

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

September 2005

1. INTRODUCTION

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

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

While the survey measures both the amount of time spent within the business and the cost of any external advice in coping with compliance requirements, it is important to emphasise that it does not measure levels or changes in the actual costs of doing business. Examples of types of costs not measured by the survey include the amount of tax the business actually paid or, in the case of the recent changes to the Holidays Act, the increased wage and salary costs incurred in meeting increased statutory minima – these are not compliance costs.

The survey has already become a key tool used by both the private sector and Government in order to gain a snapshot of the business community's priorities for action on compliance costs. Over time, the survey will provide a regular measure of the general trends in compliance costs.

The results of the 2005 survey indicate an overall increase in both cost perceptions and in the actual costs involved in complying when compared with 2004. Tax remains the most important issue for business, and leads the 2005 results in terms of priority, perception and cost. As an issue, it has received almost unprecedented media coverage in recent months, generally directed to tax rates and revenue. However, the survey results show that tax compliance is an equally important issue that needs further addressing by policy makers.

Perceptions continue to be strong in employment-related areas, such as holidays, employment relations, and health and safety in employment – all areas where major legislative changes have been either enacted or signalled over recent years. However, the lack of any further major legislative change in these areas over the last 6-12 months has meant perceptions in these areas have not been as strong as in previous years.

We would like to take this opportunity to express our great appreciation to the 1172 survey respondents for the valuable time they made available to complete the survey and for providing their insights on compliance issues. Also, we would like to thank the various industry associations and organisations that sought to obtain responses from their members.

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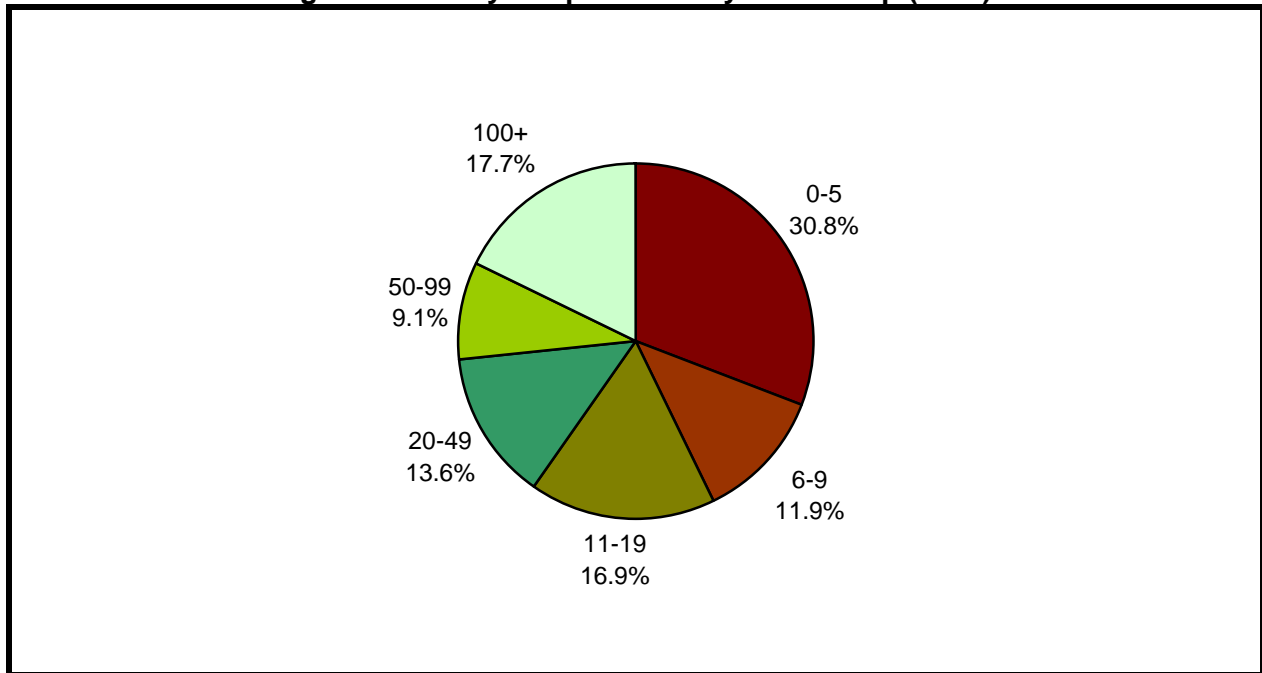
2. RESPONDENT PROFILE

Table 1 below shows the breakdown of respondents by the number of full-time equivalents (FTEs) for 2004 and 2005. The 2005 survey received 1172 responses, with a noticeable lift in those firms with 0-5 and 100+ FTEs. Overall, the 2005 breakdown is closer than the 2003 and 2004 surveys to that of the business demographic population last recorded in 2003 with 30.8% in the 0-5 FTE group. However, the 2003 population result shows almost 84% within that group. Figure 1 provides a summary in the form of a pie chart for the 2005 respondents by FTEs.

Table 1: Respondents by Number of Full Time Equivalent Employees (2004 & 2005)

Number of FTEs	Number of respondents 2005	Percent of total valid responses 2005	Number of respondents 2004	Percent of total valid responses 2004	Population (Business Demography Statistics 2003)
0-5	361	30.8%	213	22.4%	83.9%
6-9	140	11.9%	172	18.1%	7.3%
10-19	198	16.9%	188	19.8%	7.6%
20-49	159	13.6%	183	19.3%	
50-99	107	9.1%	92	9.7%	0.7%
100+	207	17.7%	101	10.6%	0.5%
Total valid responses	1172	100.0%	949	100.0%	100.0%

Figure 1: Survey Respondents by FTE Group (2005)



3. SUMMARY OF FINDINGS

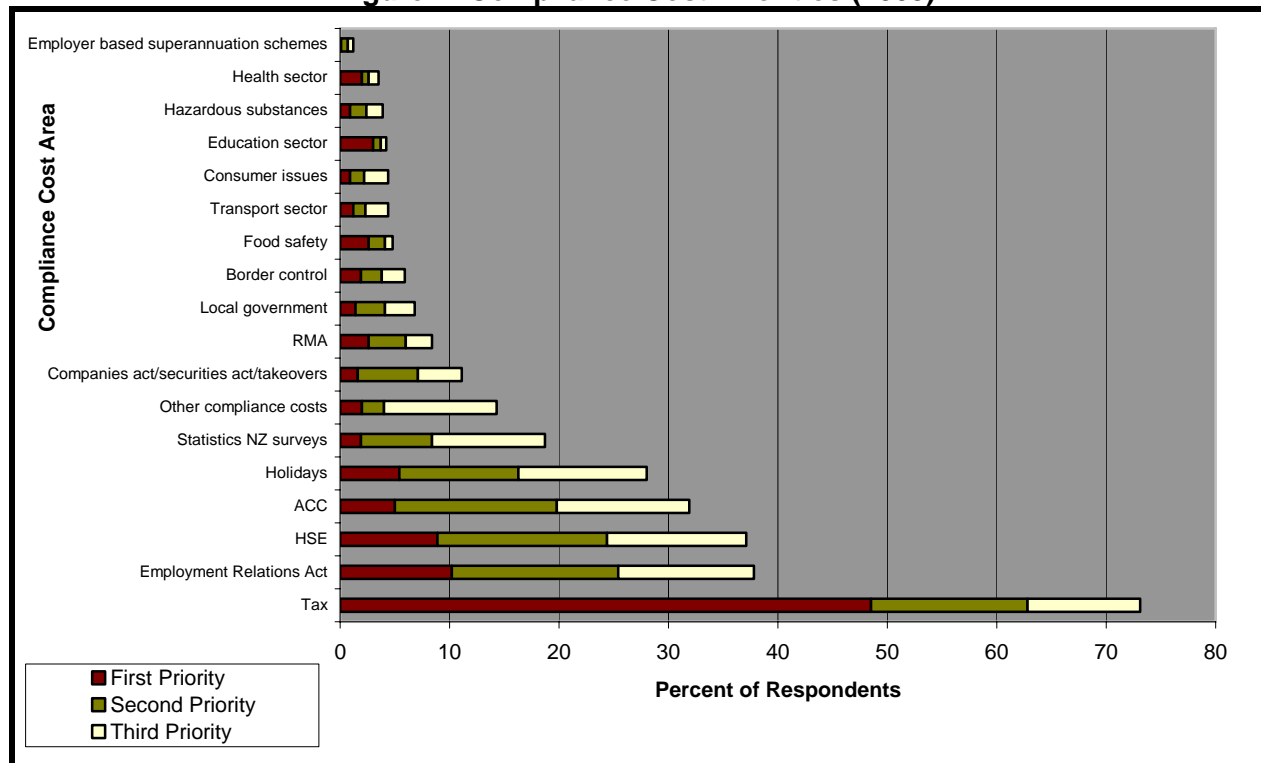
3.1. COMPLIANCE COST PRIORITIES

At a Glance

Tax remains the most popular choice for first priority. Also, when adding up the top three priorities, tax has increased its top position by a considerable margin. Of the other top 4 priorities, the group in 2005 was the same as in 2003 and 2004; however, there were changes in order and overall percentage values. In the 2005 survey, all enterprises by size placed significantly higher priority on tax, as did all industries.

As in previous years, the 2005 survey respondents were asked to assign their three highest priorities to a list of compliance cost areas. The results are shown in Figure 2 below.

Figure 2: Compliance Cost Priorities (2005)



Tax continues to be the most popular choice for first priority among respondents, with 48.5% selecting it as their top compliance cost priority. Tax as the top priority has grown from 35.5% in 2003 and 41.1% in 2004. This result is interesting given that there has been relatively few tax compliance changes over 2005 compared with recent years. However, there are two possible reasons for the increase. Firstly, issues surrounding tax rates and tax take by the Government have been much discussed over recent months by various commentators, which may have led to respondents considering this compliance cost over others. Also, there has been relatively little in the way of major legislative change that has directly affect business over the last 12 months. Because

tax has tended to historically lead most compliance cost surveys (both domestically and overseas), the lack of recent changes in other areas may have led respondents to fall back on a more traditional answer.

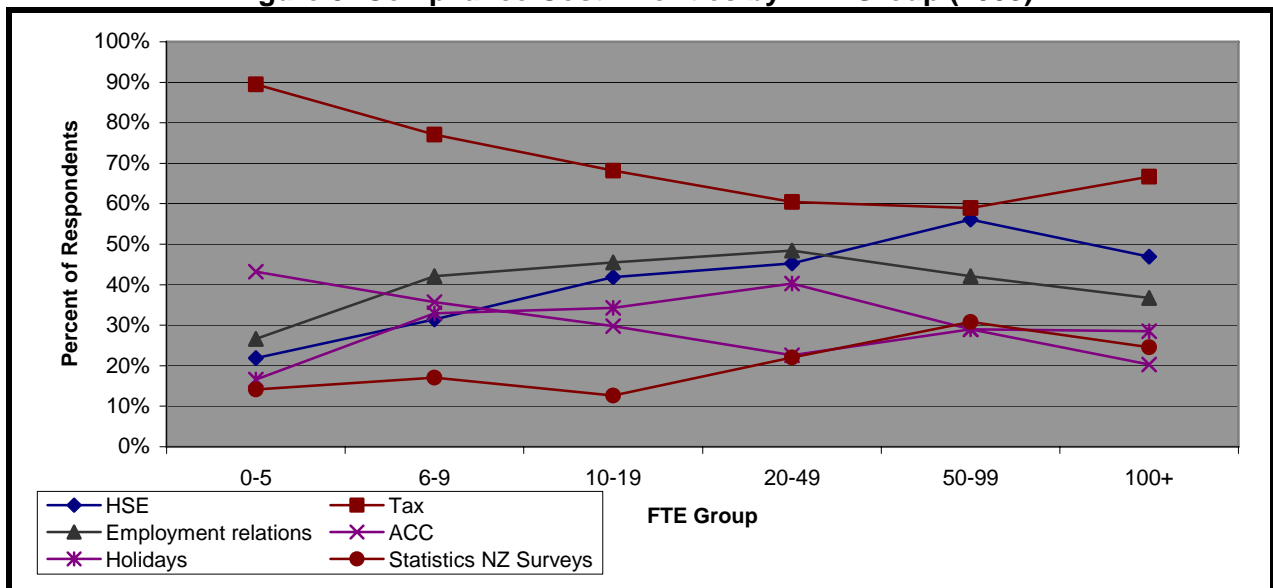
As in previous years, a cluster of employment-related compliance cost areas followed, although most have become less of a priority when ranking the top three. The Employment Relations Act (ERA) (10.2%) now ranks as the second compliance cost priority, followed by the Health and Safety in Employment Act (HSE) (8.9%).

When the respondents' top three priorities are combined, tax has strengthened in 2005 (73.6%), followed by the ERA (37.8%), HSE (37.1%), ACC (31.9%), and Holidays Act (28.0%). Over the three years the survey has been running tax has consistently increased in terms of its importance, while HSE has fallen. The fall for HSE is probably due to the fact that businesses are no longer experiencing the immediate angst of changed legislation as April 2003 saw the coming into force of significant amendments to the HSE Act. However, although HSE is now third priority, its presence in the top three priorities tends to show that the ramifications of changed legislation continue well beyond the immediate period of introduction.

Changes to the Holidays Act in early 2004 meant a surge in 2004 (39.7%) of those listing it as a main compliance cost priority. The result for 2005 (28.0%) shows a fall, but is still close to double the figure recorded for 2003 (15.9%).

Figure 3 shows that tax compliance costs remained the significant priority for all businesses by size, although HSE was also prominent for the 50-99 FTE group. Employment-related compliance costs were clearly a higher priority for larger businesses than smaller ones, while Statistics New Zealand surveys also indicated a similar pattern for 2005 when compared with 2003 and 2004.

Figure 3: Compliance Cost Priorities by FTE Group (2005)



Of the remaining compliance cost areas, the Companies Act/Securities Act/Takeovers Act and the Resource Management Act (RMA) deserve further comment.

In 2004, only 3.3% of respondents included the above Acts among their top three priorities, however in 2004 this had jumped to 11.1% - the 7th top combined compliance cost issue. As in 2003 and 2004, there is little difference by FTE size when identifying these as a main priority, with the strongest sentiment with the 0-5 FTE group.

Compared with 2004 (6.5%), the RMA did show an increase in those listing it among their top three priorities for 2005 (8.4%). However, this was still below the value recorded in 2003 (11.3%). As was highlighted last year, this is inconsistent with the priority placed on the RMA by the 2001 Ministerial Panel on Business Compliance Costs and even by the Government. While improved implementation of the RMA by local authorities and increased resources for the Environment Court might be helping to reduce delays and costs, RMA compliance costs usually only become apparent when an enterprise makes a resource consent application to a local authority. Most businesses will have little to do with RMA in a given year. Results from the survey over the three years has shown that RMA issues tend to involve larger enterprises, typically in primary or construction & utilities industries. Also, other issues may have become of relatively higher priority over recent years (e.g., HSE and holidays).

3.2. HELPFULNESS OF CENTRAL AND LOCAL GOVERNMENT PRIORITIES

At a Glance

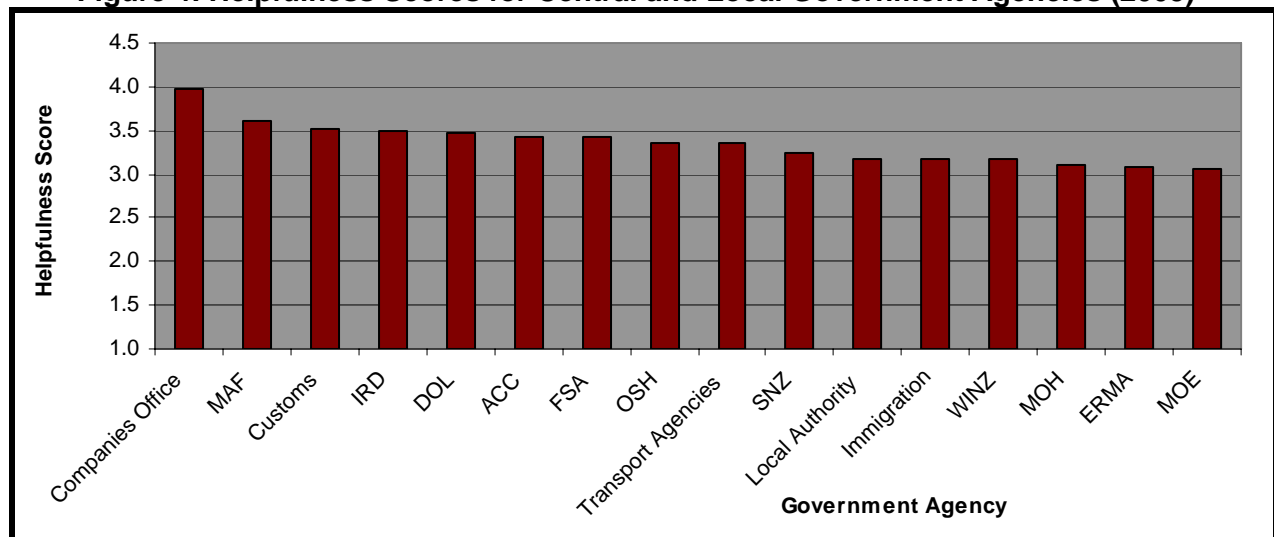
Overall, six government agencies had had contact with more than 50% of respondents for the 2005 survey, with results for each agency largely consistent with the 2003 and 2004 surveys. The Companies Office continued to be the most helpful agency, followed by MAF, which showed considerable improvement from 2004. The least helpful agency was found to be the MOE, which experienced a fall from 2004. The Environmental Risk Management Authority (ERMA) continued to be placed towards the bottom of the rankings.

As in 2003 and 2004, respondents were asked first to indicate whether they had had contact with a given central or local government agency. If the answer was 'yes', they were then asked to indicate the degree of helpfulness of that agency. Two Government Agencies were withdrawn from the 2005 survey (New Zealand Trade & Enterprise and Technology New Zealand), partly because of previously low contact levels by respondents, but also due to insufficient identifiable compliance issues existing in these agencies.

The Inland Revenue Department (IRD) continued to have the most contact with respondents (90.8%), while ACC (65.0%) also experienced a rise in contact with respondents. Most other agencies experienced similar levels of contact when comparing results over the last three years, with the Companies Office, Local Authorities, SNZ and Work & Income New Zealand (WINZ) rounding out those that had contact with at least half of the respondents in 2005.

All the agencies listed in the 2005 survey were considered by the majority of respondents to be more helpful than unhelpful. However, the overall helpfulness score did fall slightly from 3.362 in 2004 to 3.336 in 2005. Figure 4 shows that most agencies ranged in value between 3.1 and 3.5, which was a smaller range than in 2004.

Figure 4: Helpfulness Scores for Central and Local Government Agencies (2005)



The Companies Office continued to be the most helpful agency, with its overall helpfulness score increasing to 3.98 for 2005 (from 3.88 in 2004). It was also the only government agency to be categorised as 'excellent'. MAF also improved its overall helpfulness score (from 3.48 in 2004 to 3.61 in 2005) to be ranked second for 2005.

MOE, which was categorised as 'fair' in 2004, was considered to be the least helpful agency in 2005, across most size groups, industries and regions. ERMA retained its ranking of second to last, to also be categorised as 'poor', while MOH experienced a fairly significant drop in ranking. On a brighter note, the New Zealand Immigration Service improved from last place in 2004 to be rated 'fair' in 2005. The improvement in the fortunes of the NZIS was in part due to lower numbers of respondents rating them as very unhelpful for the 2005 survey.

Overall, there were no significant changes in the rankings of government agencies between 2004 and 2005, with most staying within their allotted grouping. It was encouraging to see a general upswing in the net result of those recording very helpful – very unhelpful. In particular, the Companies Office, MAF, Statistics NZ, the Department of Labour and Transport Agencies showed stronger gains.

Generally the larger the firm the more likely they were to find government agencies helpful, although the 0-5 FTE group was second only to the 100+ FTE group. The 6-9 FTE group continued to be the least impressed with the helpfulness of government agencies.

Individual person-to-person contact fell slightly as the preferred choice to communicate with government agencies, accounting for 57.8% of respondents in 2005, compared with 63.2% in 2004. Communication through a website increased in popularity (26.5%), while a call centre remained largely unchanged (15.8%).

The 2005 survey also asked respondents for the first time whether they had ever used the BIZ Info website. A third (33%) indicated that they had, with the overall helpfulness score (3.6) leading it to be categorised as 'good'.

3.2.1 Respondent Comments – Helpfulness of Central and Local Government Agencies

If a respondent indicated a rating of either 1=very helpful or 5=very unhelpful for a Government Agency, they were asked to discuss the reason for giving that rating. A total of 250 respondents provided comments.

General Perception

As in 2004, there were a variety of comments, both positive and negative, in relation to a number of government agencies.

It was common for respondents to comment on the helpfulness of websites as they provided an efficient information resource.

Accident Compensation Corporation (ACC)

Overall: mixed

Respondents had a mixed view of the helpfulness of ACC.

Some respondents felt that the ACC system is not user friendly for employers; in particular, one respondent noted that it had taken five years for ACC to get the business on to the correct Premium Classification. There were a number of negative comments regarding the ACC call centre and the overall customer service of the organisation.

In contrast, one respondent noted, "We deal with ACC daily as an accredited provider in the Sensitive Claims area and we have managed to develop a purposeful and effective working relationship over a number of years". A number of other respondents felt that ACC staff had acted proactively and had been very helpful. In one case staff had offered and explained time payment options so that the organisation could delay payment without incurring any extra penalties.

Companies Office

Overall: positive

We received a number of positive comments regarding the Companies Office website and call centre. For example, one respondent commented that, "the Companies office is very prompt and quick to resolve any issues. Their contact centre staff seem to have a good knowledge of all processes. The e-system is user-friendly and very quick in responding", while another stated that, "the Companies Office appear to have adopted the attitude to try to make their website and filing documents and applications as easy as possible."

Department of Labour (DOL)

Overall: positive

We received a number of positive comments on the helpfulness of the DOL website and fact sheets. In particular, one employer commented that DOL website, "has a section where you input your question and an answer is emailed to you. The information content was excellent and was provided almost instantaneously. It is an excellent service."

In contrast, one employer found DOL staff unhelpful and commented that they "were unable to give us definite answers in relation to holiday pay calculations for which they are supposed to be the Govt agency with the knowledge. They also tend to be very quick to tell you that it isn't their area and pass you on to another agency."

Environmental Risk Management Authority (ERMA)

Overall: negative

We received a number of negative comments on the helpfulness of ERMA. In particular, one respondent felt that the takeover of the dangerous goods regulations by ERMA was rushed and many of their employees had no idea of the latest environmental protection practices in commercial use. Respondents commented that while staff were helpful on a one-to-one basis problems with HSNO had resulted in a bad experience dealing with ERMA overall.

Food Safety Authority

Overall: negative

Respondents generally seemed to find Food Safety Authority staff unhelpful, inconsistent and uninterested in the commercial implications of their interpretation of the law.

Inland Revenue Department (IRD)

Overall: negative

Respondents seemed to have a negative view of Inland Revenue.

There was a general feeling that you may or may not get a helpful response from the call centre depending on the individual answering your call. Respondents noted that while it can be frustrating trying to get through on the telephone, it is even more frustrating to be passed from person to person to have a single question answered. This view is consistent with other comments that Inland Revenue staff seem to have a very narrow area of expertise.

A number of respondents commented that Inland Revenue seems to have a prevailing view that that the taxpayer is guilty unless they are able to prove they are innocent.

A number of respondents commented that they had received factually incorrect requests for information or noted that Inland Revenue was unwilling to amend an assessment when it had entered the incorrect figures into its own system.

Local Authorities

Overall: mixed

Respondents had a mixed view of the helpfulness of local authorities and a few respondents commented that the service you receive depends on the individual, or the authority you are dealing with. For example, one respondent commented that they had a very positive working relationship with the Marlborough District Council, while another commented that Gore are extremely helpful and work as a team while the Southland District Council are unhelpful, almost to the point of obstruction. One respondent

commented that the WBOP District Council had been very helpful and had even assisted in setting up accommodation for seasonal workers.

Ministry of Agriculture and Forestry (MAF)

Overall: positive

Respondents felt that MAF staff were helpful, in particular one respondent commented that staff at the Seed Bureau at Lincoln were very professional and helpful.

Ministry of Education (MOE)

Overall: negative

It seems to be a common perception among respondents that the Ministry of Education is driven by politics alone. In particular, one respondent commented that, “the Ministry of Education is the epitome of bureaucracy, red tape and policy with absolutely no commercial vision or view of reality.”

Ministry of Health (MOH)

Overall: mixed

One respondent commented that the Ministry of Health is always excellent to deal with while another felt that they were unrealistic over a chronic condition.

New Zealand Customs Service (Customs)

Overall: mixed

We received a number of comments on how helpful customs staff are, in particular one respondent noted that Customs had helped to clarify what they needed to supply and provided guidance and information on the spot.

In contrast, one respondent commented that they found Customs unhelpful, as they could never get a clear answer on issues, while another noted that Customs would not provide them with a step-by-step process or the name of a broker.

New Zealand Immigration Service (Immigration)

Overall: mixed

We received a variety of comments on the helpfulness of Immigration.

Some respondents felt that Immigration seemed reluctant to provide any clear answers or assistance. One respondent felt that Immigration appeared to actively block any employer trying to employ a person who needs to go through the immigration process.

However, others commented that Immigration was very helpful when they were recruiting overseas and were helpful in assisting them to bring employees into New Zealand.

Occupational Safety and Health (OSH)

Overall: negative

The majority of comments on the helpfulness of OSH were negative. In particular, one respondent felt that OSH had “no idea about running a factory and were willing to shut machines down to feel self important.” Another commented that it was very difficult to ensure you comply with OSH requirements due to the fact that definitions are very vague and can be widely interpreted.

Statistics New Zealand

Overall: mixed

A number of respondents commented that they found the Statistics New Zealand business surveys a frustrating waste of time and that there were too many of them.

We also received positive comments. For example, one respondent stated “Statistics are consistently helpful whenever I call. Also their website is very user friendly.” Another respondent noted that they were impressed that Statistics staff flew in from Wellington and met with them to try to find ways of reducing the volume of building statistics they were required to supply.

Land Transport Safety Authority (LTSA)

Overall: positive

Respondents commented that they had a good relationship with LTSA and that the Authority provides prompt and informative advice in a non-bureaucratic manner.

Work and Income New Zealand (WINZ)

Overall: mixed

We received positive and negative comments on the helpfulness of WINZ. In particular, one respondent commented that an employee in Thames “bent over backwards to help and solved the problem.” Another commented that WINZ staff at Manurewa had listened to their requirements and provided great staff.

However, we also received a number of negative comments, in particular a number of respondents felt that WINZ was very bureaucratic and that rules seemed to differ between agencies.

3.3. COMPLIANCE COST TRENDS

At a Glance

As in 2003 and 2004, few respondents believed compliance costs had fallen for the 2005 survey. The preferred response for most compliance cost areas was again 'no change', with the glaring exception again being the Holidays Act. However, the proportion stating there had been some level of increase far outweighed those who thought a fall had occurred. On balance, this meant all compliance cost areas experienced a trend upwards. Of the 22 compliance areas, 10 experienced an increase in their overall compliance cost trend score, while 12 saw a decrease. This left the overall trend score for 2005 largely unchanged from 2004, indicating a large rise in compliance costs.

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

The 2005 results continue the trend of an overall increase in all compliance cost areas over the past 12 months. However, as in 2004, there was also a noticeable pickup in the proportion of respondents that considered compliance costs to have fallen in each compliance cost area. The overall score for an increase in compliance costs perceived by respondents during 2005 (3.523) was almost identical to the 2004 value (3.534).

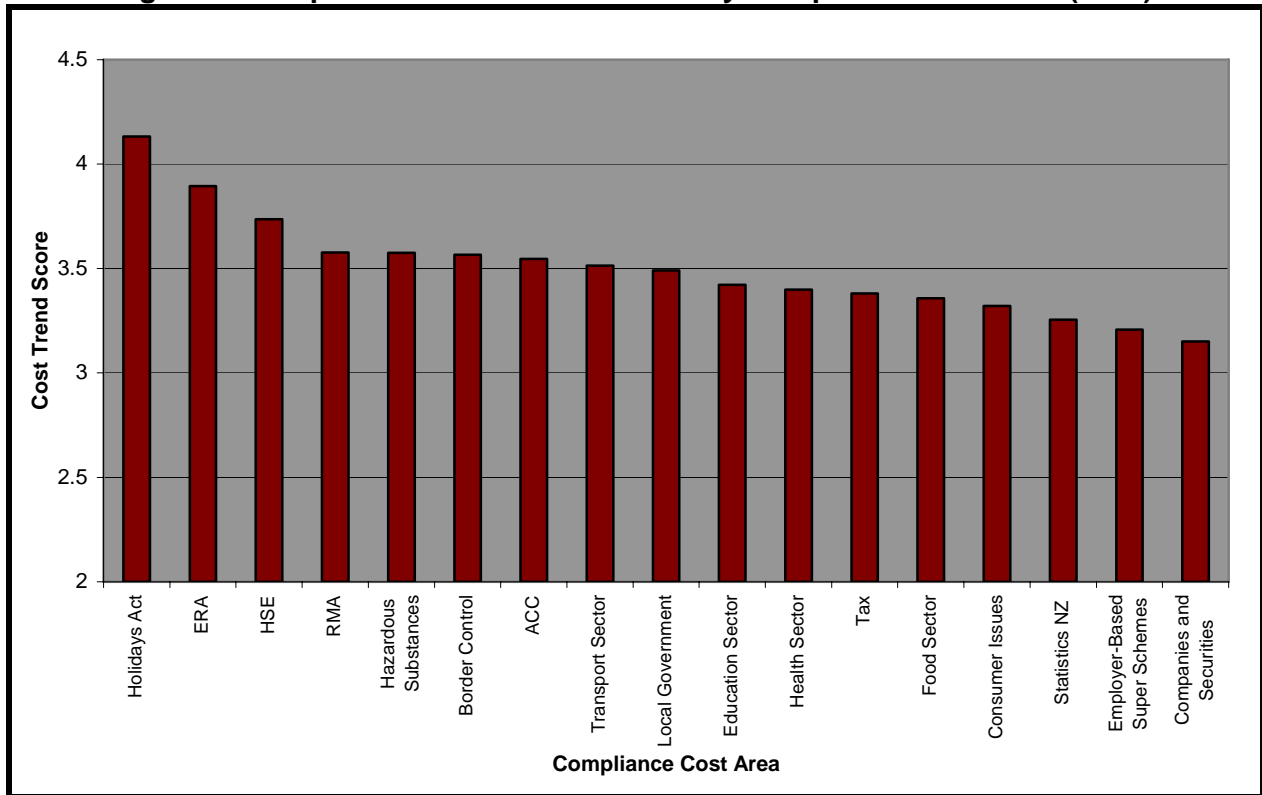
The compliance cost trend scores for each of the compliance cost areas are shown in Figure 5 below¹.

The Holidays Act continued to be the main compliance cost area perceived to have experienced an increase, but with 79.9% of respondents perceive increased holidays-related compliance costs, compared with 87.4% in 2004. This meant the Holidays Act trend score decreased from 4.322 in 2004 to 4.133 in 2005, although still clearly above any other compliance cost area. The ERA remained in second place with 68.5% perceiving an increase, leading to a score of 3.895. HSE continued to fall after ranking first in 2003, slipping to a score of 3.735 compared with 3.917 in 2004.

There was little change in the rankings and compliance cost trend scores for most other compliance cost areas when comparing 2005 with 2004. Respondents again perceived least change in compliance costs with companies and securities, where 72.1% of respondents considered there had been no change. However, those that considered there had been a rise in this area increased from 14.8% in 2004 to 20.4% in 2005, culminating in a slight lift in its trend score to 3.151.

¹ The compliance cost trend score is a sum of the weighted average scores of each of the proportions of respondents selecting 'large rise', 'modest rise', 'no change', 'modest fall', and 'large fall'. The higher the score the more costs are perceived to have increased. The maximum possible score is 5.000 and the minimum possible score 1.000. The cost trend score does not attempt to assign a monetary amount.

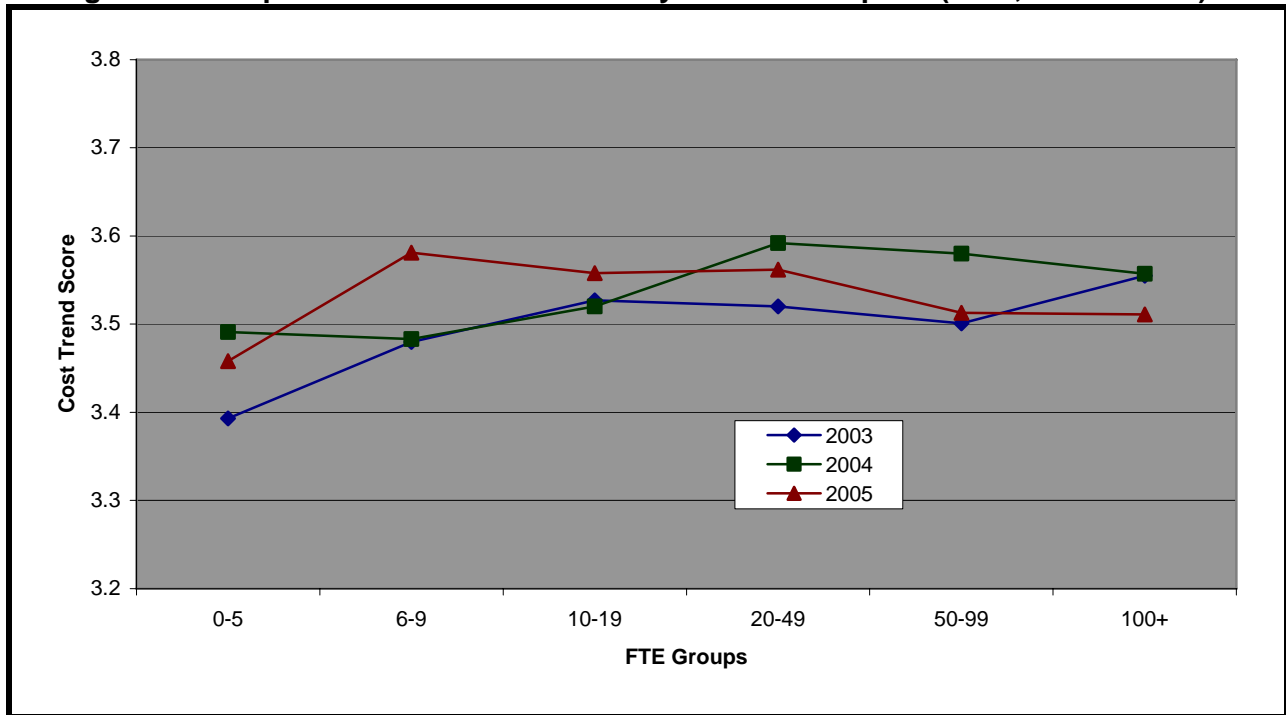
Figure 5: Compliance Cost Trends Scores by Compliance Cost Area (2005)



Overall, 12 compliance cost areas experienced a fall in their trend scores from 2004 to 2005, while 10 experienced a rise. The greatest individual improvement was recorded for Border Control, which fell from 3.767 in 2004 to 3.565 in 2005. It is interesting to note that this area experienced a strong increase from 2003 to 2004, probably due to the emphasis placed on border cost recovery during that time.

The 2005 survey results again suggest that the smallest enterprises (0-5 FTEs) tend to have more modest perceptions about increases in compliance costs. There was a noticeable lift in perceptions for the 6-9 FTE group, while the remaining groups tended to show a general lowering of perceptions, as Figure 6 highlights.

Figure 6: Compliance Cost Trend Scores by Size of Enterprise (2003, 2004 & 2005)



3.3.1 Respondent Comments – Compliance Cost Trends

If a respondent indicated a rating of either 1=large rise or 5=large fall for a particular compliance cost, they were asked to discuss the reason for giving that rating. A total of 205 respondents provided comments.

General perception

In general, respondents felt there had been an overall increase in compliance costs. A number of respondents commented that a lot of legislation had taken effect in the past year resulting in increased compliance costs as businesses updated their policies, procedures and training.

Respondents seem to be increasingly frustrated by the constant legislative changes, in particular, one respondent noted that, “Every year the goal posts move making it harder to carry on with your normal business activities.”

Accident Compensation Corporation (ACC)

Overall: increase

Respondents felt that ACC compliance costs had increased. One respondent noted that accreditation set up costs for physios is \$20-\$30,000. A colleague had been through the scheme and it had cost approximately \$30,000 of his time. It was noted that he would not do it again if he had a choice, but that physios had no choice when they specialised in an area not dependent on ACC funding.

Border Control Issues

Overall: increase

A number of respondents felt that border control compliance costs had increased due to the additional costs associated with becoming registered to inspect and open inbound freight containers. One respondent noted that they had faced a huge cost increase in complying with staff certification requirements, in time spent on export supervision and in complying with new container loading regulations.

Another noted that, "Border control (from an exporter's perspective) is increasingly taking up management time and is also slowing down the time to deliver goods".

Consumer Issues

Overall: increase

Two respondents had faced increased costs in relation to Commerce Commission enquires. They noted that there is a significant cost to the business in preparing submissions, responses and subsequent investigations. If the claim is unproven there is no comeback to recover either associated legal or administrative costs.

Employment Relations Act (ERA)

Overall: increase

As in 2004, a large number of respondents felt that employment-related compliance costs had increased significantly during the past 12-months. In particular, respondents felt that they had faced huge compliance costs negotiating and reworking employment contracts and agreements as a result of the implementation of the Holidays Act 2003. Employers advised that they have had to update documents, change electronic payroll systems and policies and spend time and money on staff education.

One respondent noted that, "Compliance with the continuing changes in employment law take up an inordinate amount of time to become educated in and to implement, in addition, the costs of having to implement this at multiple business sites..."

Education Sector

Overall: increase

One respondent noted that they had faced increased compliance costs as a result of the new regulations for early childhood centres.

Hazardous Substances

Overall: increase

A number of respondents commented on the increased workload and compliance costs associated with HSNO compliance.

One respondent commented that the extra workload generated by HSNO has resulted in them employing a full time person to handle these matters. Another respondent noted that the costs of training courses and manuals have imposed a substantial burden on business.

Holidays Act

Overall: increase

As in 2004, respondents felt there has been a significant rise in the costs associated with complying with their obligations under the Holidays Act.

In particular, respondents noted that they faced increased costs in educating staff, paying for payroll staff to attend courses, updating employment agreements and purchasing payroll software update. In a number of cases respondents have experienced significant problems with the new software, which has resulted in additional stress and costs.

One respondent noted that, "Changes to the Holidays Act have meant at least a doubling or more (probably somewhere around 150% - 200% INCREASE) of the amount of time required for calculation of payments for leave (sick leave, annual holidays, parental leave - primarily in the annual holidays."

A number of respondents felt that they were now required to retain a lot more information to enable them to calculate annual leave payments, and to record details of statutory holidays, sick or bereavement leave, and details of when alternative leave days have been taken.

Health and Safety in Employment Act (HSE)

Overall: increase

A number of respondents felt they were facing increasing costs to comply with OSH requirements with many now employing full time staff or consultants to ensure they were meeting the new requirements.

One respondent commented that, "Health and Safety legislation has created a monolithic system of controls/processes which are painful to maintain."

Inland Revenue Department (IRD)

Overall: increase

As in 2004, a number of respondents advised that they had faced increased PAYE compliance costs due to the fact that they are now required to pay PAYE deductions to Inland Revenue twice monthly. One respondent commented that, "Being changed from a small to large employer has caused a huge increase in time and resulted in less time to pay PAYE." This change creates a huge burden both administratively and financially

due to the cash-flow implications. In one case, the change was due to shareholder drawings changing to PAYE.

In contrast, another respondent had experienced a, “large fall in compliance costs in relation to PAYE because we no longer engage employees. When required, we prefer (due to compliance difficulties) to engage contract help.”

A number of respondents felt they had faced increased costs in relation to “other source deductions” such as Child Support payments, Court fines, student loans and tax in arrears. One employer noted that, “It is now unusual for an employee not to have a deduction from wages for a student loan, IRD arrears or Court fines.”

Respondents also commented on the costs associated with FBT and GST. In particular one respondent noted that their GST compliance costs have increased significantly as they have undertaken a lot of work on internal systems to ensure that their GST processes are robust and compliant.

3.4. ESTIMATING TOTAL COMPLIANCE COSTS

At a Glance

Adding the average total costs for each of the four broad compliance cost areas provides a total compliance cost estimate of \$53,011 per enterprise for 2005, which was higher than the values of \$36,075 in 2004 and \$45,179 in 2003. Tax compliance costs again made up the largest share of compliance costs for 2005 at 40%, up from 34.0% in 2004. Employment-related compliance costs remained largely unchanged at 26.0%.

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

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

Respondents were asked first to quantify the total hours spent internally within the enterprise on each of the compliance cost areas. The average enterprise spent 1,157 hours per annum on all compliance cost requirements, which was higher than the 960 hours recorded in 2004, but still lower than 1221 for 2003.

However, the cost of external advice also has to be taken into consideration to provide an overall estimate of compliance costs. In 2005, 38.7% of respondents used some form of external advice in the four key areas, down from 41.4% in 2004. The pattern for external advice across each compliance area was generally down, with tax falling from 77% in 2004 to 73.2% in 2005, but still well above the next value of 45.5% for employment-related matters.

In 2005, the average respondent's annual compliance burden came to a total \$53,011 per annum. This total cost was made up of two components:

- The average hours per annum spent within the enterprise on compliance issues, charged at a uniform rate of \$20.56 per hour² (\$19.69 in 2004 and \$19.06 in 2003).
- The cost of out-of-house advisers used for compliance issues.

The 2005 value was 47% higher than the corresponding amount in 2004 (\$36,075), and 17.3% higher than the 2003 result (\$45,179). This can also be expressed as \$380 per FTE in 2005, or 0.09% of turnover. It is important to point out that the average total cost

² This amount is the average hourly earnings from the Quarterly Employment Survey for the year ended March 2005. It is a very conservative estimate in that it is likely to significantly underestimate the value of the time spent by managers and owners.

by FTE and as a percentage of turnover has decreased mainly because of the make up of the survey respondents rather than an indication that compliance costs have truly fallen from 2004-2005 per FTE. The average size of FTEs in the survey rose from almost 67 in 2004 to 139 in 2005, as a higher proportion of large firms completed the survey, thus driving the overall average down. When the results are broken down by size of firm, average total costs by FTE rose for four of the six groups, with the exemptions being the 20-49 and 100+ FTE groups.

In 2005, total compliance costs were broken up into four categories, as follows:

- 40% tax-related compliance costs (30% in 2003, 34% in 2004);
- 26% employment-related compliance costs (34.3% in 2003, 25.9% in 2004);
- 15.3% environment-related compliance costs (17.0% in 2003, 17.9% in 2004); &
- 18.8% other compliance costs (18.8% in 2003, 22.2% in 2004).

As Figure 7 also shows, the main proportion of compliance costs clearly comes from the tax area.

Figure 7: Proportion of Total Compliance Costs (2005)

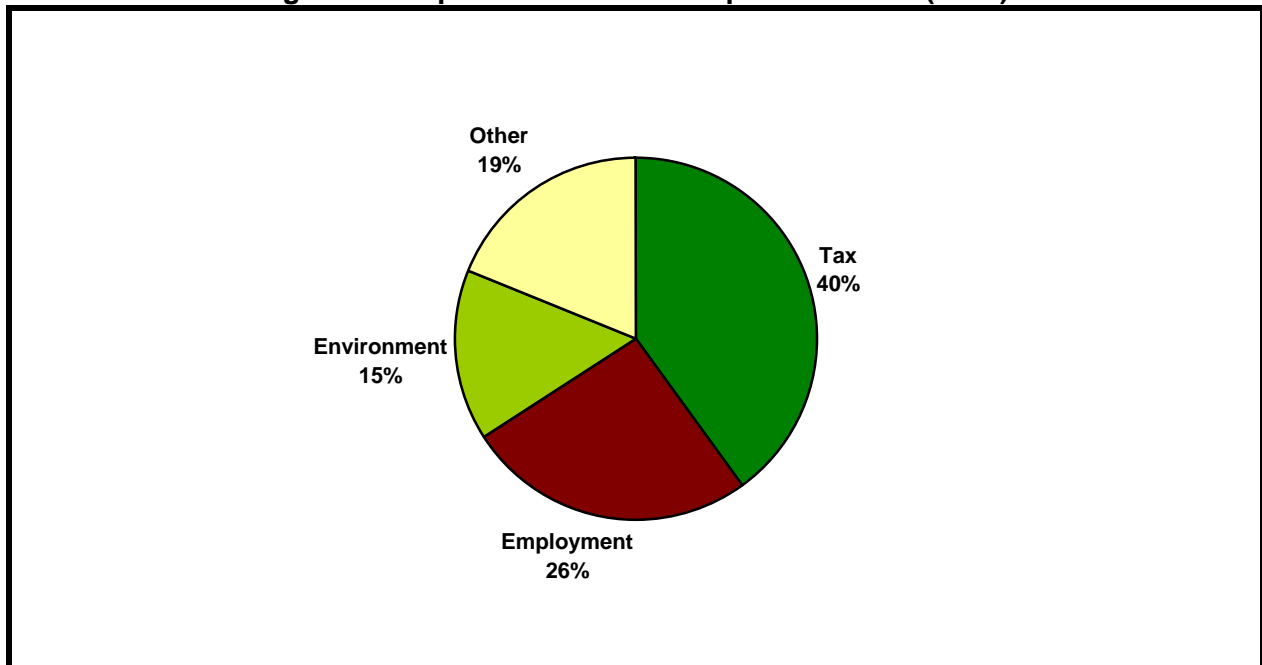
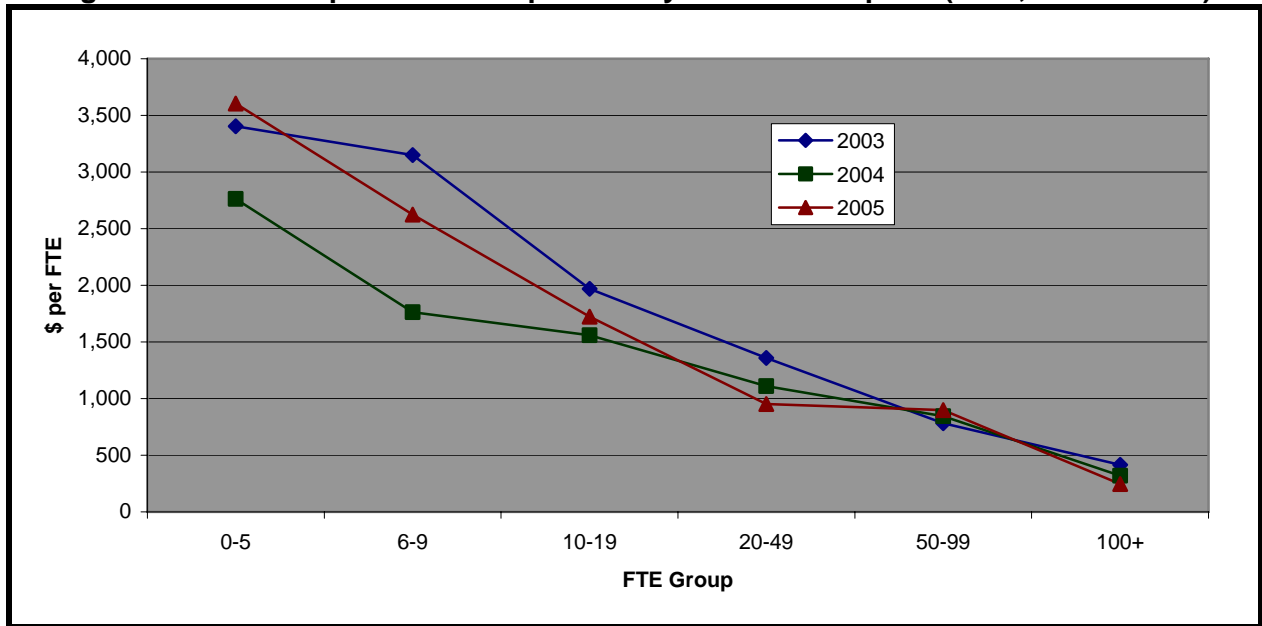


Figure 8 shows that small enterprises continued to have much higher compliance costs per employee compared to larger enterprises. On a per-FTE basis, compliance costs were 14.6 times higher for the 0-5 FTE group than for the 100+ FTE group. In fact, the value per FTE for the 0-5 FTE group in 2005 was the highest recorded since the survey began.

Figure 8: Total Compliance Costs per FTE by Size of Enterprise (2003, 2004 & 2005)



On an industry basis, the construction & utilities and transport, storage & communication industries reported the highest compliance costs for the 2005 survey, while the construction & utilities industries had the highest costs per FTE worker. Respondents from Wellington and the upper half of the North Island reported relatively high overall compliance costs, while the lowest values were recorded in the South Island.

3.4.1. TAX-RELATED COMPLIANCE COSTS

At a Glance

The mean number of internal hours on tax-related compliance costs increased from 323 in 2004 to 329 in 2005. The average cost of external advice rose from \$11,296 in 2004 to \$19,501 in 2005. The total average cost also increased to \$21,166, although the average total cost by FTE fell.

Overall, the results show that there has been a strong increase in tax related costs in 2005, compared with 2003 and 2004.

Table 2: Summary Comparison for Tax Compliance Costs (2003, 2004 & 2005)

Overall trend (2005)	Increase		
Respondents answering this section (2005)	97.5%		
Internal cost trend (2005)	Small increase		
External cost trend (2005)	Large increase		
Year	2003	2004	2005
Average total cost	\$13,517	\$14,909	\$21,166
Average total cost per FTE	\$208	\$224	\$151
Average mean annual hours spent within enterprise on tax (all sizes)	243	323	328.9
Average internal cost	\$4,627	\$6,366	\$6,762
Maximum annual hours spent by enterprise internally on tax*	40,000	110,000	100,000
Average external cost	\$10,676	\$11,296	\$19,501
Maximum annual amount spent by enterprise externally on tax*	\$550,000	\$500,000	\$2,228,163
Tax as a % of total compliance costs	29.9%	34%	40.0%
% of respondents who obtained information from IRD	78%	72%	82%
% of respondents who employed external tax advisers	79%	74%	73%
% of respondents who directly accessed tax legislation	42%	34%	48%
% of respondents who used other publications and advice	36%	30%	38%

* Extreme values such as those recorded for number of hours spent on particular compliance costs and costs for external advice for 2003, 2004 and 2005 have been omitted when averages have been calculated so as to avoid the presence of outliers in the data, which could heavily influence the overall results.

In 2005, 40% of total compliance costs were for tax-related issues, compared with 34% in 2004 and 30% in 2003.

On average, almost 329 hours per annum were consumed within each respondent enterprise on tax-related compliance issues, which is slightly up on the 323 recorded in 2004 and well above the 2003 figure of 243 hours. In 2005, the maximum hours spent by an enterprise on tax-related compliance requirements was 100,000, which was similar to the highest 2004 value.

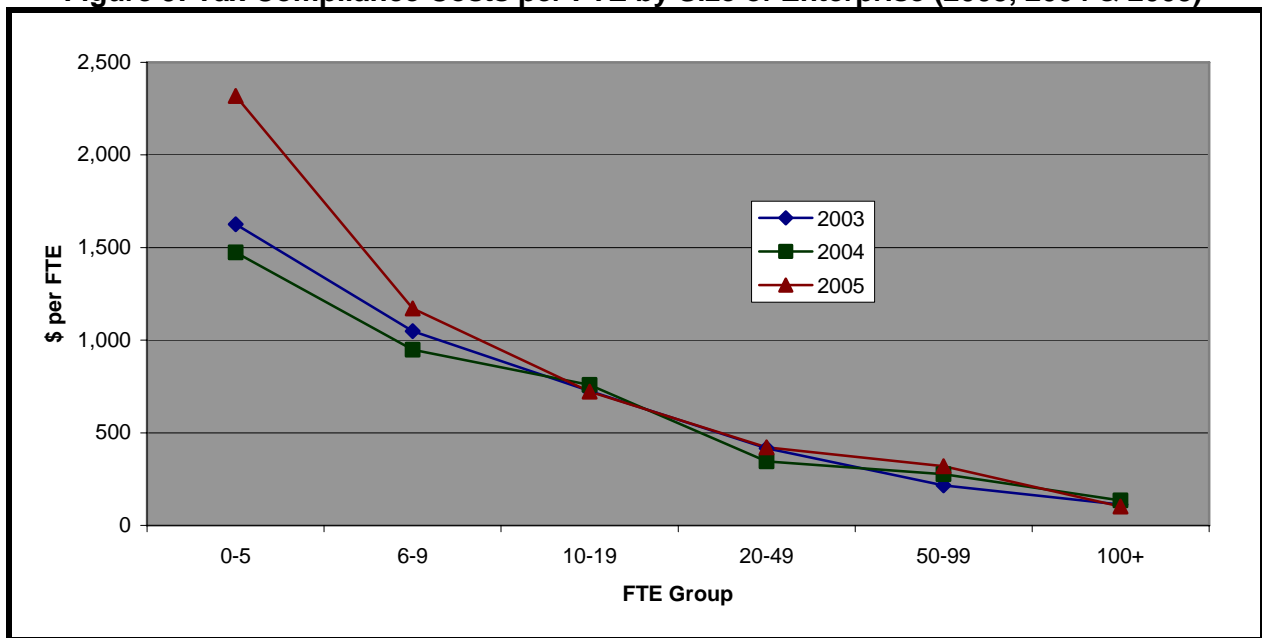
73% of respondents used out-of-house advisers on tax-related compliance issues for the 2005 survey, which was down on values for both 2004 (74%) and 2003 (78%). These respondents on average spent \$19,501 per annum for this advice, an increase of 72.6% from 2004.

Respondents had average total tax-related compliance costs of \$21,166 in 2005, which was a substantial jump from the \$14,909 recorded in 2004, and the \$13,517 for 2003. The strong increase in the overall costs involving tax compliance mirrors the similar increase experienced in terms of it receiving an increased rating as the top compliance cost priority, which has been discussed above. On a per FTE basis, total tax-related compliance costs fell from \$224 to \$151, which was also lower than the \$208 recorded in 2003.

The most popular source of external tax information and advice continues to be the IRD, with 81.6% of respondents using them for the 2005 survey. Out of house tax advisors, agents and intermediaries continued to fall (72.7% in 2005), while legislation experienced a lift in use (47.6% in 2005).

As in previous years, the burden of tax-related compliance costs fell disproportionately on smaller enterprises, with average costs increasing for the 0-5 and 6-9 FTE groups (see figure 9).

Figure 9: Tax Compliance Costs per FTE by Size of Enterprise (2003, 2004 & 2005)



In relation to taxation, the key concerns highlighted in the survey results are the compliance costs of the GST, FBT, Provisional tax and PAYE systems.

Business New Zealand and KPMG believe that a key problem with New Zealand's tax laws is that they are built on a one-size fits all platform. Although not always the case, in general terms, small business is expected to comply with the same tax laws as large business.

Business New Zealand and KPMG believe that there is significant scope to reduce the costs of complying with these taxes, particularly with income tax, FBT and GST. We

have not discussed the provisional tax system as this is currently undergoing a number of proposed changes, i.e. to align payment dates with GST and to allow small business to pay provisional tax based on a percentage of turnover.

While there are many initiatives that could be undertaken to reduce compliance costs, we have set out some ideas that we believe would give immediate and measurable taxation compliance cost savings.

In relation to FBT, there are two key things that could be done to reduce compliance costs. For small business, the need to account for FBT on the full suite of taxable benefits should be removed. Instead, FBT should be payable on the two principle sources of taxable benefit, namely motor vehicles and low interest loans. FBT could also be put onto a provisional tax basis for all businesses that have a good compliance history. This would then allow the removal of all but the final year's FBT return, which would also function to facilitate a square-up calculation.

For GST, this too could be moved to a provisional tax or estimation basis for every second GST return for taxpayers with a good compliance history. This would mean taxpayers that file two-monthly, would then only file every four months, with the interim payment based on an estimate or an average of the previous years GST payments. Taxpayers seeking refunds would of-course have to file a GST return.

Regarding income tax, small to medium sized businesses should not have to comply with all facets of our tax laws. A preferable model would be to differentiate tax law requirement based on business size, such that small business does not have the same onerous income tax obligations as larger business. The tax system does this already to a limited extent, but there is significant scope to change the tax laws for small to medium sized business to better match their ability to comply with income tax laws to the business size.

Other changes to income tax would see the removal of entertainment tax, which has no justification in a tax policy sense, and a regular review (every three years for example) of all of the many thresholds within the income tax rules to ensure these keep pace with inflation overtime.

3.4.1a Respondent Comments – Tax Related Compliance Costs

As well as providing costs for tax compliance, respondents were also given the opportunity to provide additional comments regarding tax related compliance costs. A total of 171 respondents provided extra comments.

General

As in 2004, the most disliked taxes seemed to be PAYE, FBT, GST and Provisional tax.

In general most respondents commented that New Zealand's tax legislation is overly complex and because it seems to be constantly changing, tax compliance is very time consuming. One respondent commented that, "The cost is not in the hours taken to do

the work but the hours taken to gain the knowledge. This is huge. This should be measured.”

Many respondents felt that tax compliance was far too complex and was stifling growth in small businesses and suggested that, “Relief for smaller businesses from the unacceptably high tax compliance activities would lead to the release of resources to enable more effective performance including business expansion”.

A number of respondents commented that their tax compliance costs had increased in the past year as they were relying more heavily on external advisors. One respondent commented that, “Taxation is becoming so complicated that to not employ an accountant is suicidal as penalties for incorrect compliance, assessments etc are prohibitive.”

Pay As You Earn (PAYE)

As in 2004, a number of respondents commented that PAYE compliance is very time consuming and expensive. Due to the fact that some respondents are now “large employers”, they are required to pay PAYE deductions to Inland Revenue twice monthly. Accordingly, they have been required to install and implement new electronic payroll systems to meet legislative requirements.

A number of respondents commented that most of their in-house tax related costs are in relation to PAYE.

Fringe Benefit Tax (FBT)

A number of respondents felt that FBT compliance costs are extremely high and that the FBT multi-rate calculation is far too complicated. One respondent felt that “It is cheaper just to pay the maximum FBT” while another commented that they have stopped providing fringe benefits to avoid the compliance costs associated with paying FBT.

A few respondents felt that we should revert to one rate based on 33% for FBT and Personal Income Tax.

Goods and Services Tax (GST)

A number of respondents felt that the majority of the time spent on tax compliance is on GST-related matters. This suggests that GST is a substantial compliance cost to a number of businesses.

One respondent commented, “Dealing with GST is a daily occurrence and is an enormous burden with a large non-compliance risk.”

We received comments that being able to file GST returns on-line is useful.

As in 2004, we received a few suggestions to abolish all other taxes and retain GST but at a higher rate.

Provisional Tax

A number of respondents commented on the high costs involved in planning for and calculating provisional tax payments. It was noted that it is important to devote a lot of time on this, as the financial cost of getting it wrong is potentially huge.

Other Source Deductions

A large number of respondents felt that employee deductions such as child support, student loans and court fines place a huge burden on employers and that the requirement to withhold these deductions creates a lot of extra compliance work.

3.4.2. EMPLOYMENT RELATED COMPLIANCE COSTS

At a Glance

The average number of internal hours spent on employment rose 26.2% from 2004 to stand at 441.5 for 2005, although still lower than the 550.3 hours recorded in 2003. The average cost of external advice also increased from 2004 to 2005 (from \$6,740 to \$10,330).

Table 3: Summary Comparison for Employment Compliance Costs (2003, 2004 & 2005)

Overall trend (2005)	Increase		
Respondents answering this section (2005)	99.8%		
Internal cost trend (2005)	Increase		
External cost trend (2005)	Increase		
Year	2003	2004	2005
Average total cost	\$15,514	\$10,428	\$13,782
Average total cost per FTE	\$239	\$156	\$99
Average mean annual hours spent within enterprise on employment costs (all sizes)	550.3	349.7	441.5
Average internal cost	\$10,478	\$7,734	\$9,077
Maximum annual hours spent by enterprise internally on employment costs	32,000	40,000	53,300
Average external cost	\$8,625	\$6,740	\$10,330
Maximum annual amount spent by enterprise externally on employment costs	\$400,000	\$200,000	\$2,000,000
Employment as a % of total compliance costs	34.3%	25.9%	26.0%
% of respondents who employed external employment advisers	55.9%	52.8%	45.5%

Employment-related issues as a percentage of total compliance costs for 2005 (26.0%) was almost unchanged from 2004 (25.9%), but considerably lower than the 2003 value (34.3%).

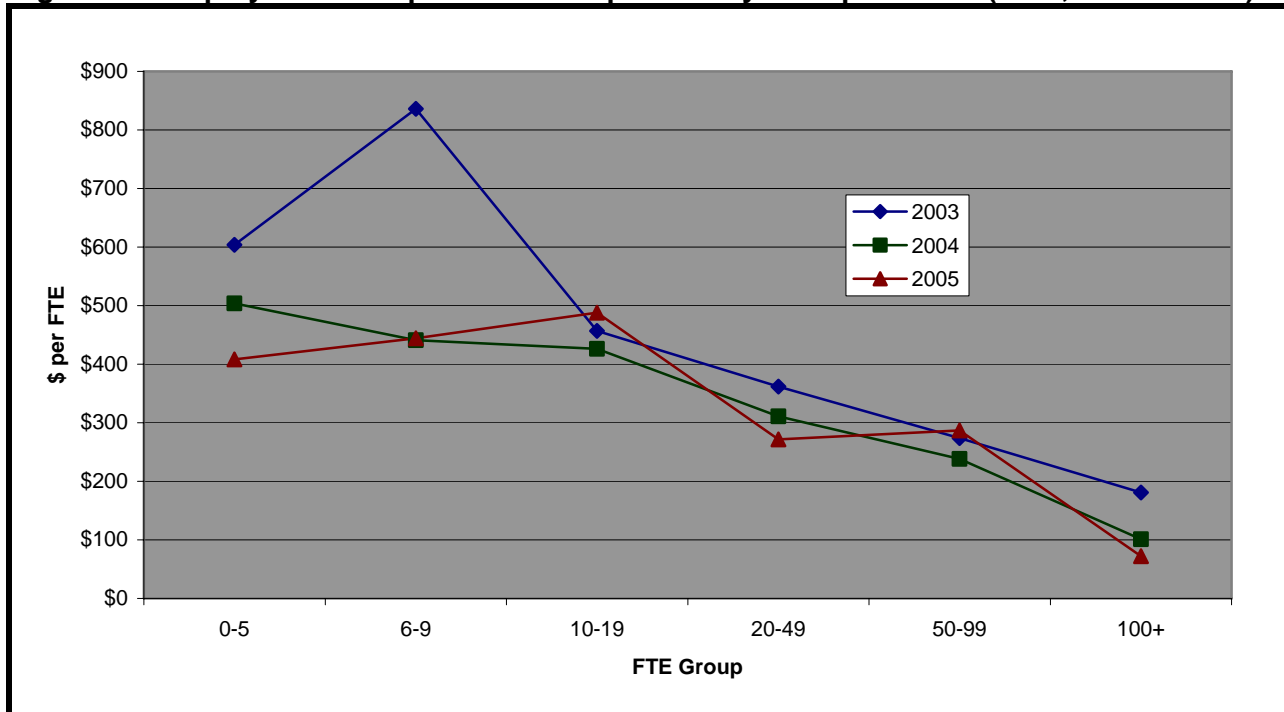
The number of hours per annum consumed within the enterprise on employment-related compliance issues increased from 349.7 in 2004 to 441.5 in 2005. The maximum number of hours spent by an individual enterprise on employment costs was 53,300, a sizeable increase from previous years. However, the increased presence of large firms in the survey provides greater scope for sizable values to be recorded.

The proportion of respondents who employed external employment advisers continued to fall, with under half (45.5%) using them during 2005. These respondents on average spent \$10,330 per annum on advice, higher than in both 2003 and 2004. The maximum annual amount spent by an enterprise on external advice for employment-related compliance requirements was \$2,000,000.

Respondents had average total employment-related compliance costs of \$13,782 in 2005, an increase of \$3,354 or 32.2% from 2004. However, this was still below the \$15,514 recorded in 2003. On a per FTE basis, total employment-related compliance costs fell from \$156 in 2004 to \$99 in 2005.

Results for 2005 continue to show employment-related compliance costs per FTE were higher for smaller businesses than larger businesses, although the results for the 0-5 and 6-9 FTE groups have varied from 2003-2005 (see figure 10). Costs per FTE for these two groups were actually lower than for the 10-19 group for the 2005 survey, while the almost identical result for the 6-9 FTE group during 2004 and 2005 tends to confirm that the result in 2003 was an outlier. In comparison with perceptions of employment-related compliance costs, there was also a noticeable fall for the 0-5 FTE group in terms of the various components of employment costs, such as the ERA, HSE and Holidays.

Figure 10: Employment Compliance Costs per FTE by Enterprise Size (2003, 2004 & 2005)



It is important to recall that 2003 saw amendments to the Health and Safety in Employment Act, which required businesses to make significant one-off changes to workplace practices, resulting in 2003 being a particularly costly year. In comparison, the changes to the Holidays Act in 2004 involved comparatively fewer changes to the workplace, therefore lower actual compliance costs as the majority of costs would have been increased wage and salary entitlements, which are not deemed to be compliance costs. In December 2004 there were further changes to the ERA. These related to passing on collective terms and conditions to individual employment agreements, vulnerable employees, personal grievances and so on. Their effects have not filtered through as yet.

3.4.2a Respondent Comments – Employment Related Compliance Costs

As well as providing costs for employment compliance, respondents were also given the opportunity to provide additional comments regarding employment related compliance costs. A total of 150 respondents provided extra comments.

General

Respondents commented that employment-related compliance costs continue to be very high. There was general comment that there is a lot of pressure for businesses to keep up to date with any legislative changes and to ensure compliance in all areas, for example the Employment Relations Act (“ERA”), the Holidays Act and OSH legislation.

One respondent noted that, “Employers continually have to spend more and more time on HR issues, purely because of the volume of legislation (approx 10 Acts) that has an impact on the HR of a business. It seems that we have moved from the ridiculous to the sublime!”

ACC

A number of respondents commented on the high compliance costs associated with ACC. A few employers noted that they had spent a number of hours attending ACC disputes meetings over the past year while another noted that, “ACC has become too cumbersome to understand therefore we have had to hand this over to our accountant thus increasing overheads.”

Employment Relations Act (ERA)

A huge number of respondents commented on the high costs associated with complying with the ERA and changing legislation.

A number of respondents commented that they have faced huge employment relation compliance costs in the past year mainly in relation to updating employment agreements a number of times to ensure these comply with current employment legislation. One respondent commented that, “Varying employment agreements twice in 12 months was a huge cost, particularly in the time of experts to write clauses and managers and staff to negotiate the changes”. A few respondents noted that they “employ independent contractors only now to minimise all the nonsense”.

Respondents noted that they had obtained information from a variety of external sources including:

- Employment lawyers;
- Restaurant Association of NZ;
- Federated Farmers advisors;
- Employers and Manufacturers Association;
- Website www.ers.govt.nz;
- Free phone service of the Employers Association;
- Canterbury Employers Chamber of Commerce; and
- BIZ Info Website.

Health and Safety in Employment Act (HSE)

A number of respondents felt that they incurred high costs to ensure they are OSH compliant. For some respondents Health and Safety was the most “time consuming, worrying and expensive” employment related compliance cost.

One respondent felt that they spent a huge amount of time, “identifying hazards, conducting regular reviews, logging employee changes, keeping a paper trail on Health & Safety and training staff” while another employer felt that they spent a lot of time keeping up to date on the health and safety legislation and the testing of this legislation in Court.

Holidays Act

Many respondents felt that the Holidays Act 2003 was still a large employment-related compliance cost. For example, one respondent commented, “the Holidays Act 2003 remains a huge demand on time, calculating holidays, where no worker has regular hours, or days, of work!”

Respondents also commented on indirect costs, for example, the cost of implementing new software to deal with the changes, updating employment contracts and educating staff on the changes and new systems as well as the direct cost of the extra holiday pay they are required to pay.

3.4.3. ENVIRONMENT RELATED COMPLIANCE COSTS

At a Glance

For 2005, the average enterprise spent approximately 140.4 hours on environment-related compliance costs for 2005, which was higher than 2004, but lower than 2003. The percentage of respondents who engaged in external advice continued to fall, however the average external cost increased dramatically. Environmental costs as a percentage of total compliance costs fell below the proportions recorded in 2003 and 2004.

Table 4: Summary Comparison for Environmental Compliance Costs (2003, 2004 & 2005)

Overall trend (2005)	Increase		
Respondents answering this section (2005)	95.5%		
Internal cost trend (2005)	Small increase		
External cost trend (2005)	Large increase		
Year	2003	2004	2005
Average total cost	\$7,673	\$5,387	\$8,100
Average total cost per FTE	\$118	\$81	\$58
Average mean annual hours spent within enterprise on Environmental costs (all sizes)	167.0	123.0	140.4
Average internal cost	\$3,181	\$2,422	\$2,887
Maximum annual hours spent by enterprise internally on environmental costs	10,000	10,400	50,000
Average external cost	\$19,263	\$17,515	\$32,770
Maximum annual amount spent by enterprise externally on environmental costs	\$1,800,000	\$800,000	\$2,000,000
Environmental costs as a % of total compliance costs	17.0%	17.9%	15.3%
% of respondents who employed external environmental advisers	23.6%	17.0%	16.1%

In 2005, 15.3% of total compliance costs were for environment-related issues, down from 17.9% in 2004 and 17.0% in 2003.

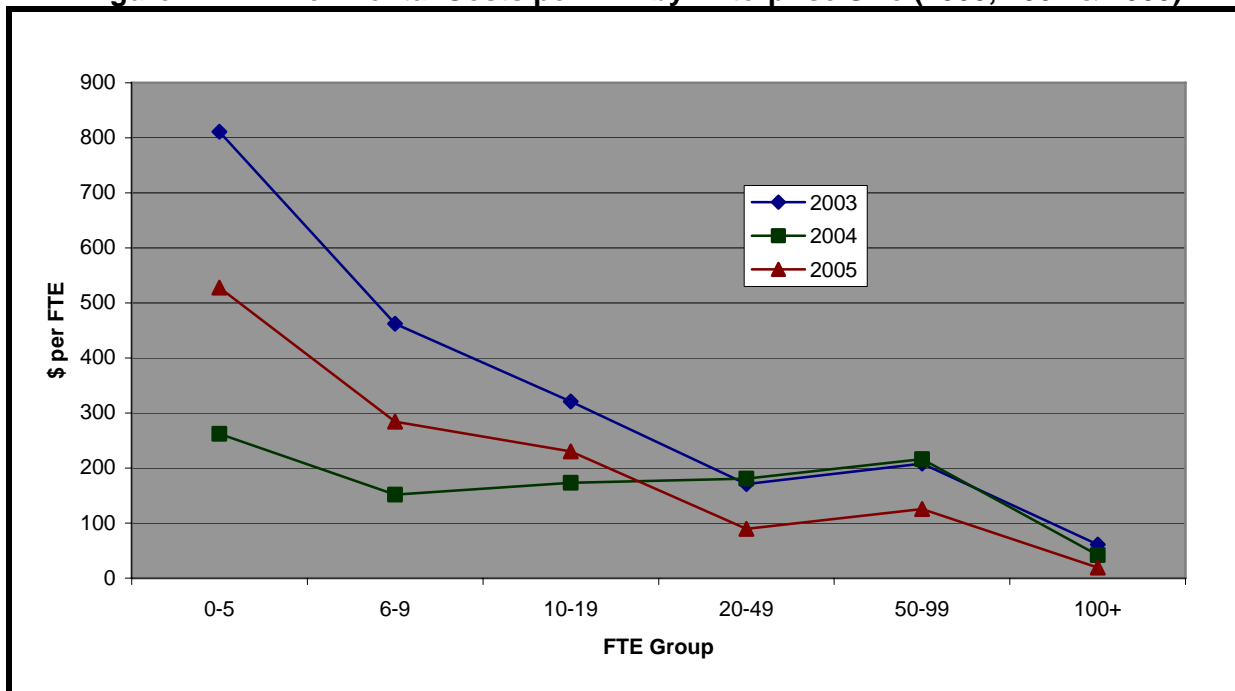
The number of hours per annum spent within the enterprise on environment-related compliance issues increased by 14.1% from 2004 to 2005, although the 2005 figure was still 16% below the number in 2003. The maximum annual hours spent by an enterprise on environment-related compliance requirements rose considerably, from 10,400 in 2004 to 50,000 in 2005.

The proportion of respondents using out-of-house advisers on environment-related compliance issues dropped to 16.1% in 2005, although the fall from 2004-2005 was not as pronounced as that from 2003-2004. These respondents on average spent \$32,770 per annum on advice, up from \$17,515 in 2004. The maximum amount spent by an enterprise on external advice for environment-related compliance requirements was \$2,000,000, which was higher than the previous maximum values for 2003 and 2004.

Respondents had average total environment-related compliance costs of \$8,100 in 2005, an increase of 50.4% from 2004, but only 5.6% from 2003. On a per FTE basis, total employment-related compliance costs fell from \$81 in 2004 to \$58 in 2005.

Figure 9 shows the 2005 results displaying a broadly similar pattern to 2003, where the cost per FTE fell the larger the enterprise became. There are also two other interesting points of note. First, costs for the 0-19 groups lie almost in the middle of previous years, and second the costs per FTE for the 20-100+ FTE groups tend to be lower than the similar results recorded in 2003 and 2004. When compared with the tax and employment figures, there still seems to be some variability from year to year as to what the long run trend is for environmental costs.

Figure 11: Environmental Costs per FTE by Enterprise Size (2003, 2004 & 2005)



3.4.3a Respondent Comments – Environment Related Compliance Costs

As well as providing costs for environmental compliance, respondents were also given the opportunity to provide additional comments regarding environmental related compliance costs. A total of 46 respondents provided extra comments.

General

The nature of any environment-related compliance costs depend on the nature of the enterprise. The majority of comments were in relation to the compliance costs associated with the Resource Management Act (“RMA”) and the Hazardous Substances and New Organisms Act (“HSNO”). In many instances, particularly with the RMA and the building code, the costs arose in relation to specific projects.

For example, one respondent commented that, “Biosecurity regulations, the HSNO Act and MAF policies are the bane of our nursery business and our horticulture industry. It is so restrictive and hinders the development of new plant varieties, the sale of existing varieties and their promotion to new overseas markets”.

Border Control

A few respondents noted that there are often significant compliance costs associated with import and export activity in the form of delays associated with MAF fumigating and inspecting sea containers. It was noted that no account is taken of the cost of these delays.

Building Warrant of Fitness

A few respondents commented that building compliance (warrants of fitness) take a lot of time and money.

Hazardous Substances and New Organisms Act (HSNO)

A number of respondents felt that the implementation of HSNO had created a lot of additional environment-related compliance costs and training needs.

One respondent felt that the “HSNO legislation is very poorly put together, and the resulting uncertainty and redoing of work as a result of deficiencies in the legislation impose a major cost on our business”.

Resource Management Act (RMA)

Respondents feel that the RMA imposes high environment-related compliance costs and that excessive time and cost is required to prepare and maintain the resource consents required under the RMA. A number of respondents commented that it was very time consuming to progress consent through the local government bureaucracy and one respondent noted that contracting jobs are put on hold waiting for resource consents to be approved.

3.4.4. OTHER COMPLIANCE COSTS

At a Glance

The average enterprise spent almost 246 hours on other compliance requirements over the preceding 12 months, compared to 261 in 2003 and 164 in 2004. On average, enterprises spent \$28,238 on advice relating to other compliance requirements for the year, while firms responding to the other costs section by FTE group tended to exhibit patterns closer to those of 2003 than 2004.

Table 5: Summary Comparison for ‘Other’ Compliance Costs (2003, 2004 & 2005)

Overall trend (2005)	Increase		
Respondents answering this section (2005)	97.2%		
Internal cost trend (2005)	Increase		
External cost trend (2005)	Large increase		
Year	2003	2004	2005
Average total cost	\$8,475	\$5,351	\$9,963
Average total cost per FTE	\$131	\$80	\$72
Average mean annual hours spent within enterprise on ‘other’ costs (all sizes)	260.9	164.0	245.8
Average internal cost	\$4,968	\$3,229	\$5,054
Maximum annual hours spent by enterprise internally on ‘other’ compliance costs	20,000	11,000	65,000
Average external cost	\$17,954	\$11,692	\$28,238
Maximum annual amount spent by enterprise externally on ‘other’ costs	\$800,000	\$3,840,000	\$1,000,000
‘Other’ costs as a % of total compliance costs	18.8%	22.2%	18.8%
% of respondents who employed external advisers	19.5%	18.7%	18.3%

Table 5 shows that in 2005, 18.8% of total compliance costs were for ‘other’ issues (i.e. those that were non-tax, employment, or environment-related issues). This was lower than the 22.2% recorded for the 2004 survey, but exactly the same result as the 2003 survey.

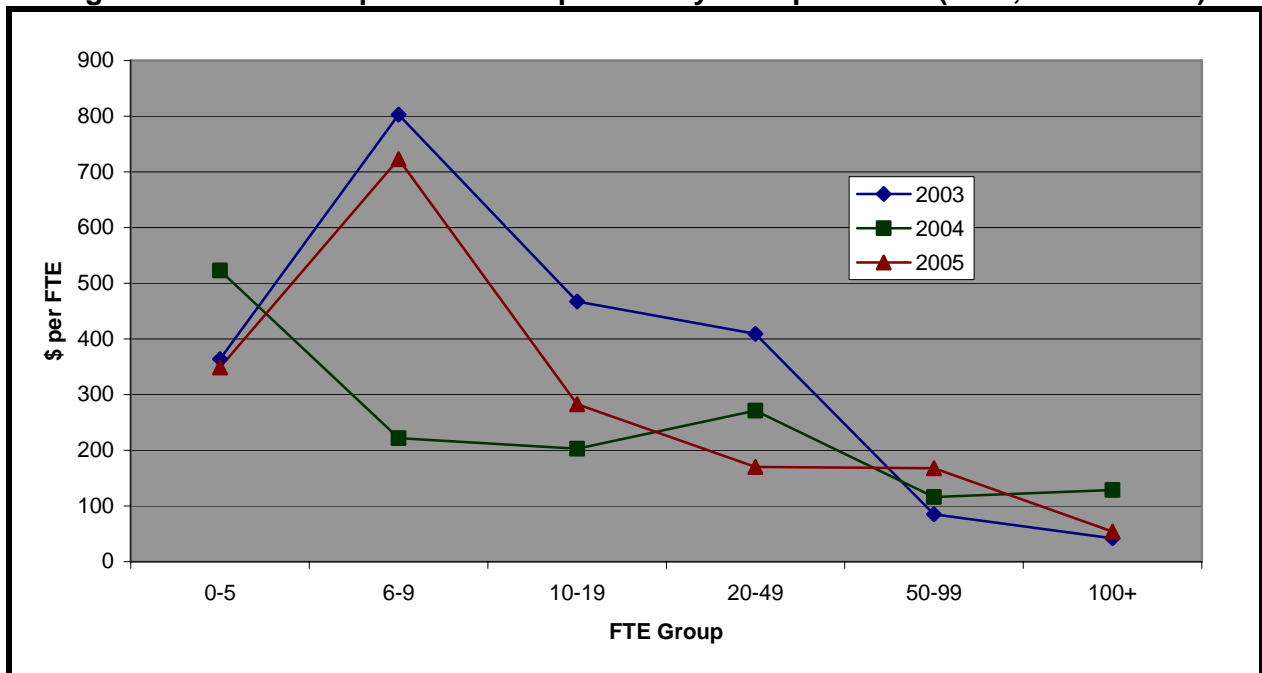
The average number of hours per annum spent within the enterprise on other compliance issues increased from 2004 to stand at 245.8 in 2005. However, this was still below the 260.9 recorded in 2003. The maximum annual hours spent by an enterprise on other-related compliance requirements was 65,000 – a significant increase from the 20,000 and 11,000 recorded in 2003 and 2004 respectively.

The proportion of respondents that used out-of-house advisers on other compliance issues fell slightly for the second year running, from 18.7% in 2004 to 18.3% in 2005. These respondents on average spent \$28,238 per annum on advice, more than double the value in 2004 and higher than 2003. The maximum amount spent by an enterprise on external advice for other compliance requirements was \$1,000,000, although certainly not as high as the top figure for 2004. Again, it is important to reiterate that these large values have not been included in the analysis for any of the three years, simply because of the extreme influence large values have on the overall results.

Respondents had average other compliance costs of \$9,963 in 2005, an increase of 86.1% on 2004 but only 17.6% from 2003. On a per FTE basis, other compliance costs fell slightly from 2004 (\$80) to 2005 (\$72).

Figure 10 shows a trend of falling costs per FTE. Of the four broad compliance cost groups, the other group is generally more unlikely to show trend patterns from year to year, simply because it encompasses all other compliance costs, which could be affected with any number of legislative changes or amendments to regulations. The pattern for 2005 seems to be fairly similar to the 2003 results, with a spike for the 6-9 FTE group, that tails off as the FTE size increases.

Figure 12: Other Compliance Costs per FTE by Enterprise Size (2003, 2004 & 2005)



3.4.4a Respondent Comments – Other Related Compliance Costs

As well as providing costs for other compliance, respondents were also given the opportunity to provide additional comments regarding other related compliance costs. A total of 178 respondents provided extra comments.

General

The most significant “other” compliance costs in order were:

1. Statistics New Zealand surveys;
2. Companies and Securities laws;
3. Health sector issues, such as audits, certification compliance, health and disability sector standards, Pharmac, District Health Boards;
4. Transport issues;
5. Consumers issues;

6. Education issues, such as dealing with the New Zealand Qualifications Authority audits and paperwork and the Tertiary Education Commission; and
7. Food safety and animal products compliance.

Other compliance cost areas mentioned were: annual accounts, NZX, compliance with IFRS, EAP and health checks, Child Youth and Family compliance, Commerce Commission line of business threshold audits, electricity information disclosure regulation audits, Commerce Commission investigations, accreditation fees, annual surveys of water craft and maritime security requirements and the Department of Courts requirements.

3.5. COMPARISONS WITH OTHER SURVEYS

As well as the Business New Zealand – KPMG Compliance Cost Survey there have been two other significant domestic surveys on compliance costs in New Zealand published over the past 12 months:

Combined Chambers of Commerce Red Tape Survey 2004

The Auckland, Wellington and Otago Chambers of Commerce undertook this survey with close to 1000 respondents, with results released in September 2004. It was the second survey after the 2003 one was conducted just by the Auckland Chambers. The survey asked members to provide estimates of hours spent within the business on a number of areas such as payroll, ACC, occupational health and safety, dismissals, tax, insurance, licenses and superannuation. However, it did not ask information concerning the cost of external advice.

Overall, the results found that the time taken to complete some tasks varied little by firm size, and that compliance costs in terms of hours spent complying did not seem to have reduced significantly from previous results.

Measuring the Tax Compliance Costs of Small and Medium-Sized Business- A Benchmark Survey

This survey was undertaken by Colmar Brunton for the Inland Revenue Department, and released in June 2005. Two questionnaires were sent out (a short and long version), from which over 2300 responses were received. Obviously, as the title suggests, the aim of the survey was to measure tax compliance costs only for small-medium sized enterprises, which were defined as those with fewer than 50 staff and an annual turnover below \$10 million.

The survey measured both internal time and external advisor costs. Data was also collected on the psychological costs although this was not converted into dollars. Overall, the survey found that the average business faced a combined annual tax compliance cost of \$4,024. As expected, there was a positive correlation between the size of the business and the overall cost, with values ranging from \$2,932 for those without employees, to \$7,649 for those enterprises deemed to be of medium size. However, the only way an accurate picture of tax compliance costs (and indeed any other type of compliance cost) can be ascertained is to have a regularly run survey with comparable questions.

The KPMG – Business NZ Compliance Cost Survey and the surveys listed above all offered differing results, which can be explained largely by their different methodologies and survey populations. However, there were still a number of areas where all the surveys highlighted consistent compliance cost issues. An example was the high degree of concern and frustration respondents had with employment-related compliance costs.

Other Surveys

The National Bank also publishes a quarterly *Small Business Monitor* which, among other things, tracks the main constraints for small businesses. In the 2002 and 2003 surveys 'regulation' was the largest single issue, but during 2004 and 2005 'regulation' has been overtaken by the 'lack of skilled employees'.