,792	\$11,817
Average external cost by FTE	\$134	\$244	\$201	\$377	\$206	\$191	\$218	\$182
Average total cost	\$16,493	\$13,573	\$32,157	\$27,252	\$8,097	\$9,019	\$10,067	\$15,859
Average total cost by FTE	\$178	\$318	\$345	\$404	\$333	\$215	\$282	\$244
Average total cost as % of turnover	0.14%	0.22%	0.37%	0.43%	0.18%	0.17%	0.16%	0.19%
Tax as a % of total compliance costs	32.7%	18.9%	41.1%	39.9%	15.8%	37.1%	16.9%	30.1%

Table 35 shows the sources of external tax information and advice by grouped region. Respondents from Northland/Auckland and Wellington were most likely to use IRD advice, while the Upper South Island respondents were least likely. Legislation was relied on least by respondents from Canterbury and Otago/Southland. A relatively low proportion of respondents from the Central North Island region accessed out-of-house advisers, agents, and intermediaries.

**Table 35: Sources of External Tax Information and Advice by Grouped Region**

Source of Advice and/or Information	Nthld/ Akld	Waik/ BOP	Cent Nth Is	Wgtn	Upper Sth Is	Ctby	Otago/ Sthld	NZ
IRD (e.g., publications, website, call centre)	81.2%	75.3%	74.6%	84.6%	65.0%	73.3%	76.5%	77.5%
Legislation (e.g., Income Tax Act, GST Act)	47.2%	45.4%	47.5%	38.5%	50.0%	34.7%	35.3%	42.4%
Out of house tax advisers, agents and intermediaries	81.2%	81.4%	64.4%	76.9%	70.0%	80.7%	77.6%	78.6%
Other publications or advice	39.4%	41.2%	37.3%	32.3%	20.0%	30.7%	37.6%	36.3%

<sup>8</sup> Note: the data for the Central North Island is influenced by one very large enterprise that submitted particularly high estimates for annual hours and cost of external advice. By removing that outlier enterprise, the results for Central North Island would be as follows:

- Average hours fall from 968 to 258 hours per annum (average internal cost falls from \$18,427 to \$4,914,).
- Average external cost falls from \$18,754 to \$11,723.
- Total average cost falls from \$32,157 to \$13,476 (i.e., \$279 per FTE, or 0.16% of turnover).

<sup>9</sup> Note: the data for Wellington is influenced by one large enterprise that submitted particularly high estimates for annual hours and cost of external advice. By removing that outlier enterprise, the results for Wellington would be as follows:

- Average hours fall from 528 to 338 hours per annum (average internal cost falls from \$10,046 to \$6,440).
- Average external cost falls from \$21,069 to \$10,046.
- Total average cost falls from \$27,252 to \$14,613 (i.e., \$265 per FTE, or 0.23% of turnover).

## **8.3 EMPLOYMENT COMPLIANCE COSTS**

### **8.3.1 Overall Findings**

94.3% of all respondents answered the Employment section. The average enterprise spent approximately 550 hours on employment-related compliance costs over the preceding 12 months. Charging this at our uniform charge-out rate of \$19.04 per hour provides an average cost of \$10,466 for the year, or around \$161 per FTE.

The maximum annual hours spent by an enterprise on employment-related compliance requirements was 32,000.

58.3% of those respondents who answered the Employment section also engaged external assistance for employment matters. On average, these enterprises spent \$8,625 on employment-related advice for the year, or around \$133 per FTE.

The maximum annual amount spent by an enterprise on external advice for environment-related compliance requirements was \$400,000.

On average, firms responding to the Employment section had total employment-related compliance costs of \$15,495 for the preceding 12 months, or around \$239 per FTE and 0.19% of turnover. Employment compliance costs were 29.4% of total compliance costs.

### 8.3.2 Employment Compliance Costs by Size of Enterprise

Table 36 shows the employment-related compliance costs incurred by FTE group. Annual hours and external costs both increase rapidly with the size of enterprise, while generally speaking costs per FTE fall. The exception to the latter trend is an increase in costs per FTE for the 6-9 FTE group (this 'blip' is clearly shown in Figure 21 below).

This finding should not be at all surprising as the 0-5 FTE group is less likely to be exposed to employment-related compliance requirements and usually it is not until the enterprise grows beyond a certain size that such requirements become evident and formal structures and processes have to be implemented. It is also consistent with the findings under the preceding sections on Compliance Cost Priorities and Compliance Cost Trends, where it was evident that the employment-related compliance costs were not of as high importance for the 0-5 FTE group and tended to increase in profile as enterprises became larger.

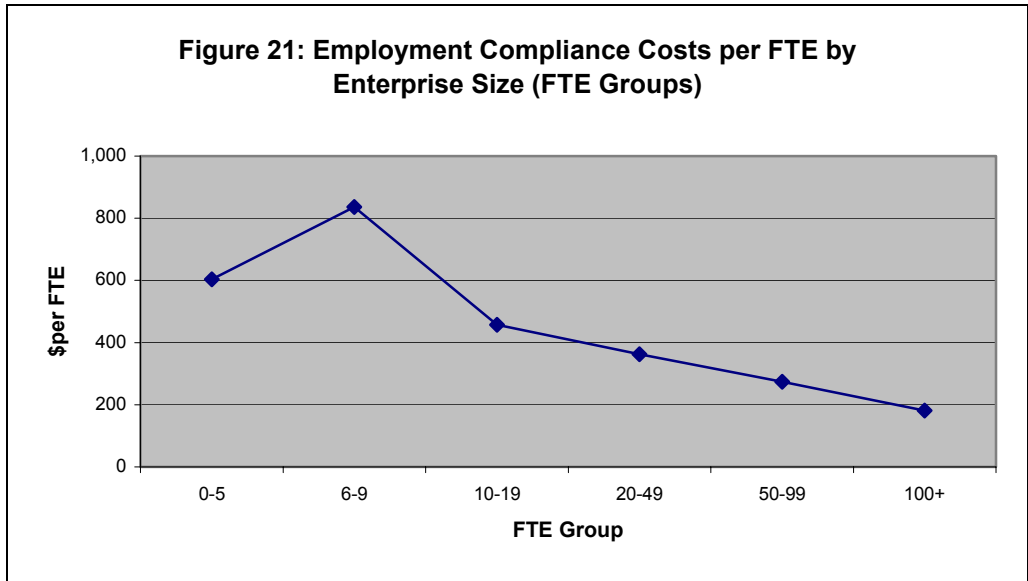
A similar pattern is evident when adjusting for turnover, although once again the costs for the respondents in the 100+ FTE group increased sharply compared to the 50-99 FTE group.

Employment-related compliance costs as a percent of total compliance costs were lowest for the 0-5 FTE group (17.8%), rose into the mid-20s for the 6-9, 10-19, and 20-49 FTE groups, before increasing further into the mid-30s for the 50-99 and 100+ FTE groups.

Another interesting finding is that smaller enterprises are significantly less likely to seek external advice on employment issues. This is consistent with the comments above about small enterprises being less exposed to employment-related compliance requirements. Once such requirements become more of a concern as more people are employed the proportion of those seeking external advice rises significantly.

**Table 36: Employment Compliance Costs by FTE Group**

	0-5	6-9	10-19	20-49	50-99	100+	All Sizes
Mean annual hours spent within enterprise on Employment	70.1	204.6	221.2	378.2	717.0	2197.0	550.3
Average internal cost	\$1,335	\$3,895	\$4,212	\$7,201	\$13,652	\$41,830	\$10,478
% of respondents that used external advice	31.5%	53.0%	58.0%	63.5%	69.7%	82.1%	58.4%
Average external cost	\$1,843	\$4,013	\$3,174	\$6,054	\$7,096	\$25,672	\$8,625
Average total cost	\$1,916	\$6,022	\$6,054	\$11,046	\$18,595	\$62,908	\$15,514
Average total cost by FTE	\$604	\$836	\$457	\$362	\$274	\$181	\$239
Average total cost as % of turnover	0.20%	0.28%	0.25%	0.15%	0.13%	0.21%	0.19%
Employment as % of total compliance costs	17.8%	26.5%	23.2%	22.4%	35.0%	33.6%	29.4%



### 8.3.3 Employment Compliance Costs by Industry

Table 37 shows employment compliance costs by grouped industry. The most noticeable feature is the situation with respect to the construction and utilities industry, which has by far the highest average annual hours and also has relatively high costs for external advice (just behind finance and business services). This in turn translates to a very high average total cost, which remains relatively high (although behind the trade and hospitality industry) when adjusted on an FTE basis. There are no obvious outliers that would have caused distortions to the averages for construction and utilities.

Government, personal and other services have relatively low employment-related compliance costs, and respondents in those sectors are also least likely to use external advisers on employment-related matters. Meanwhile, the primary and manufacturing industries are most likely to use external advisers.

The large difference in total average cost per FTE for the trade and hospitality industry (\$404) as opposed to the finance and business services industry (\$152) is probably at least in part a reflection of the higher proportion of larger enterprises in that the latter industry's respondent population.

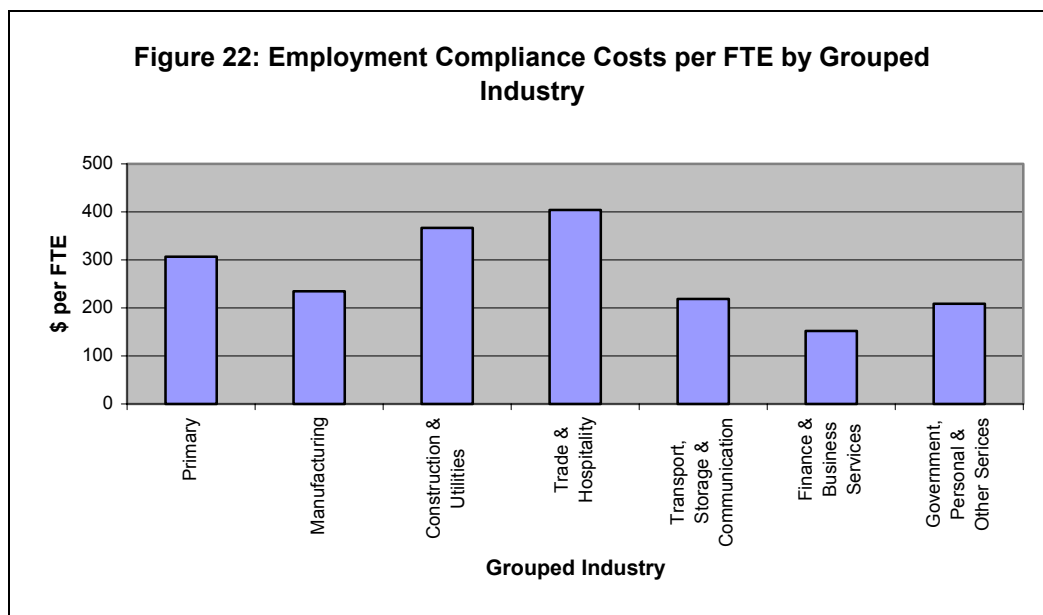
Particularly high employment costs as a percent of turnover were recorded for the finance and business services industry and the government, personal and other services industry.

As a percent of total costs, employment was highest for the trade and hospitality industry (40.8%) and was generally higher for the service sectors. Primary had the by far lowest percentage (18.3%) for employment.

**Table 37: Employment Compliance Costs by Industry**

	Primry	Manu- factng	Cnstn & Util	Trade & Hsp	Tpt, Strg & Coms	Fin & Bus	Govt, Pers & Other	All Ind
Mean annual hours spent within enterprise on Employment	533.9	564.4	992.0	587.4	544.2	458.5	423.1	549.7
Average internal cost	\$10,165	\$10,746	\$18,888	\$11,184	\$10,360	\$8,729	\$8,055	\$10,466
% of respondents that used external advice	66.0%	64.8%	61.7%	55.4%	55.8%	58.8%	47.5%	58.3%
Average external cost	\$9,460	\$7,516	\$13,773	\$6,174	\$7,514	\$13,886	\$6,368	\$8,625
Average total cost	\$16,405	\$15,618	\$27,386	\$14,602	\$14,550	\$16,897	\$11,081	\$15,495
Average total cost by FTE	\$307	\$235	\$367	\$404	\$219	\$152	\$209	\$239
Average total cost as % of turnover	0.22%	0.16%	0.17%	0.14%	0.15%	0.36%	0.28%	0.19%
Employment as % of total compliance costs	18.3%	30.5%	24.8%	40.8%	35.3%	32.7%	33.3%	29.4%

Figure 22 illustrates employment-related compliance costs per employee by grouped industry in the form of a bar chart.



### 8.3.4 Employment Compliance Costs by Region

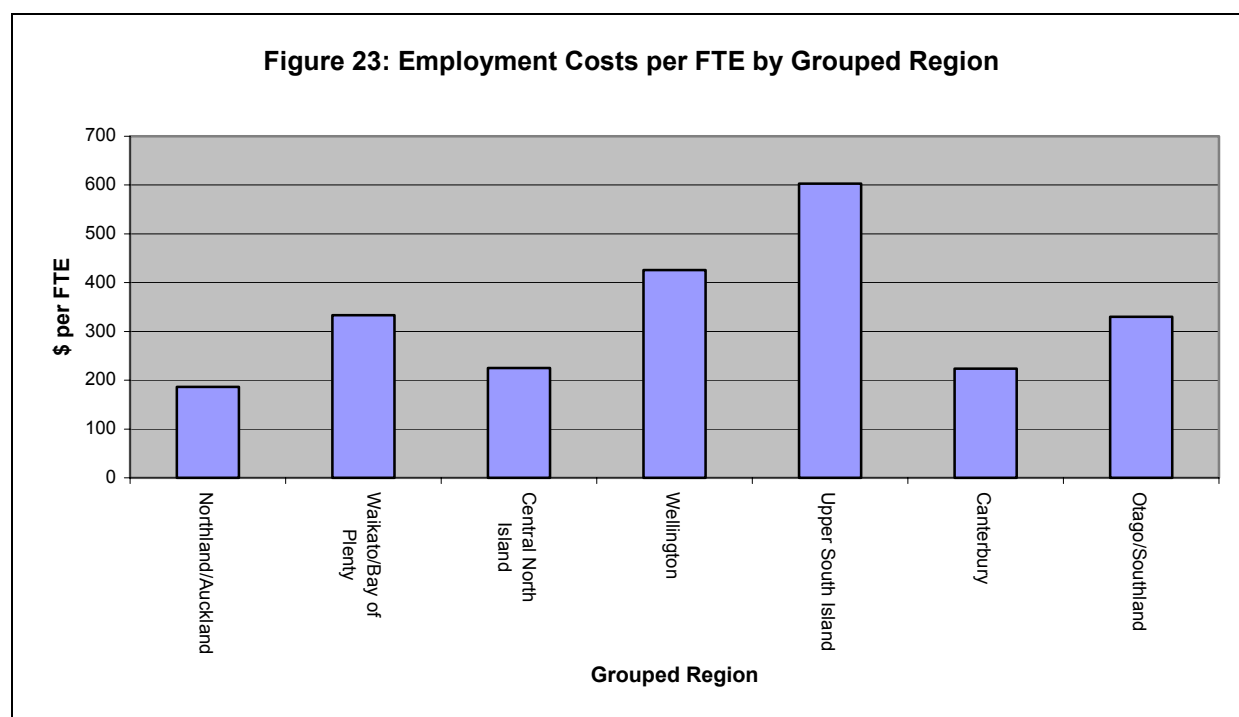
Table 38 shows tax compliance costs by grouped region. In common with the equivalent region analysis for tax compliance costs, the first point to note are the very high relative costs for the Central North Island and Wellington regions. Again, these are due to the influences of a single large enterprise in each region that submitted very high estimates for annual hours and costs of external advice. The footnotes explain the impact on each region's results when removing the outlier influence – the averages return close to the national averages.

Having made these adjustments, annual hours spent within the enterprise and costs of external advice are highest for respondents in the Northland/Auckland and Wellington regions. However, Northland/Auckland's internal costs become much lower when expressed on both an FTE and turnover basis, which is a reflection of the higher proportion of larger enterprises in that region's respondent population.

Similarly to the tax analysis, employment-related compliance costs appear to be significantly lower in the three South Island regions than those in the North Island, although this is perhaps a reflection of the lower proportion of larger enterprises in the South Island's respondent population. When adjusting on an FTE basis, the South Island respondents' average costs are not significantly different and are if anything on the high side (although oddly this is not the case on a turnover basis).

Employment-related costs as a percent of total compliance costs were highest for Canterbury (38.7%), followed by Wellington and Northland/Auckland. Waikato/Bay of Plenty and Otago/Southland had the lowest percentage (19.8% for each).

Figure 23 illustrates the (unadjusted) employment-related compliance costs per employee for each grouped industry in the form of a bar chart.



**Table 38: Employment Compliance Costs by Grouped Region**

	Nthld/ Akld	Waik/ BOP	Cent Nth Is <sup>10</sup>	Wgtn <sup>11</sup>	Upper Sth Is	Ctby	Otago/ Sthld	NZ
Mean annual hours spent within enterprise on Employment	619.3	582.4	893.2	617.2	516.8	297.8	429.3	550.5
Average internal cost	\$11,792	\$11,089	\$17,006	\$11,751	\$9,840	\$5,671	\$8,173	\$10,481
% of respondents that used external advice	60.0%	67.0%	55.2%	66.1%	68.4%	42.8%	64.2%	58.4%
Average external cost	\$9,147	\$4,648	\$7,150	\$18,325	\$7,031	\$8,710	\$5,604	\$8,625
Average total cost	\$17,280	\$14,204	\$20,951	\$23,864	\$14,651	\$9,395	\$11,770	\$15,516
Average total cost by FTE	\$186	\$333	\$225	\$426	\$603	\$224	\$330	\$239
Average total cost as % of turnover	0.15%	0.23%	0.24%	0.38%	0.32%	0.18%	0.18%	0.19%
Employment as % of total compliance costs	34.3%	19.8%	26.8%	35.0%	28.6%	38.7%	19.8%	29.4%

<sup>10</sup> Note: the data for the Central North Island is influenced by one very large enterprise that submitted particularly high estimates for annual hours and cost of external advice. By removing that outlier enterprise, the results for Central North Island would be as follows:

- Average hours fall from 968 to 558 hours per annum (average internal cost falls from \$17,006 to \$10,623).
- Average external cost falls from \$7,150 to \$5,768.
- Total average cost falls from \$20,951 to \$13,760 (i.e., \$285 per FTE, or 0.16% of turnover).

<sup>11</sup> Note: the data for Wellington is influenced by one large enterprise that submitted a particularly high estimate for cost of external advice. By removing that outlier enterprise, the results for Wellington would be as follows:

- Average hours fall from 617 to 578 hours per annum (average internal cost falls from \$11,751 to \$11,001).
- Average external cost falls from \$18,325 to \$8,281.
- Total average cost falls from \$23,864 to \$16,426 (i.e., \$298 per FTE, or 0.26% of turnover).

## **8.4 ENVIRONMENT COMPLIANCE COSTS**

### **8.4.1 Overall Findings**

74.9% of all respondents answered the Environment section. The average enterprise spent approximately 185 hours on environment-related compliance costs over the preceding 12 months. Charging this at our uniform charge-out rate of \$19.04 per hour provides an average cost of \$3,516 for the year, or around \$54 per FTE.

The maximum annual hours spent by an enterprise on environment-related compliance requirements was 10,000.

23.6% of those respondents who answered the Environment section also engaged external assistance for environmental matters. On average, these enterprises spent \$39,871 on employment-related advice for the year, or around \$614 per FTE.

The maximum annual amount spent by an enterprise on external advice for environment-related compliance requirements was \$1.8 million.

On average, firms responding to the Environment section had total employment-related compliance costs of \$12,906 for the preceding 12 months, or around \$199 per FTE and 0.16% of turnover. Environment compliance costs were 24.5% of total costs.

## 8.4.2 Environment Costs by Enterprise Size

Table 39 shows environment-related compliance costs by FTE group. Consistent to the results for tax and employment-related compliance costs, the table shows that annual hours and external costs both increase rapidly (albeit from a low starting point) with the size of enterprise, although the average cost per FTE falls. The trend of costs falling as enterprises increase in size is shown in Figure 24.

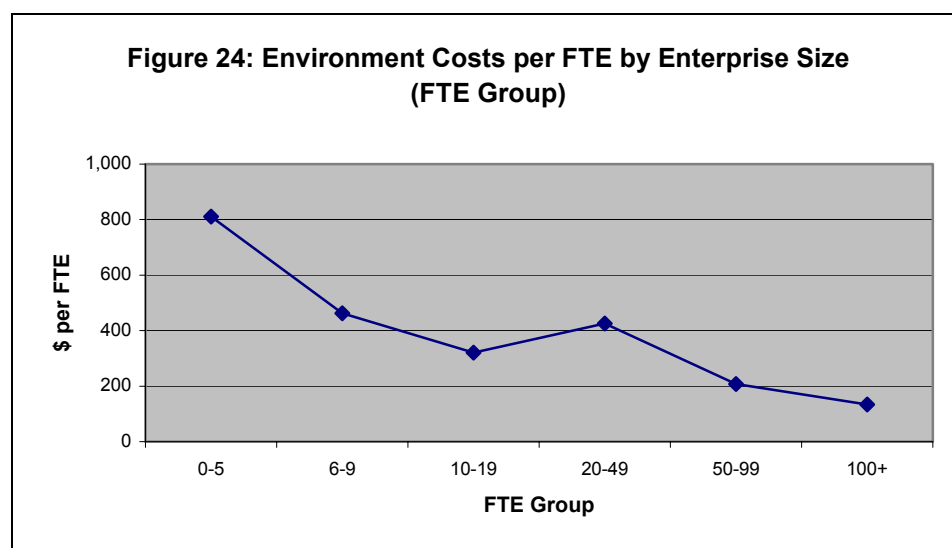
The average cost on a turnover basis was highest for the 0-5 FTE group and lowest for the 50-99 FTE group.

It appears very rare for the smallest enterprises to have engaged external advice on environment-related compliance requirements, but when they did it was very expensive on an FTE basis. The average external costs were also very high for the 40% of enterprises in the 100+ FTE group that engaged external advice.

Environment-related compliance costs were highest as a percent of total costs for the 50-99 (26.6%) and 20-49 (26.4%) FTE groups and lowest for the 6-9 (14.7%) and 10-19 (16.3%) FTE groups.

**Table 39: Environment Compliance Costs by FTE Group**

	0-5	6-9	10-19	20-49	50-99	100+	All Sizes
Mean annual hours spent within enterprise on Environment	40.2	62.1	85.3	180.0	187.7	638.6	185.0
Average internal cost	\$766	\$1,183	\$1,624	\$3,427	\$3,574	\$12,159	\$3,522
% of respondents that used external advice	13.3%	20.5%	19.6%	20.2%	35.5%	39.7%	23.6%
Average external cost	\$13,539	\$10,431	\$13,380	\$47,460	\$29,711	\$86,531	\$39,871
Average total cost	\$2,571	\$3,323	\$4,248	\$12,993	\$14,129	\$46,550	\$12,928
Average total cost by FTE	\$811	\$462	\$321	\$426	\$208	\$134	\$199
Average total cost as % of turnover	0.27%	0.16%	0.18%	0.17%	0.10%	0.15%	0.16%
Environment costs as % of total compliance costs	23.8%	14.7%	16.3%	26.4%	26.6%	24.9%	24.5%



### 8.4.3 Environment Costs by Industry

Table 40 shows environment-related compliance costs by grouped industry. Particularly noticeable are the very high costs for the primary industry and the construction and utilities industry, which reflect one respondent in each industry that estimated a very high annual hours and/or costs of external advice.

After making those adjustments, a clear trend is evident. That is, the average environment cost remains significantly higher for the primary industry and the construction and utilities industry than for any other industry. The costs remain particularly high for the primary industry when adjusted on both an FTE and turnover basis. This should not be surprising considering that these industries are the most likely to be exposed to the RMA.

This is further confirmed by environment-related costs being over 50% of total compliance costs for both the primary and construction and utilities industries. In contrast, environment-related costs were lowest for the finance and business services and trade and hospitality industries (less than 10% for each).

**Table 40: Environment Compliance Costs by Industry**

	Primry <sup>12</sup>	Manu- factng	Cnstn & Util <sup>13</sup>	Trade & Hsp	Tpt, Strg & Coms	Fin & Bus	Govt, Pers & Other	All Ind
Mean annual hours spent within enterprise on Environment	509.9	173.4	443.8	108.1	84.3	48.1	150.5	184.7
Average internal cost	\$9,710	\$3,301	\$8,450	\$2,058	\$1,606	\$917	\$2,866	\$3,516
% of respondents that used external advice	53.3%	24.2%	20.5%	20.7%	20.0%	12.3%	22.4%	23.6%
Average external cost	\$75,046	\$12,522	\$233,611	\$6,583	\$20,669	\$29,244	\$15,502	\$39,871
Average total cost	\$49,735	\$6,328	\$56,234	\$3,420	\$5,740	\$4,522	\$6,346	\$12,906
Average total cost by FTE	\$930	\$95	\$753	\$95	\$86	\$41	\$120	\$199
Average total cost as % of turnover	0.63%	0.07%	0.35%	0.03%	0.06%	0.10%	0.16%	0.16%
Environment as % of total compliance costs	55.4%	12.4%	51.0%	9.6%	13.9%	8.7%	19.1%	24.5%

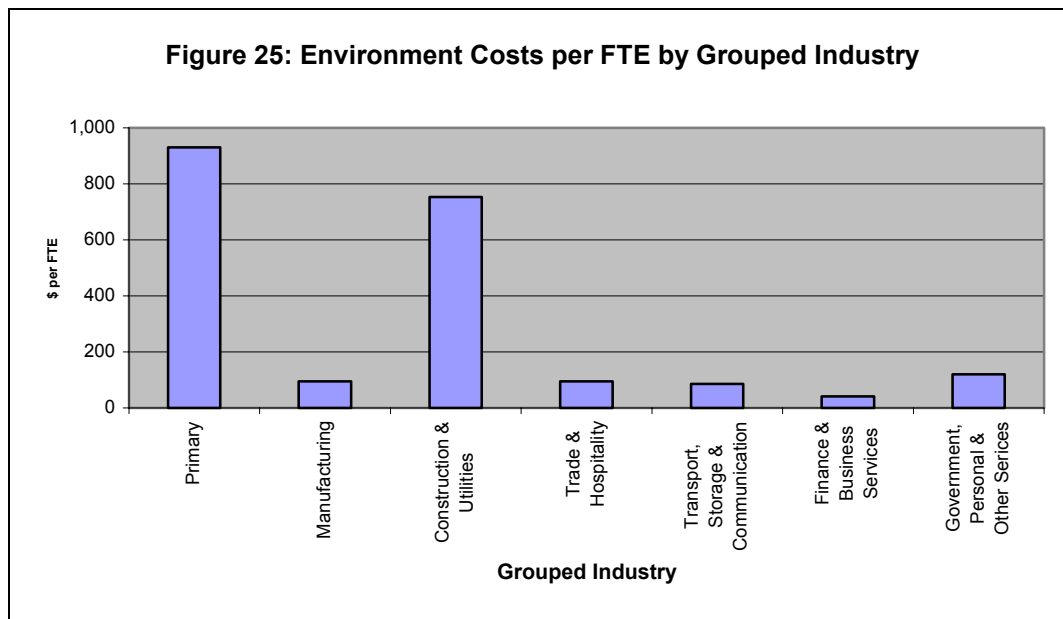
<sup>12</sup> Note: the data for the Primary industry is influenced by one enterprise that submitted a particularly high estimate for the cost of external advice. By removing that outlier enterprise, the results for Primary would be:

- Average hours remained unchanged at 510 hours per annum (average internal cost remains unchanged at \$9,710).
- Average external cost falls from \$75,046 to \$34,831.
- Total average cost falls from \$49,735 to \$27,512 (i.e., \$508 per FTE, or 0.36% of turnover).

<sup>13</sup> Note: the data for the Construction & Utilities industry is influenced by one enterprise that submitted particularly high estimates for annual hours and the cost of external advice. By removing that outlier enterprise, the results for Construction & Utilities would be as follows:

- Average hours fall from 222 to hours per annum (average internal cost falls from \$8,450 to \$4,218).
- Average external cost falls from \$233,611 to \$37,812.
- Total average cost falls from \$56,234 to \$11,253 (i.e., \$161 per FTE or 0.07% of turnover).

Figure 25 illustrates (unadjusted) environment costs per employee for each of the grouped industries. It clearly shows the very high costs faced by the primary and the construction and utilities industries.



#### 8.4.4 Environment Compliance Costs by Region

Table 41 shows environment-related compliance costs by region. The Waikato/Bay of Plenty region and Otago/Southland region each had one enterprise that reported very high estimates for annual hours and/or costs of external advice.

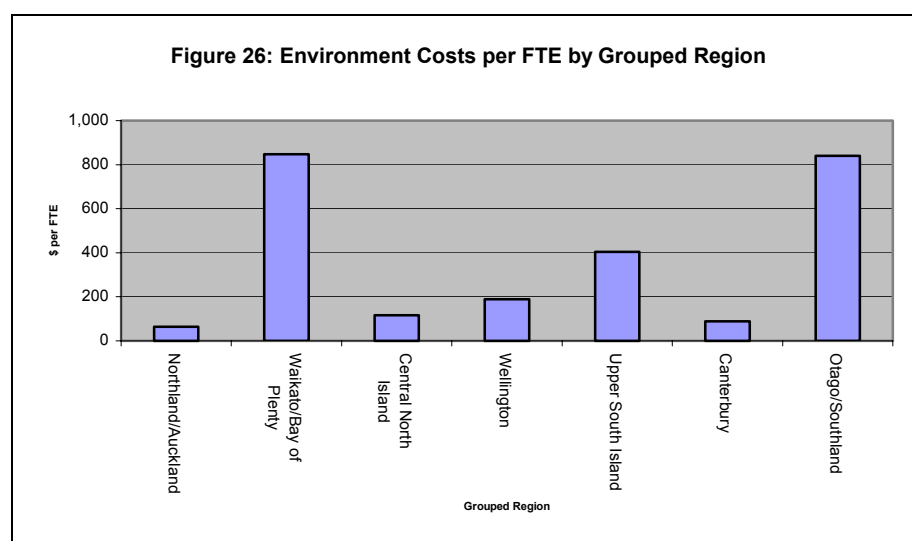
Once adjustments are made to exclude the impact of these outlier enterprises, Otago/Southland becomes the region with the highest environment compliance costs, including on an FTE and turnover basis. Canterbury and Northland/Auckland's costs were lowest.

Environment-related costs as percent of total compliance costs were very high for the Waikato/Bay of Plenty and Otago/Southland regions (both over 50%). In contrast, the percent was lowest for Northland/Auckland (11.8%).

**Table 41: Environment Compliance Costs by Grouped Region**

	Nthld/ Akld	Waik/ BOP <sup>14</sup>	Cent Nth Is	Wgtn	Upper Sth Is	Ctby	Otago/ Sthld <sup>15</sup>	NZ
Mean annual hours spent within enterprise on Environment	128.2	364.8	352.2	160.0	284.1	86.3	231.2	184.7
Average internal cost	\$2,441	\$6,946	\$6,706	\$3,046	\$5,410	\$1,643	\$4,402	\$3,516
% of respondents that used external advice	22.9%	22.5%	28.3%	22.4%	29.4%	16.2%	35.4%	23.6%
Average external cost	\$15,434	\$129,634	\$14,500	\$33,455	\$14,986	\$12,958	\$72,305	\$39,871
Average total cost	\$5,969	\$36,159	\$10,804	\$10,556	\$9,818	\$3,744	\$29,987	\$12,906
Average total cost by FTE	\$64	\$848	\$116	\$189	\$404	\$89	\$840	\$199
Average total cost as % of turnover	0.05%	0.58%	0.12%	0.17%	0.21%	0.07%	0.46%	0.16%
Environment as a% of total compliance costs	11.8%	50.3%	13.8%	15.5%	19.2%	15.4%	50.3%	24.5%

Figure 26 illustrates the (unadjusted) environment compliance costs for each of the grouped regions. The outlier effect of the individual enterprises in Waikato/Bay of Plenty and Otago/Southland is most evident.



<sup>14</sup> Note: the data for Waikato/Bay of Plenty is influenced by one large enterprise that submitted particularly high estimates for annual hours and cost of external advice. By removing that outlier enterprise, the results for Waikato/Bay of Plenty would be as follows:

- Average hours fall from 365 to 227 hours per annum (average internal cost falls from \$6,946 to \$4,325).
- Average external cost falls from \$129,634 to \$18,277.
- Total average cost falls from \$36,159 to \$8,242 (i.e., \$207 per FTE, or 0.13% of turnover).

<sup>15</sup> Note: the data for Otago/Southland is influenced by one enterprise that submitted a particularly high estimate for cost of external advice. By removing that outlier enterprise, the results for Otago/Southland would be as follows:

- Average hours fall from 231 to 227 hours per annum (average internal cost falls from \$4,402 to \$4,321).
- Average external cost falls from \$72,305 to \$30,137.
- Total average cost falls from \$29,987 to \$14,680 (i.e., \$410 per FTE, or 0.23% of turnover).

## **8.5 OTHER COMPLIANCE COSTS**

### **8.5.1 Overall Findings**

90.4% of all respondents answered the Other Costs section. The average enterprise spent approximately 261 hours on other compliance requirements over the preceding 12 months. Charging this at our uniform charge-out rate of \$19.04 per hour provides an average cost of \$4,962 for the year, or around \$76 per FTE.

The maximum annual hours spent by an enterprise on other compliance requirements was 20,000.

19.5% of those respondents who answered the Other Costs section also engaged external assistance. On average, these enterprises spent \$17,954 on advice relating to other compliance requirements for the year, or around \$276 per FTE.

The maximum annual amount spent by an enterprise on external advice for other compliance requirements was \$800,000.

On average, firms responding to the Other Costs section had total employment-related compliance costs of \$8,464 for the preceding 12 months, or around \$130 per FTE and 0.10% of turnover. Other compliance costs made up 16.0% of total compliance costs.

## 8.5.2 Compliance Costs by Enterprise Size

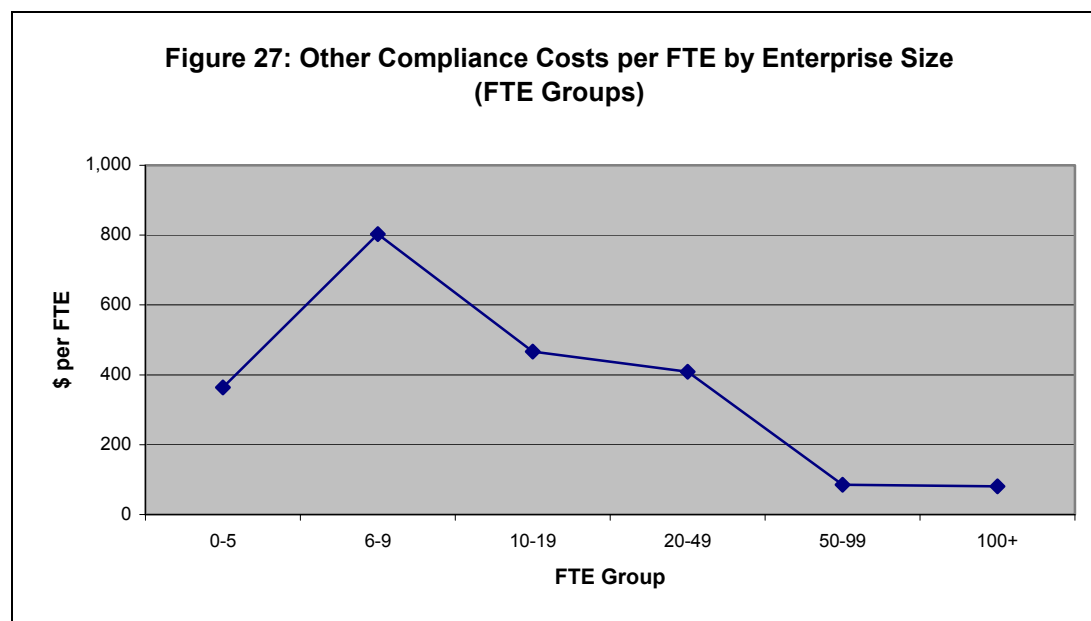
Table 42 shows other compliance costs by FTE group. While hours and external costs start at a low level for the 0-5 FTE group, there are very substantial increases for the 6-9 FTE group even when adjusted on an FTE basis. There is then a steady drop on a per FTE basis as enterprises become larger, a trend that is clearly illustrated in Figure 27 below.

Few enterprises in any size group employed external advice on other compliance matters. For enterprises in the 0-5, 6-9, 10-19, and 20-49 FTE groups the costs of external advice were very expensive on both an FTE and turnover basis, which might be a reflection of a more specialised nature of advice on 'other' compliance requirements, compared to say tax and employment advice.

Other costs as a percent of total compliance costs were highest (in the mid-20s), for the 6-9, 10-19, and 20-49 FTE groups. Other costs were significantly lower (10-11%) for the other FTE groups.

**Table 42: Other Compliance Costs by FTE Group**

	0-5	6-9	10-19	20-49	50-99	100+	All Sizes
Mean annual hours spent within enterprise on Other Costs	46.1	234.8	224.9	263.5	226.1	681.1	260.9
Average internal cost	\$877	\$4,470	\$4,282	\$5,016	\$4,305	\$12,968	\$4,968
% of respondents that used external advice	11.8%	17.9%	23.4%	20.0%	18.2%	27.0%	19.5%
Average external cost	\$2,343	\$7,334	\$8,180	\$37,329	\$8,031	\$30,663	\$17,954
Average total cost	\$1,154	\$5,782	\$6,193	\$12,482	\$5,765	\$21,237	\$8,475
Average total cost by FTE	\$364	\$803	\$467	\$409	\$85	\$61	\$131
Average total cost as % of turnover	0.12%	0.27%	0.26%	0.17%	0.04%	0.07%	0.10%
Other costs as a % of total compliance costs	10.7%	25.5%	23.7%	25.4%	10.8%	11.4%	16.0%



### 8.5.3 Other Compliance Costs by Industry

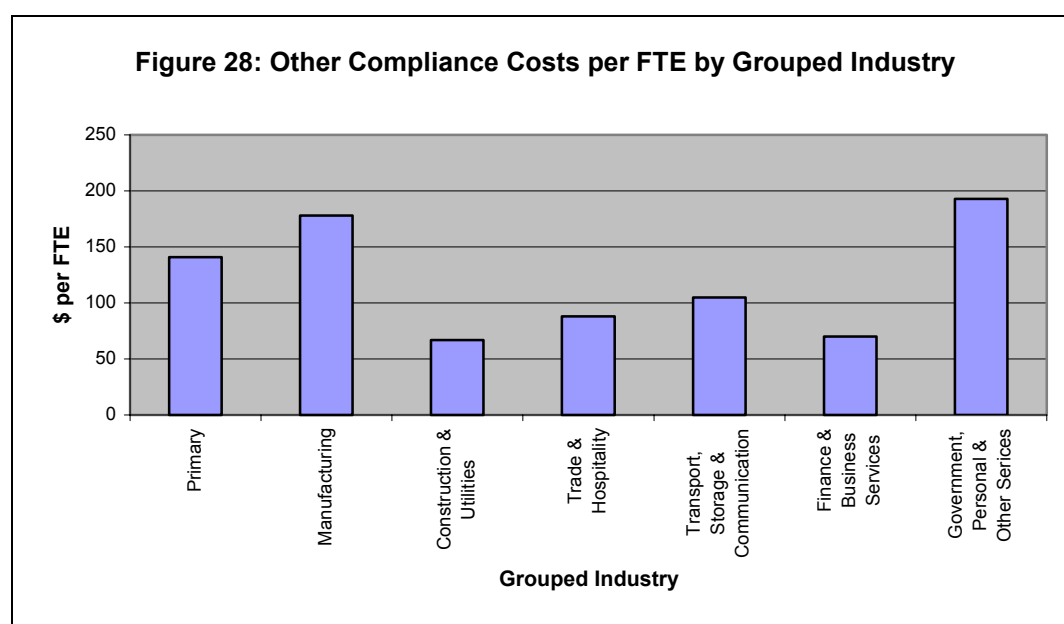
Table 43 shows other compliance costs by grouped industry. It would appear that other costs are particularly significant on an FTE basis to the government, personal and other services industry, with the manufacturing and primary industries following. This is illustrated clearly in Figure 28 below.

On a turnover basis, other compliance costs appear to be particularly significant for the government, personal and other services industry.

The government, person and other services industry also recorded by far the highest figure (30.7%) for other costs as a percent of total compliance costs, followed by manufacturing (23.1%). Construction and utilities had the lowest figure (4.6%).

**Table 43: Other Compliance Costs by Industry**

	Primry	Manu- factng	Cnstn & Util	Trade & Hsp	Tpt, Strg & Coms	Fin & Bus	Govt, Pers & Other	All Ind
Mean annual hours spent within enterprise on Other Costs	220.5	354.0	174.7	78.0	264.2	206.3	351.5	260.6
Average internal cost	\$4,199	\$6,740	\$3,325	\$1,485	\$5,030	\$3,928	\$6,693	\$4,962
% of respondents that used external advice	14.9%	19.0%	8.7%	19.1%	28.0%	13.3%	27.8%	19.5%
Average external cost	\$22,571	\$26,706	\$19,625	\$8,906	\$7,029	\$28,577	\$12,690	\$17,954
Average total cost	\$7,561	\$11,827	\$5,032	\$3,185	\$6,998	\$7,719	\$10,218	\$8,464
Average total cost by FTE	\$141	\$178	\$67	\$88	\$105	\$70	\$193	\$130
Average total cost as % of turnover	0.10%	0.12%	0.03%	0.03%	0.07%	0.17%	0.26%	0.10%
Other costs as a % of total compliance costs	8.4%	23.1%	4.6%	8.9%	17.0%	14.9%	30.7%	16.0%



### 8.5.4 Other Compliance Costs by Region

Table 44 shows other compliance costs by grouped region. The results for Central North Island and Upper South Island are each influenced by a single enterprise that reported high annual hours and external costs.

Adjusting for the outlier effect for those two regions, Otago/Southland has the highest average cost per FTE. Canterbury is notable for its respondents reporting very low other compliance costs by FTE and also by turnover.

Upper South Island had by far the highest figure for other costs as a percent of total compliance costs (36.4%), although once the impact of the outlier enterprise was addressed, it became far less significant. Northland/Auckland (21.2%) had the next highest figure, while the lowest figures were recorded by Canterbury and Wellington (both under 10%).

**Table 44: Other Compliance Costs by Region**

	Nthld/ Akld	Waik/ BOP	Cent Nth Is <sup>16</sup>	Wgtn	Upper Sth Is <sup>17</sup>	Ctby	Otago/ Sthld	NZ
Mean annual hours spent within enterprise on Other Costs	243.1	286.3	554.5	187.8	797.7	97.8	295.2	260.6
Average internal cost	\$4,628	\$5,452	\$10,557	\$3,575	\$15,188	\$1,861	\$5,620	\$4,962
% of respondents that used external advice	19.2%	20.2%	26.8%	21.7%	16.7%	11.8%	26.9%	19.5%
Average external cost	\$31,408	\$12,340	\$14,200	\$13,827	\$20,833	\$2,235	\$7,908	\$17,954
Average total cost	\$10,663	\$7,949	\$14,361	\$6,571	\$18,660	\$2,124	\$7,749	\$8,464
Average total cost by FTE	\$115	\$186	\$154	\$117	\$768	\$51	\$217	\$130
Average total cost as % of turnover	0.09%	0.13%	0.17%	0.10%	0.41%	0.04%	0.12%	0.10%
Other costs as a % of total compliance costs	21.2%	11.1%	18.3%	9.6%	36.4%	8.7%	13.0%	16.0%

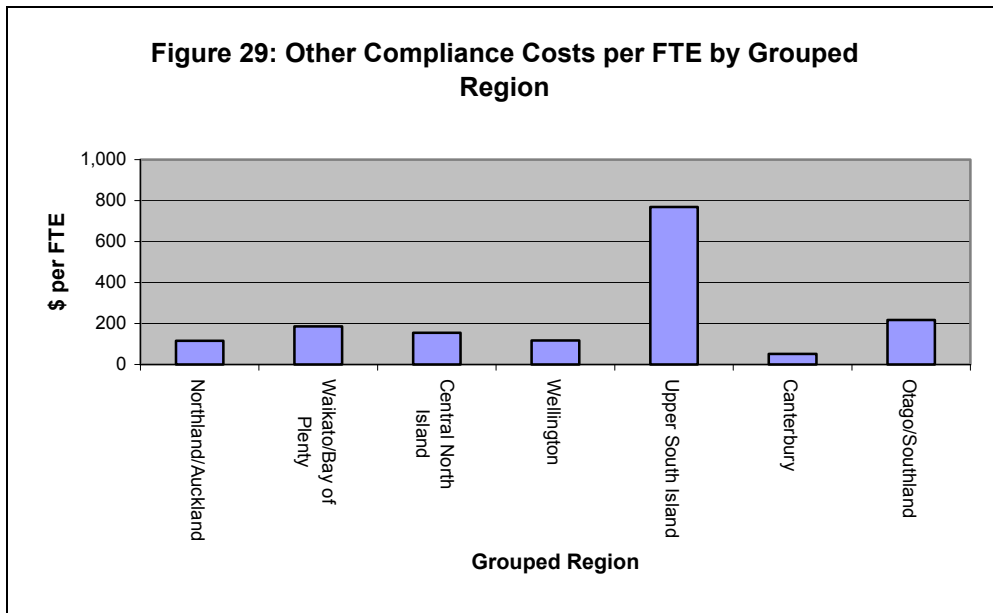
<sup>16</sup> Note: the data for Central North Island is influenced by one very large enterprise that submitted particularly high estimates for annual hours and cost of external advice. By removing that outlier enterprise, the results for Central North Island would be as follows:

- Average hours fall from 555 to 201 hours per annum (average internal cost falls from \$10,557 to \$3,827).
- Average external cost falls from \$14,200 to \$9,857.
- Total average cost falls from \$14,361 to \$6,336 (i.e., \$131 per FTE, or 0.07% of turnover).

<sup>17</sup> Note: the data for Upper South Island is influenced by one enterprise that submitted particularly high estimates for annual hours and cost of external advice. By removing that outlier enterprise, the results for Upper South Island would be as follows:

- Average hours fall from 798 to 50 hours per annum (average internal cost falls from \$15,188 to \$961).
- Average external cost falls from \$20,833 to \$6,250.
- Total average cost falls from \$18,660 to \$1,328 (i.e., \$53 per FTE, or 0.03% of turnover).

Figure 29 illustrates (unadjusted) other compliance costs per employee for each grouped region. It clearly illustrates the outlier affect that a single enterprise had in influencing the result for the Upper South Island.



## 9. INTERNATIONAL COMPARISONS

It is difficult to draw many firm conclusions when comparing compliance cost levels in different countries, simply because every country has different regulatory environments whether they be for tax, employment, environmental, or other compliance cost areas.

However, a recent attempt to compare countries' compliance burdens was a study *Business Views on Red Tape – Administrative Burdens on Small and Medium-sized Enterprises* (OECD 2001). The OECD study surveyed businesses in 10 countries: Australia, Austria, Belgium, Finland, Iceland, New Zealand, Norway, Portugal, Spain, and Sweden. As such the survey was limited and apart from Australia it did not include any of New Zealand's top 10 trading partners.

In fact, apart from Australia and New Zealand all the countries surveyed were Scandinavian or continental European, countries that are regarded as being highly regulated and costly to do business in. It would have been more relevant for New Zealand had the survey also covered significant trading partners in the Asia-Pacific region (e.g., United States, Japan, Korea, China, Canada etc).

Nevertheless, the survey found that compliance costs are “substantial and economically significant” and that “there is also a disproportionate impact on smaller companies”.

The OECD survey found that average costs per SME was around US\$27,500, with the New Zealand average the lowest of the 10 countries measured (US\$8,900). This comes as no surprise considering the limited range of countries surveyed. It is also important to note that the survey's definition of a SME was 500 employees – maybe appropriate for Europe, but what would be a very large enterprise by New Zealand standards.

As a result, when adjusting the results for enterprise size, New Zealand's relative position dropped from lowest to third lowest, with compliance costs around US\$2,500 per employee (although this was still lower than the survey's average of around US\$4,000 per employee).

A key point in the OECD survey was that the costs for smaller enterprises (0-19 employees) are around three times higher on a per employee basis than medium sized enterprises (20-49 employees) and five times higher than larger enterprises (50-500 employees).

While the comparison is not exact, the Business New Zealand – KPMG survey found that the costs for the 0-5 FTE group were six times higher on a per FTE basis than the 100+ FTE group.

The OECD survey also found that 46% of costs were spent complying with administrative requirements on tax, 35% on employment regulations, and 19% on environmental regulations (the survey did not measure 'other' compliance cost

areas). In comparison, the Business New Zealand – KPMG survey found that tax and employment costs were at around similar levels (30% and 29% respectively).

Consistent with the findings of the Business New Zealand – KPMG survey, the OECD survey found that very few respondents perceived compliance cost trends to have fallen – almost all finding costs to have either increased or stayed the same.

International comparisons mean little to owners and operators, particularly of small and medium-sized enterprises that do not have the luxury of picking and choosing a favourable country to locate. If businesses are concerned about the time and cost required to comply with regulatory issues then it is little relief to them being told that compliance costs in Norway, for example, are lower.