



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

September 2006

1. INTRODUCTION

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

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

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

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

The survey has already become a key tool used by the private sector and Government to gain a snapshot of the business community's priorities for action on compliance costs. The announcement this year of a Governmental regulatory review places increased importance on the results of this survey, both from qualitative and quantitative perspectives. Over time the survey will provide a regular measure of the general trends in compliance costs.

The increased number of responses from smaller businesses to the 2006 survey means the quantifiable results need to be interpreted with care. Quantifiable results show a decrease in the overall average compliance costs for businesses, while results based on average FTE size show an overall increase. Therefore, when interpreting the change in values, it is important to focus on the average FTE cost by size of enterprise, which is not as strongly influenced by the composition of the sample from year to year. Results for 2006 show total compliance costs slightly up for most enterprises by size compared with 2005.

The results of the 2006 survey also indicate an overall increase in cost perceptions, although not quite to the same extent as in the previous two years. Tax remains the most important issue for business, and as in 2005, leads this year's results in terms of priority, perception and cost. Tax – especially *tax rates* and *amount of revenue* - is still a high priority issue with political parties and the media, the recent Business Taxation Review being a key focal point for discussion. This year's survey results show that *tax compliance* is an equally important issue that needs further attention by policymakers.

Respondent perceptions, as in previous years, are focused on employment-related issues such as holidays, employment relations, and health and safety in employment – all areas where major legislative changes have been enacted or signalled over recent

years. However, the slowdown in legislation in employment-related areas over the last 12 months has diluted the strength of reported perceptions in these areas.

We would like to take this opportunity to express our great appreciation to the 1,400 survey respondents for the valuable time they made available to complete the survey and for providing their insights on compliance issues. Also, we would like to thank the industry associations and organisations that assisted in obtaining responses from their members.

Phil O'Reilly
Chief Executive
Business New Zealand

Jan Dawson
National Chairman
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1a. MAIN FINDINGS FOR 2006

The overall picture of compliance costs is similar to last year's survey. Compliance costs remain high and remain a significant concern to New Zealand business.

The 2006 sample includes more small businesses in the sample than in previous years and more accurately reflects the composition of the New Zealand business sector.

There are several ways the resulting data can be sliced, each giving a slightly different emphasis to the results.

For example, average compliance costs per employee have gone up, while compliance costs averaged across all businesses have gone down.

A more accurate picture of the compliance burden in 2006 than either of the above, given the change in composition of the sample, is compliance costs per employee according to size of firm.

The survey covers six company categories (by size of firm): 0-5 employees, 6-9 employees, 10-19 employees, 20-49 employees, 50-99 employees, and 100+ employees.

In 2006 compliance costs increased for four of the six company categories.

Tax is still the top compliance concern, followed by employment law issues.

Businesspeople perceive compliance costs to have increased in all areas, especially regarding the Holidays Act.

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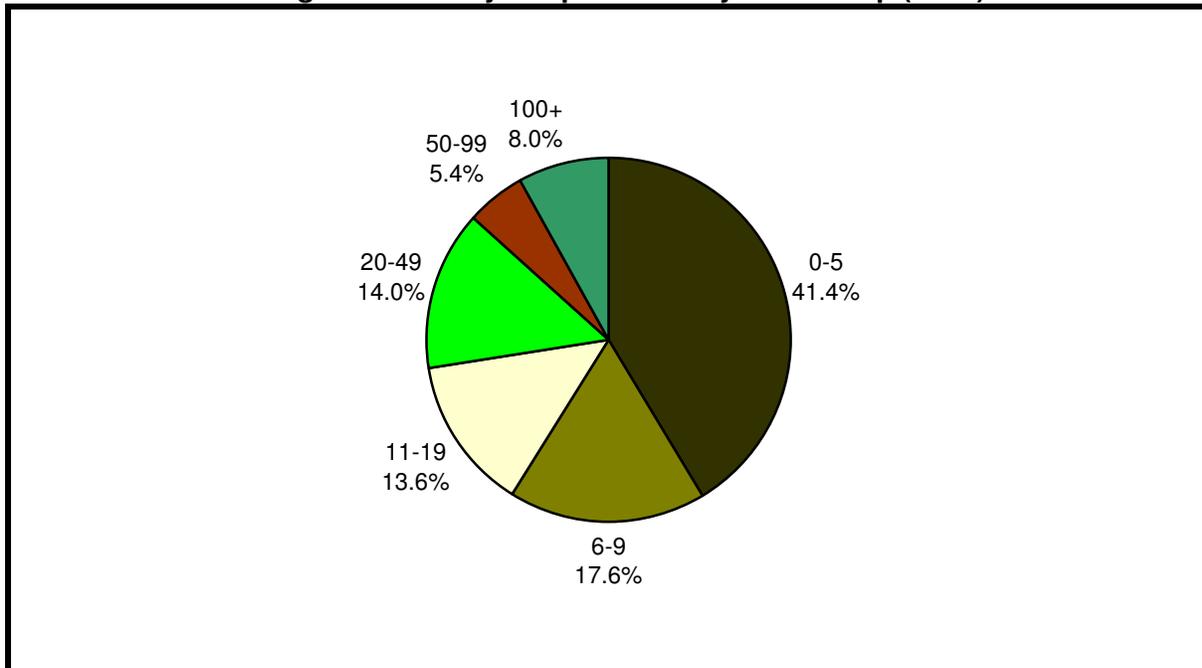
2. RESPONDENT PROFILE

Table 1 below shows the breakdown of respondents by the number of full-time equivalent employees (FTEs) for 2005 and 2006. The 2006 survey received 1,400 responses, up almost 20% from 2005. The results for 2006 show an important change in the demographics of those participating in the survey, primarily due to the increased participation of trade groups. In 2005, those with 0-9 FTEs made up 42.7% of respondents, which increased to 59.0% in 2006. At the other end, those with 50+ FTEs fell from 26.8% in 2005 to exactly half that (13.4%) in 2006. Although the 2003 population result shows over 91% within the 0-9 FTE group, the 2006 results are more in line with the overall New Zealand business demography. Figure 1 provides a summary in the form of a pie chart for the 2006 respondents by FTEs.

Table 1: Respondents by Number of Full Time Equivalent Employees (2005 & 2006)

Number of FTEs	Number of respondents 2006	Percent of total valid responses 2006	Number of respondents 2005	Percent of total valid responses 2005	Population (Business Demography Statistics 2003)
0-5	579	41.4%	361	30.8%	83.9%
6-9	246	17.6%	140	11.9%	7.3%
10-19	191	13.6%	198	16.9%	7.6%
20-49	196	14.0%	159	13.6%	
50-99	76	5.4%	107	9.1%	0.7%
100+	112	8.0%	207	17.7%	0.5%
Total valid responses	1400	100.0%	1172	100.0%	100.0%

Figure 1: Survey Respondents by FTE Group (2006)



3. SUMMARY OF FINDINGS

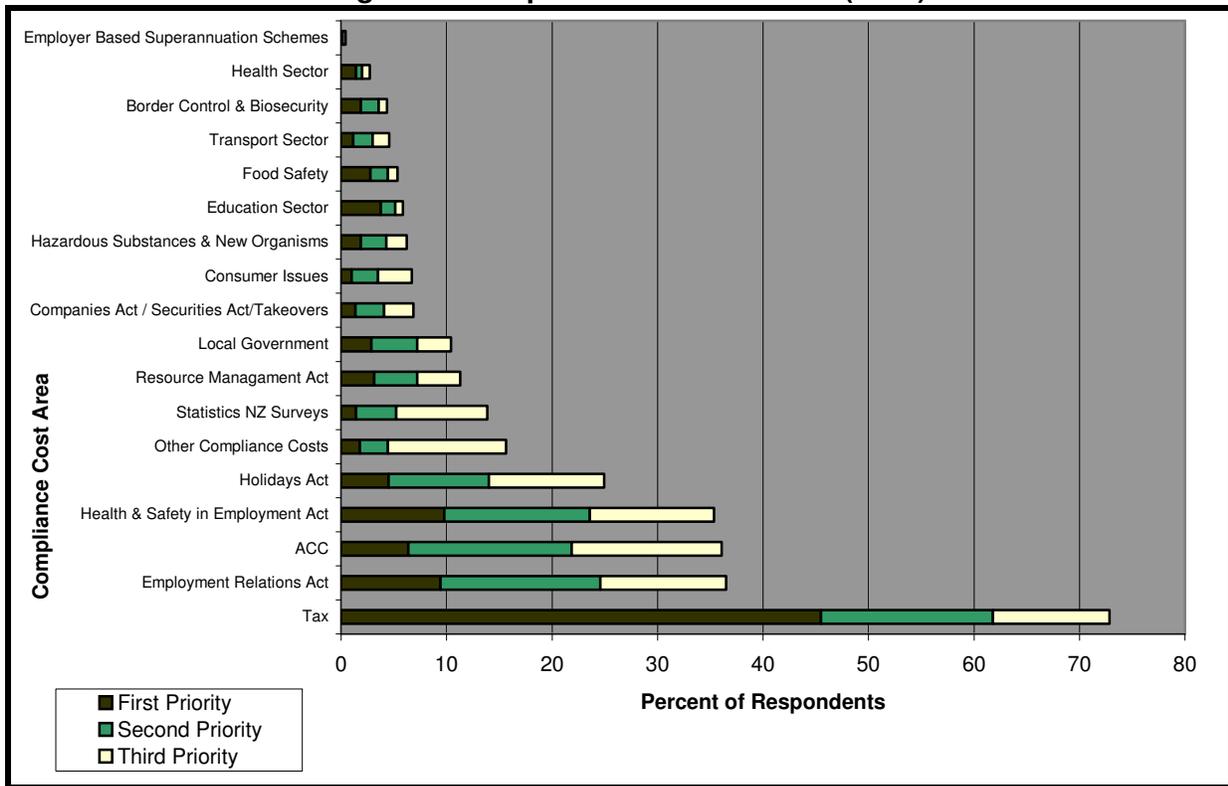
3.1. COMPLIANCE COST PRIORITIES

At a glance

Tax is still the highest priority. Looking at respondents' top three priorities, tax emerges in the top position by a considerable margin, although not quite to the same extent as in 2005. The other top four priorities are largely the same as previous surveys, however this year shows changes in order and overall percentage values. In the 2006 survey all enterprises by size placed significantly higher priority on tax, with the exception of the 100+ FTE group that prioritised health and safety in employment as the most important issue. By industry, tax dominated throughout.

As in previous years, the 2006 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 (2006)



Tax continues to be the first priority among respondents, with 45.5% selecting it as their top priority for change (this is down slightly from 48.5% in 2005). As in 2005, this year has seen relatively few tax compliance changes. In last year's report two possible reasons for the increase were advanced (which are still likely). First, issues surrounding tax rates and the tax take by the Government have been much discussed for well over a

year by various commentators. Second, there has been relatively little in the way of major legislative change directly affecting business over the last two years. Because tax has historically led most compliance cost surveys, the lack of recent changes in other areas may led respondents to fall back on a more traditional answer.

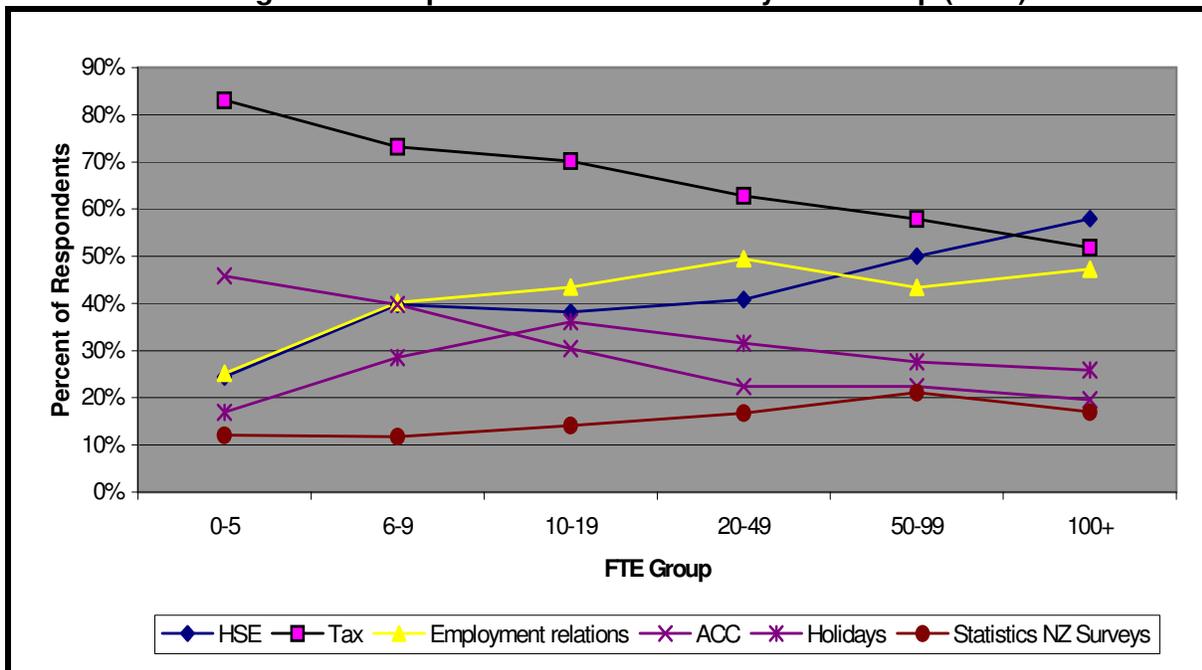
As in previous years, a cluster of employment-related compliance areas follows tax. Health and safety in employment (HSE) (9.8%) now ranks as the second compliance priority (up from 8.9% in 2005), while the Employment Relations Act (ERA) has slipped to third place (9.4%).

When the respondents' top three priorities are combined, tax (72.9%) shows a similar dominance as in 2005, followed by the ERA (36.5%), ACC (36.1%), HSE (35.4%) and Holidays Act (24.9%). HSE and the Holidays Act had a spike as priority in 2003 and 2004 respectively, however since then they have diminished as a priority for business. ACC continues to fluctuate in terms of priority from year to year, while the ERA recorded its highest priority in the first year the survey was held, and has dropped more than 10 percentage points since then. This exemplifies the ripple effect from changes to major pieces of legislation that continue for considerable periods of time after the changes are made.

Figure 3 shows tax compliance remains a significant priority for all businesses by size except the 100+ FTE group, which has HSE as the key priority for change. Interestingly, HSE increased in terms of priority as the size of businesses increased.

Statistics New Zealand surveys are among the top six compliance priorities for business, although less significant compared with the top five issues throughout all business by size.

Figure 3: Compliance Cost Priorities by FTE Group (2006)



Of the remaining compliance cost areas, the Resource Management Act (RMA) deserves further comment.

The RMA continues to increase as a priority for change. In 2006 its total percentage value is 11.3%, up from 8.4% in 2005 and 6.5% in 2004, and the same as in 2003. By industry, the primary sector rates it the third most important priority, behind tax and ACC. While improved implementation of the RMA by local authorities and increased resources for the Environment Court might be helping to reduce delays and costs, the RMA is still a significant compliance issue, especially given that it is not an ongoing issues for most businesses - compliance costs usually become apparent only when an enterprise makes a resource consent application to a local authority; most businesses will have little to do with the RMA in any given year.

3.2. HELPFULNESS OF CENTRAL AND LOCAL GOVERNMENT AGENCIES

At a glance

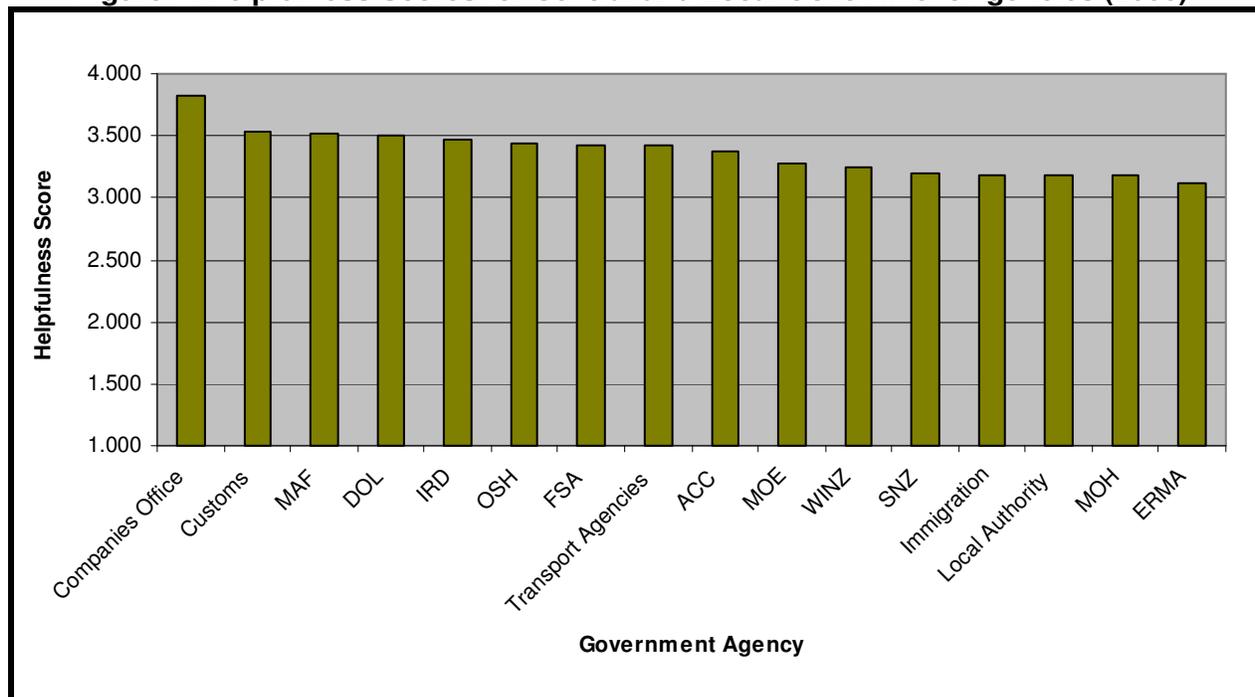
Four government agencies had contact with over 50% of respondents in 2006 (in 2005 six government agencies did the same), with results largely consistent with previous years. The Companies Office is still deemed the most helpful, followed this year by the New Zealand Customs Service (NZCS), with the Ministry for Agriculture and Forestry (MAF) slipping to third. The 'least helpful' agency is again the Environmental Risk Management Authority (ERMA), which has been low-ranked since the survey began.

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

The Inland Revenue Department (IRD) still has the most contact with respondents (89.1%) by a clear margin, although slightly down from 2005 (90.8%). Almost all agencies had less contact with respondents in the 2006 survey, although this is likely due to the change in composition of the 2006 sample, with more smaller businesses. The only agencies to have increased contact were the Department of Labour (DoL), local authorities and transport agencies.

All agencies listed in the 2006 survey were considered by most respondents to be more helpful than unhelpful. The overall helpfulness score for 2006 (3.352) increased slightly from 2005 (3.336), although not to the level attained in 2004 (3.362). Figure 4 shows most agencies ranged in value between 3.1 and 3.5, which was similar to 2005.

Figure 4: Helpfulness Scores for Central and Local Government Agencies (2006)



The Companies Office continues to be ranked as the most helpful agency, although its 2006 score is lower than in 2004 and 2005. Despite this, it remains the only government agency to be categorised as excellent.

The New Zealand Customs Service (NZCS) improved its score from 2005, being ranked second in 2006, while the overall score for MAF decreased slightly, causing it to fall one place to third position.

At the other end of the scale there is better news for agencies that were categorised as 'poor' in 2005. The Ministry of Education (MOE) and the Ministry of Health (MOH) went from 'poor' last year to 'fair' in 2006. However the Environmental Risk Management Authority (ERMA) is still categorised as 'poor' and is considered the least helpful agency in 2006 across most size groups, industries and regions. On a brighter note, ERMA improved its overall score from 2005, in part due to a lower proportion of respondents rating ERMA as 'very unhelpful' and a higher proportion giving a 'very helpful' rating.

There were no significant changes in the rankings of government agencies between 2005 and 2006, with some moving one or two places but generally staying within their previous ranking.

It is useful to compare from year to year the net score that results from subtracting 'very unhelpful' from 'very helpful' scores. This gives a view of the data showing individual, polarised or extreme opinions resulting from specific government agency encounters. The 2006 result, encouragingly, shows a higher net figure than in 2005 for those agencies at the lower end of the rankings, although most of those traditionally at the top end show a lower net score than in 2005. The Ministry of Health (+7.1) and the Ministry of Education (+5.8) showed the strongest net gains from 2005 to 2006.

The composition of the 2006 sample appears to have had an effect on perceptions of helpfulness among some groups categorised by numbers of full-time equivalent (FTE) employees. As in previous years, the larger the firm the more likely they were to find government agencies helpful. However, the 6-9 FTE group went from traditionally being the least impressed with the helpfulness of government agencies to the highest equal with the 100+ FTE group. The 10-19 FTE group were the least impressed with government agencies during 2006.

The 2006 survey included a new question that asked how many times respondents had contacted government agency call centres over the last year and, if they had contacted such agencies one or more times, whether they usually obtained a useful answer without the need for follow-up contacts. Overall, 83.1% of respondents had at least one contact with a government call centre over the last year, and of those, almost 62% obtained a useful answer. The 100+ FTE group received the lowest proportion of useful answers (51.1%), while the 0-5 FTE group received the highest (67.0%).

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) at question 2, they were asked to discuss the reason for giving that rating at question 3.

A total of 277 respondents provided a comment at question 3.

General perception

As in 2005, there were a variety of comments, both positive and negative, in relation to a number of government agencies.

Accident Compensation Corporation (ACC)

Overall: negative

A number of negative comments were received on the helpfulness of ACC.

Some commented that invoices were unclear and often contained errors that resulted in re-working. A few respondents had had unpaid invoices referred to debt collection agencies because they had changed their address. In one case, the respondent had advised Inland Revenue but this was not passed on to ACC. In another case, the respondent had advised ACC but their database was not updated and even though their phone number and email address had not changed, no effort had been made to contact them.

Companies Office

Overall: positive

As in previous years, there were a number of positive comments about the Companies Office website and call centre. Respondents said the website was excellent and call centre staff were friendly, knew all the answers, and were focused on getting forms completed correctly from the outset, rather than sorting out problems later.

One respondent commented, “I didn’t know how to file online, thought I had done it and hadn’t – they rang me on my cellphone and talked me through it – most helpful and friendly – top marks!”

Another respondent commented, “They provide email and text message reminders. Made completion of annual returns online easy.”

Department of Labour (DOL)

Overall: positive

As in previous years, there were a number of positive comments on the helpfulness of the DOL website.

In contrast, one employer commented that they had tried to use the DOL helpline and it was out of action, while another felt that DOL did not appear to have adequate resourcing.

Environmental Risk Management Authority (ERMA)

Overall: negative

There was only one comment relating to ERMA: the respondent said they had received a different answer each time they contacted ERMA.

Food Safety Authority (FSA)

Overall: mixed

Respondents' comments included: "We deal with this organisation for a multitude of compliance issues and have never had a problem finding answers to queries and assistance with other issues/problems." Another respondent commented, "NZ Food Safety Inspectors making up and creating their own rules as they conduct audits. 29% increase in audit rates this year with no consultation."

Inland Revenue Department (IRD)

Overall: mixed

There was a mixture of comments from respondents regarding the helpfulness of Inland Revenue.

Some said IRD has become more helpful and user friendly in the past two or three years. One respondent felt the tax agent line was staffed with well-trained people with good communication skills. In general, respondents commented that the IRD website was very informative and the system for online tax payments was very good but it was noted that this may be because there was no contact with IRD personnel.

In contrast, respondents generally found it difficult to get in contact with IRD and when they did, "the right hand doesn't know what the left hand is doing." One respondent said it was possible to get "two explanations from two different people."

One respondent found IRD very unhelpful as a result of "several calls of number pressing to be advised in the end that their lines were overloaded and then finally to get through to a rep and to spend 20 mins trying to get them to recognise that I and the organisation existed."

Land Transport Safety Authority (LTSA)

Overall: mixed

One respondent said LTSA "have gone to extremes to make all situations as easy as possible."

In contrast, another respondent commented that LTSA were unhelpful in responding to queries.

Local Authorities

Overall: mixed

As in previous years, respondents had a mixed view of the helpfulness of local authorities. In general the comments differed depending on the geographical area of the respondent and the industry that they operate within.

One respondent commented that the Auckland City Council planning department was “very difficult to contact, get answers from”. Another found that Auckland City Council “repeatedly cannot distinguish us from another company with a similar name”.

On the other hand, one respondent commented that Wellington City Council “worked around the clock to get Waitangi Park ready for us to use it for the 2006 New Zealand International Arts Festival”.

Ministry of Agriculture and Forestry (MAF)

Overall: mixed

One respondent commented that MAF is “excellent at resolving issues for our industry.” Another felt that, “the crime didn’t match the punishment.”

Ministry of Education (MOE)

Overall: positive

In general, respondents commented that MOE are knowledgeable, clear, have a good response time and are very user friendly.

Ministry of Health (MOH)

Overall: mixed

There were only two comments on the helpfulness of MOH. One respondent commented that MOH were “cheerful, clear in their objectives and wanted to be useful” while the other noted that they had not responded to a query sent over two months ago.

New Zealand Customs Service (Customs)

Overall: negative

The comments received in relation to Customs indicate the organisation has too much red tape leading to delays in freeing up goods.

New Zealand Immigration Service (Immigration)

Overall: negative

There were a number of negative comments on the helpfulness of Immigration New Zealand.

In general, respondents felt that the immigration process is hindered by delays. Two respondents said these were caused by Immigration losing files. One respondent said the organisation appeared to have the “left hand unaware of what the right hand is doing”.

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 “work on the basis of fear tactics and that the employer is always wrong.” Another commented that OSH appears intent of placing blame for accidents regardless of the evidence.

Statistics New Zealand (SNZ)

Overall: negative

A number of respondents said SNZ business surveys were a frustrating waste of time and there were too many of them. One respondent said, “The lack of understanding within Statistics NZ gives rise to meaningless questioning that ultimately is unproductive.”

Work and Income New Zealand (WINZ)

Overall: negative

There were several negative comments on the helpfulness of WINZ.

A number of respondents commented that WINZ are slow to respond to queries and that opinions given vary depending on who you speak to. There were also a number of comments on the negative attitude of WINZ in relation to employers making payments on behalf of employees.

One respondent commented that, “WINZ officers are demanding and inflexible when asking for information relating to staff whom have owed them money”.

3.3. COMPLIANCE COST TRENDS

At a glance

The 2006 results continue the trend of few respondents believing compliance costs have fallen. The majority response for most compliance areas was again 'no change', except for the Holidays Act. The proportion of respondents that noted either a large or modest fall in compliance costs for any area continued to be very minor. On balance, this means all compliance cost areas show an upward trend. Of the 22 compliance areas, 14 show an increase in their overall compliance cost trend score, while 8 show a decrease. This leaves the overall trend score for 2006 lower than for 2004 and 2005, but still 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 2006 results continue the trend of an overall increase in all compliance cost areas over the past 12 months. However, of the 21 specified compliance cost areas (excluding 'other' compliance costs), 8 showed a fall in their overall trend score between 2005 and 2006. The overall score for all compliance costs areas actually fell to 3.515 during 2006, compared to 2005 and 2004 (3.520 and 3.534 respectively). This means the overall score is at the lower threshold of what is considered to be a 'large increase', and if the trend continues it may move to the category of 'modest increases' in years to come. While this is encouraging, the result is still disappointing from the view of a reduction in compliance costs for businesses generally.

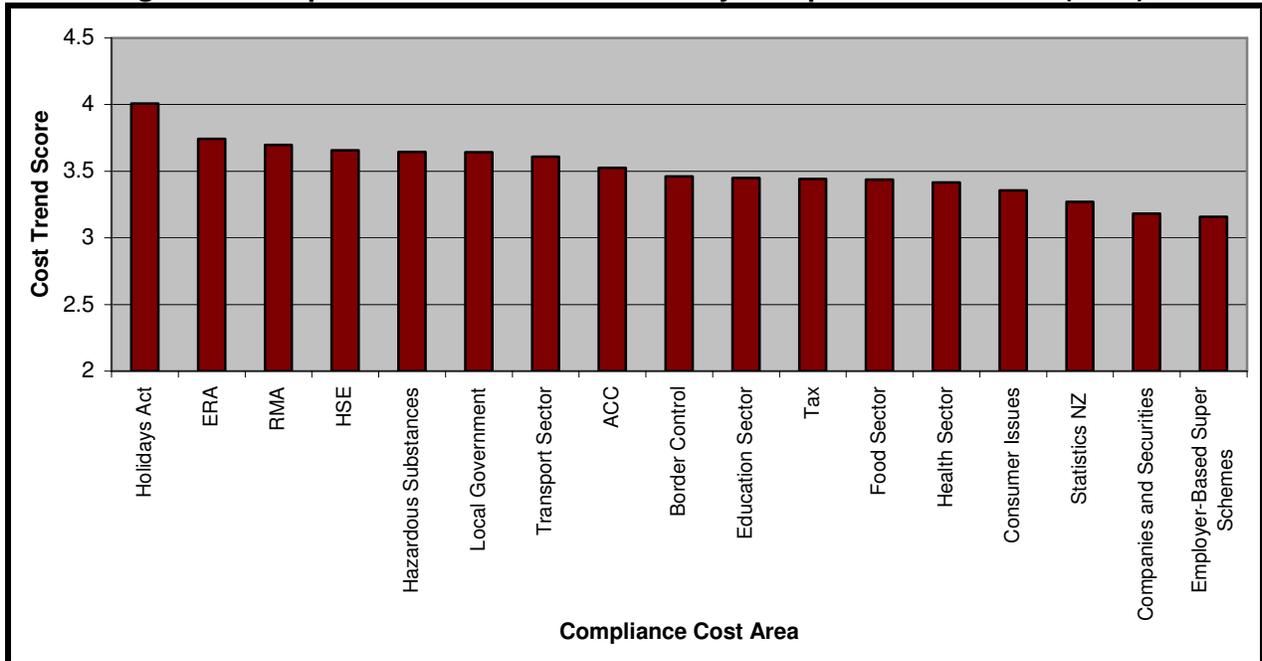
The compliance cost trend scores for each of the compliance cost areas are shown in Figure 5 below¹.

The Holidays Act is the main compliance area perceived to have increased, however the share of respondents perceiving increased holidays-related compliance costs continues to fall, at 75.3% in 2006 compared with 79.9% in 2005 and 87.4% in 2004. This means the Holidays Act trend score decreased from 4.133 in 2005 to 4.008 in 2006, although it is well ahead of the second highest compliance concern, the ERA, where 60.0% perceive an increase, giving a score of 3.744.

There was little change in the rankings and compliance cost trend scores for most other compliance areas when comparing 2006 with 2005. Respondents perceived least change in compliance costs with employer-based superannuation schemes in 2006 where 84.6% of respondents consider there has been either no change or a decrease in compliance costs. Until the 2006 survey, the least change was perceived for companies and securities, which slipped to second lowest, with 80.9% considering there to be either no change or a fall.

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.

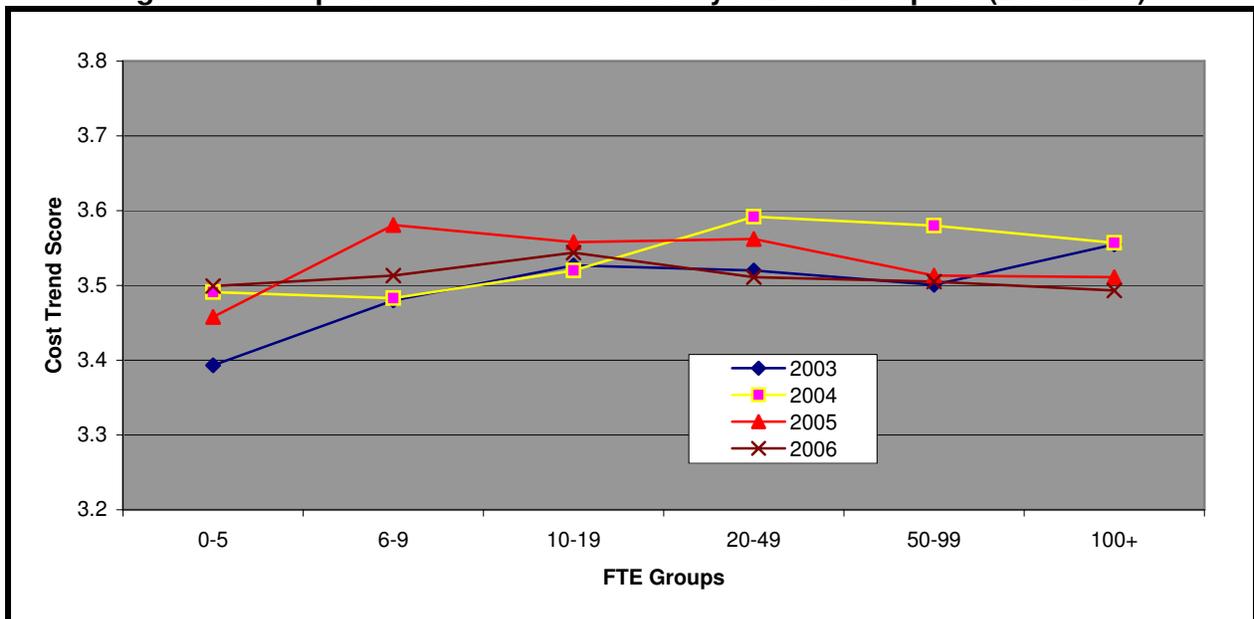
Figure 5: Compliance Cost Trends Scores by Compliance Cost Area (2006)



The greatest individual improvement was recorded for the ERA, which fell from 3.895 in 2005 to 3.744 in 2006. In contrast, the strongest increase in compliance concern was for Local Government, which went from 3.491 in 2005 to 3.642 in 2006.

Compared with previous years, the 2006 survey results suggest that cost perceptions are fairly even across the FTE size groups (see figure 6).

Figure 6: Compliance Cost Trend Scores by Size of Enterprise (2003-2006)



3.3.1 Respondent Comments – Compliance Cost Trends

If a respondent indicated a rating of either 1 (large rise) or 5 (large fall) when asked about compliance cost trends at question 6, they were asked to discuss the reason for that rating at question 6.

A total of 1391 respondents provided a comment at question 6. There were a variety of comments.

General perception

In general, respondents felt there had been an overall increase in compliance costs. Consistent with previous years, a number of respondents commented that legislation is frequently changing and usually becomes more complicated, resulting in increased compliance costs.

Businesses seem increasingly frustrated by the constant legislative reform and the time that is required to keep abreast of it all. One respondent noted that, “the increase in compliance costs is creating a climate of fear nationwide and stifling business enterprise.”

Accident Compensation Corporation (ACC)

Overall: increase

There were only a few responses in relation to changes in ACC compliance costs. One respondent noted that they lost a 10% discount after an audit while another respondent commented that compliance costs are increased because of inadequate ACC systems.

Border control issues

Overall: increase

A number of respondents felt that border control rules are inconsistently applied and even if the product is largely the same, the requirements will vary depending on the person in control.

One respondent commented that they could not adequately schedule for the arrival of consignments of goods due to the unpredictable timing of import inspections, resulting in businesses having to pay additional storage costs as they wait for inspection times.

Consumer Issues

Overall: increase

One respondent commented that Commerce Commission regulation had led to increased costs for the electricity industry.

Another respondent had been the subject of a Commerce Commission investigation that had taken up “a lot of resource”; they had been cleared as a result of the investigation and felt that it was unfair that there was no recourse for cost recovery.

Education Sector

Overall: increase

A number of respondents feel dealing with education sector organisations in relation to training is becoming increasingly difficult. Organisations specifically mentioned were the Tertiary Education Commission, Ministry of Education, New Zealand Qualifications Authority and the Engineering Industry Training Organisation.

Employment Relations Act

Overall: increase

A number of respondents commented on the compliance costs associated with complying with current employment law obligations. In particular, respondents say terminating employees for valid reasons is becoming increasingly burdensome. One respondent noted that they had to pay \$5,000 in legal fees and attend mediation to dismiss an employee caught stealing. Ultimately, they paid a settlement to avoid further downtime in court.

Hazardous Substances

Overall: increase

A number of respondents commented on the increased workload and costs associated with Hazardous Substances and New Organisms Act (HSNO) compliance.

One respondent noted the extra time now involved in becoming licensed to handle and store chemicals. Another respondent commented that HSNO is adding all sorts of paperwork and compliance costs with the worst aspect being that “the rules are still changing as we try to get a more common sense practical interpretation”.

Holidays Act

Overall: increase

As in 2004 and 2005, employers feel there has been a significant rise in the costs associated with complying with their obligations under the Holidays Act.

In particular, respondents noted increased costs in implementing and administering the new four-week minimum annual leave provision. One respondent said the “Holidays Act is a mess from an administration point of view”, while other respondents described the application of the Act to their business as a “nightmare”.

A number of respondents said they had to purchase payroll software upgrades to keep up to date with changes to the Holidays Act. One respondent said they were forced to purchase a new programme because their existing payroll supplier “decided to ‘bale out’ saying it is just too expensive to rewrite software to incorporate all the changes”.

Health and Safety in Employment Act

Overall: increase

Consistent with prior years, a number of respondents feel they are facing increasing costs to comply with OSH requirements, with many now employing full time staff or consultants to ensure they are meeting the requirements of the Act.

One respondent commented that the Act is “a living document and requires changing constantly.”

Inland Revenue Department

Overall: increase

As in 2004 and 2005, a number of respondents advised that they had faced increased Pay As You Earn (PAYE) compliance costs since they are now required to pay PAYE deductions to Inland Revenue twice monthly. Furthermore, one respondent commented that, “in dealing with internet banking the processing has been a lot more work instead of making it easier.”

A number of respondents also commented on the costs associated with Fringe Benefit Tax (FBT). In particular respondents noted that their FBT compliance costs had increased significantly due to the “complexity of the calculations and lack of clarity in the new legislation”.

3.4. ESTIMATING TOTAL COMPLIANCE COSTS

At a glance

The increased proportion of respondents from micro-small enterprises for the 2006 survey means quantifiable results need to be interpreted with care. Adding the average total costs for each of the four broad compliance areas provides a total compliance cost estimate of \$38,232 per enterprise for 2006, which is lower than 2005 and 2003, but still higher than 2004. Tax compliance costs again make up the largest share of compliance costs for 2006 at 41%, up slightly from 40% in 2005. Employment-related compliance costs dipped slightly from 2005, to 23% in 2006. However, on an FTE basis, total compliance costs for 2006 are \$691 per full time equivalent employee, the highest value since the survey began.

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

Respondents were asked to quantify the total hours spent internally within the enterprise on each of the compliance cost areas. The average enterprise spent 851.9 hours per annum on all compliance cost requirements for 2006. This was the lowest total since the survey began in 2003. However, the change in composition of the sample for the 2006 survey has a large bearing on this. With 59% of respondents in the 0-9 FTE group, compared with 42.7% in 2005, it would have been surprising if the overall average number of internal hours had not fallen. The overall total figure does not therefore give as true a picture of actual compliance costs as the FTE costs by size of enterprise, as discussed below.

The cost of external advice also has to be taken into consideration to provide an overall estimate of compliance costs. In 2006, 39.6% of respondents used some form of external advice in the four key areas, up slightly from 38.7% in 2005. The pattern for external advice across each compliance area was mixed, with tax up to its highest level since the survey began (81.4%), while employment fell to its lowest ever level (41.4%). External advice on environmental issues remained unchanged from 2005 (16.1%), while other compliance costs increased from last year to 19.3%.

In 2006 the average respondent's annual compliance burden came to a total \$38,232 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 \$21.63 per hour² (\$20.56 in 2005, \$19.69 in 2004 and \$19.06 in 2003)
- The cost of out-of-house advisers used for compliance issues

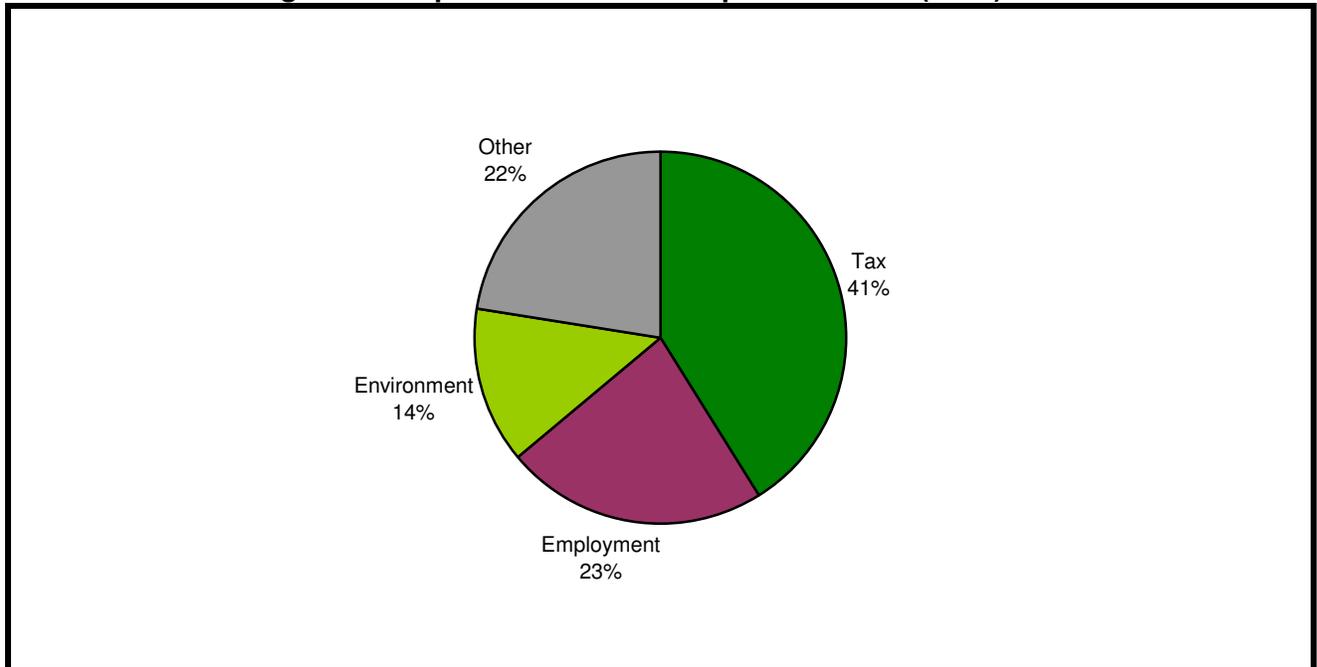
The 2006 value was 27.9% lower than in 2005 (\$53,011), but 6% higher than in 2004 (\$36,075). This can be expressed as \$691 per FTE in 2006, or 0.25% of turnover. It is important to note that the average total cost by FTE as a percentage of turnover has increased, again mainly because of the composition of the sample, which also occurred in 2005 but for the opposite reasons. The average size of FTEs in the 2006 survey fell from 139 in 2005 to 55 in 2006, as a higher proportion of smaller firms completed the survey, thus driving the overall average up. When the results are broken down by size of firm, average total costs by FTE rose for four of the six groups, while the 6-9 FTE group remained largely unchanged and the 0-5 FTE group experienced a moderate fall.

In 2006, total compliance costs were broken up into four categories, as follows:

- 41% tax-related compliance costs (40% in 2005)
- 23% employment-related compliance costs (26% in 2005)
- 14% environment-related compliance costs (15.3% in 2005)
- 22% other compliance costs (18.8% in 2005).

As Figure 7 also shows, the main share of compliance costs still comes from tax.

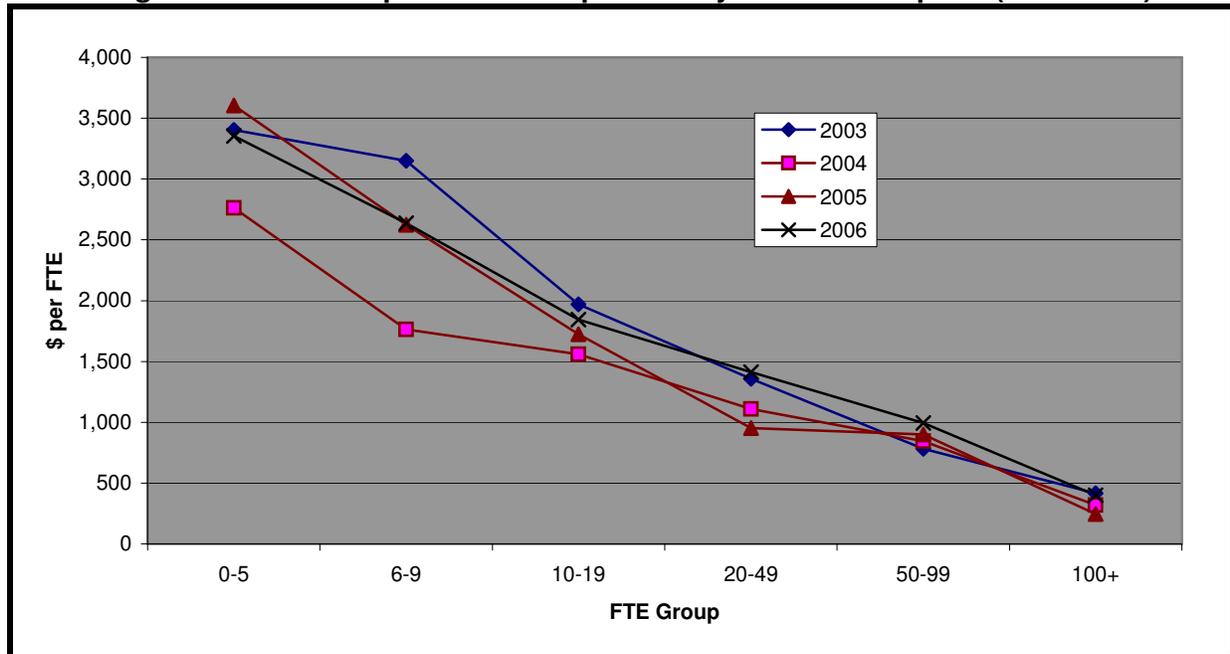
Figure 7: Proportion of Total Compliance Costs (2006)



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.

Figure 8 shows small enterprises continuing to bear much higher compliance costs per employee than larger enterprises. Interestingly, aside from the results for smaller firms in 2004, a clearer pattern is starting to emerge of the levels of compliance costs per FTE group after four years worth of data.

Figure 8: Total Compliance Costs per FTE by Size of Enterprise (2003-2006)



3.4.1. TAX-RELATED COMPLIANCE COSTS

At a glance

The mean number of internal hours on tax-related compliance costs decreased from 329 in 2005 to 274 in 2006. The average cost of external advice also dropped from \$19,501 in 2005 to \$12,170 in 2006. This means the total average cost also decreased to \$15,716, although the average total cost by FTE rose from \$151 to \$284, because of the increased participation of smaller enterprises.

Table 2: Summary Comparison for Tax Compliance Costs (2003-2006)

Respondents answering this section (2006)		99.9%		
Average total cost (2006)		Decrease		
Average total cost per full-time equivalent employee (2006)		Increase		
Year	2003	2004	2005	2006
Average total cost	\$13,517	\$14,909	\$21,166	\$15,716
Average total cost per FTE	\$208	\$224	\$151	\$284
Average mean annual hours spent within enterprise on tax (all sizes)	243	323	329	274
Average internal cost	\$4,627	\$6,366	\$6,762	\$5,931
Maximum annual hours spent by enterprise internally on tax*	40,000	110,000	100,000	15,000
Average external cost	\$10,676	\$11,296	\$19,501	\$12,170
Maximum annual amount spent by enterprise externally on tax*	\$550,000	\$500,000	\$2,228,163	\$1,000,000
Tax as a % of total compliance costs	29.9%	34%	40.0%	41.1%
% of respondents who obtained information from IRD	78%	72%	82%	79%
% of respondents who employed external tax advisers	79%	74%	73%	76%
% of respondents who directly accessed tax legislation	42%	34%	48%	38%
% of respondents who used other publications and advice	36%	30%	38%	32%

* Extreme values such as those recorded for number of hours spent on particular compliance costs and costs for external advice for 2003-2006 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 2006, 41.1% of total compliance costs were for tax-related issues, the highest percentage value since the survey began.

On average, 274 hours per enterprise were devoted to tax-related compliance, which was less than in 2004 and 2005, but more than in 2003. The maximum hours spent by an enterprise on tax-related compliance in 2006 was 15,000, considerably less than the highest values recorded in 2004 and 2005.

81.4% of respondents used out-of-house advisers on tax-related compliance issues for the 2006 survey, which was the highest percentage since the survey began. These

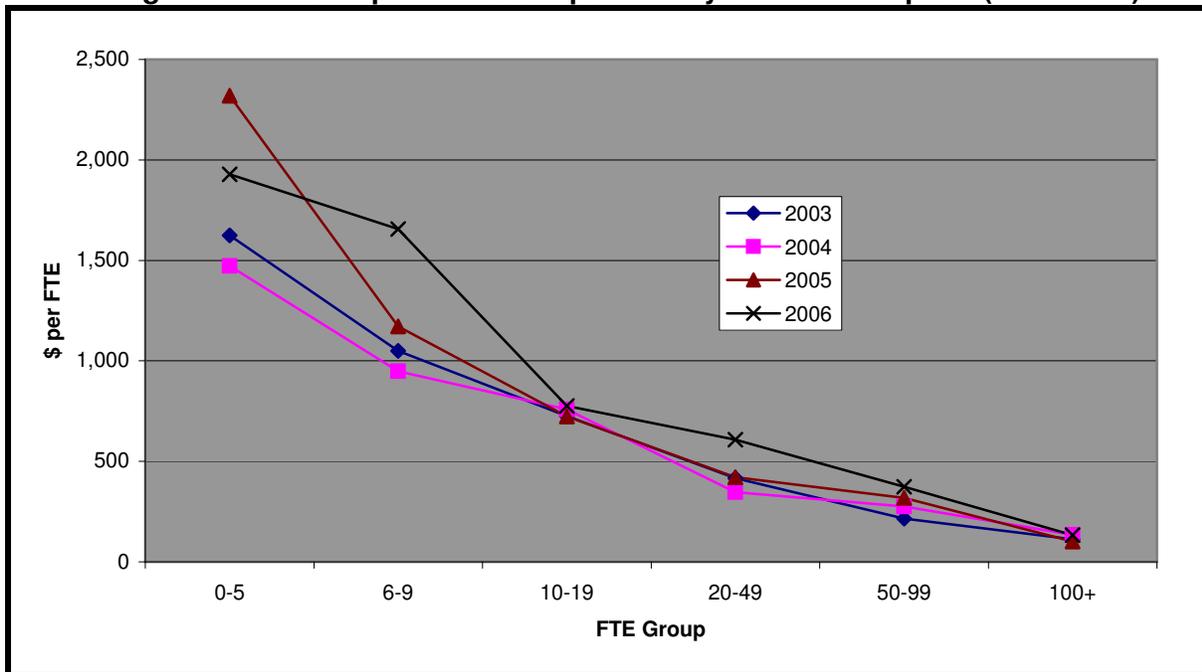
respondents on average spent \$12,170 per annum for this advice, a decrease from 2005, but still higher than in 2003 and 2004.

Respondents had average total tax-related compliance costs of \$15,716 in 2005, which was again lower than the 2005 value, but up on 2003 and 2004. However, as previously discussed, the composition of the sample for the 2006 survey played a significant part in these figures. As a result, on a per FTE basis, total tax-related compliance costs increased from \$151 to \$284, the highest total since the survey began.

The most popular source of external tax information and advice continues to be the IRD, with 79% of respondents using the IRD in 2006. Use of external tax advisors, agents and intermediaries increased slightly (76% in 2005), while both legislation and other publications/advice experienced a drop (38% and 32% respectively in 2006).

The results by FTE size (see figure 9) show interesting outcomes. The 10-19, 50-99 and 100+ FTE groups have remained largely unchanged over the four years the survey has been running. The 20-49 FTE group experienced a moderate increase in cost for 2006, while the 0-5 and 6-9 FTE group showed a strong increase. Given that in 2006 there are more respondents than ever before in these two groups, the results indicate that the calculation of costs per FTE for small businesses is more accurate in 2006 than in 2003 and 2004. This indicates that tax compliance costs per FTE fall more heavily on small than large businesses to a greater degree than originally thought.

Figure 9: Tax Compliance Costs per FTE by Size of Enterprise (2003-2006)



As expected, tax continues to be a key compliance concern for respondents. Some recently enacted legislation has the potential to ease compliance costs, along with the forthcoming Business Tax Review. However, Business New Zealand and KPMG consider there is still considerable scope for compliance cost reduction, some of which requires legislation, and some which is of a more administrative nature.

Recent amendments involved changes to the FBT rules relating to exemptions for the private use of business tools, and health and safety 'benefits'. While these changes may bring incremental compliance cost savings, real savings can only be achieved with a significant change in the framework of FBT. As raised in last year's compliance cost survey, limiting FBT to real and substantive benefits, such as motor vehicles, low interest loans and other benefits that are genuinely in substitution of salary and wages would significantly reduce compliance costs in this area.

From the 2008-9 income year, measures intended to ease compliance costs will take effect: the alignment of GST and provisional tax payment dates and an alternative method of calculating provisional tax (based on a percentage of GST taxable supplies). It will be interesting to see whether these initiatives succeed in reducing the compliance burden.

The Business Tax Review also includes a number of compliance cost initiatives. These include an increase in the threshold for the immediate write-off of low-value assets from \$500 (recently increased from \$200) to \$1,000; an increase in the ability to write off assets with a low depreciated value; and an increase in the threshold for filing annual FBT returns to \$250,000 of employee deductions (from the current level of \$100,000).

While these initiatives are welcome, Business New Zealand and KPMG have concerns about placing compliance issues in the context of the Business Tax Review. Such measures should be part of normal incremental improvements to the business environment, not part of a major review of business taxation, and should certainly not be traded off against more fundamental reforms.

The impact of corporate tax rate cuts on compliance will depend to a large extent on how these flow through to personal tax rates. For example, FBT is complex because of the need to deal with the differential between the corporate and top personal tax rates. If this differential were narrowed, it would be less of an issue.

Aside from legislative changes, Business New Zealand and KPMG consider that IRD needs to take administrative steps to reduce tax compliance costs. Unfortunately, the recent announcement by Corporates Unit at IRD that it will no longer provide non-binding opinions is an example of making life more difficult for businesses by increasing levels of risk and uncertainty. Recent court cases, where the IRD has not followed its own published disputes resolution procedures also lead to uncertainty. In Business New Zealand and KPMG's view, the day-to-day dealings of businesses with the IRD make a significant contribution to compliance costs and improvement would be welcomed.

3.4.1a Respondent Comments – Tax Related Compliance Costs

As well as providing costs for tax compliance, respondents were given the opportunity to make comments on tax compliance costs. A total of 216 respondents provided comments.

General

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

In general most respondents commented that New Zealand's tax legislation was overly complex leading to the use of external tax advisors. One respondent commented, "Tax is too complicated for the average person to deal with so we are forced (for our own protection) to use tax advisors".

Many respondents feel tax compliance is too complicated and is stifling growth in small businesses. One respondent said, "there is no relief for small businesses that would lead to increased investment and growth" and "there is no incentive to comply and therefore lead to reinvestment on R&D and growth in sales."

A number of respondents consider that the bulk of their time is taken up with calculating provisional tax payments and preparing annual income tax returns, however as there were no specific comments made, this response is not included in the summaries below.

Pay As You Earn (PAYE)

As in 2005, a number of respondents commented that PAYE compliance is very time consuming and expensive. Some commented that their costs are high due to the requirement to pay PAYE deductions to Inland Revenue twice monthly, even though they do not consider themselves to be large businesses.

One respondent said, "with a weekly payroll of 20 we now use a payroll company to manage the payments and PAYE returns – at about \$13.00 per employee per month we consider this money well spent."

Fringe Benefit Tax (FBT)

A number of respondents said FBT takes up the majority of their time and costs in relation to tax compliance. Respondents feel FBT is confusing and overly complicated, especially because the requirements are frequently changing. In one instance a respondent commented "lack of clarity on FBT changes has led us to delay replacing our own vehicle so we can choose the most appropriate way of doing so".

Goods and Services Tax (GST)

A number of respondents feel that most of the time spent on tax compliance is on GST-related matters. This suggests that GST is a substantial compliance cost for many. Some respondents feel they are providing a service by collecting GST on behalf of the

government, and are not compensated or even thanked. One respondent said, “GST is a good tax for the government and probably taxpayers in general, but it is expensive to administer with the entire cost being put on businesses.”

3.4.2. EMPLOYMENT RELATED COMPLIANCE COSTS

At a glance

The average number of internal hours spent on employment was 271 in 2006, compared with 442 in 2005. The average cost of external advice also decreased to \$5,860. However, on an FTE basis, costs rose from 2005 to \$158 in 2006, which was also slightly above the 2004 result.

Table 3: Summary Comparison for Employment Compliance Costs (2003-2006)

Respondents answering this section (2006)				99.9%
Average total cost (2006)				Decrease
Average total cost per full-time equivalent employee (2006)				Increase
Year	2003	2004	2005	2006
Average total cost	\$15,514	\$10,428	\$13,782	\$8,747
Average total cost per FTE	\$239	\$156	\$99	\$158
Average mean annual hours spent within enterprise on employment costs (all sizes)	550	350	442	271
Average internal cost	\$10,478	\$7,734	\$9,077	\$5,860
Maximum annual hours spent by enterprise internally on employment costs	32,000	40,000	53,300	40,000
Average external cost	\$8,625	\$6,740	\$10,330	\$7,274
Maximum annual amount spent by enterprise externally on employment costs	\$400,000	\$200,000	\$2,000,000	\$120,000
Employment as a % of total compliance costs	34.3%	25.9%	26.0%	22.9%
% of respondents who employed external employment advisers	55.9%	52.7%	45.5%	41.4%

Employment-related issues as a share of total compliance costs for 2006 (22.9%) are down from 2005 (26.0%), and are the lowest since the survey began.

The number of hours per annum within the enterprise devoted to employment-related compliance decreased from 442 in 2005 to 271 in 2006. The maximum number of hours spent by an individual enterprise on employment costs was 40,000, the same highest value as in 2004.

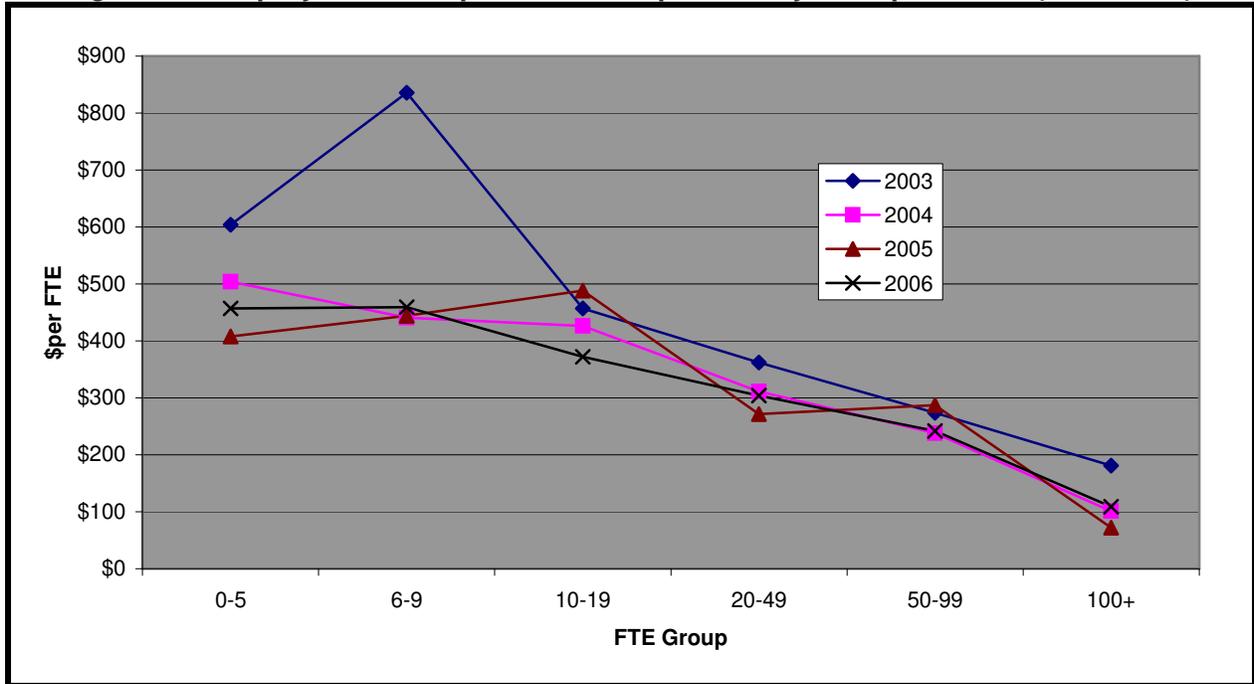
The share of respondents who employed external employment advisers has continued to fall since the survey began, with under half (41.4%) using them during 2006. These respondents on average spent \$7,274 per annum on advice, higher than in 2004, but lower than in 2003 and 2005. The maximum annual amount spent by an enterprise on external advice for employment-related compliance requirements was \$120,000, considerably lower than the \$2,000,000 maximum value for 2005.

Respondents had average total employment-related compliance costs of \$8,747 in 2006, a drop of \$5,035 from 2005. However, on a per FTE basis, total employment-related compliance costs rose from \$99 in 2005 to \$158 in 2006.

Results for 2006 show employment-related compliance costs per FTE are still higher for smaller than larger businesses, and barring the results for the 0-5 and 6-9 group in

2003, are starting to develop a consistent pattern (see figure 10). Costs per FTE for the 10-19 group are the lowest recorded since the survey began, while costs for the remaining FTE groups are approximately at the median level when four years worth of data is taken into account.

Figure 10: Employment Compliance Costs per FTE by Enterprise Size (2003-2006)



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 functioning of the workplace, therefore lower actual compliance costs, as most 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, relating to passing on collective terms and conditions to individual employment agreements, vulnerable employees, personal grievances and others.

3.4.2a Respondent Comments – Employment Related Compliance Costs

As well as providing costs for employment compliance, respondents passed comment on employment related compliance costs. A total of 161 respondents provided comments.

General

Respondents said employment-related compliance costs were still very high. There was general comment about the pressure to keep up to date with legislative changes and

ensure compliance with, for example, the Employment Relations Act, the Holidays Act and OSH legislation.

Respondents said they had obtained information from a variety of external sources to help them with employment-related matters, including:

- Employment lawyers
- Employers and Manufacturers Association
- Federated Farmers
- New Zealand Retailers Association
- Canterbury Employers' Chamber of Commerce
- Other external consultants

Employment Relations Act (ERA)

As in previous years, many employers commented on the high costs associated with updating employment contracts to comply with the ERA and other legislation.

A number said they have faced increased employment related compliance costs in the past year in relation to personal grievance and unfair dismissal claims. The general feeling among respondents was that the law in this area favours employees.

One employer said, "The grievance gravy train has made it almost impossible to dismiss a staff member so we just pay them to go rather than spend our time and lawyers fees going through the system".

Health and Safety in Employment Act

A number of respondents commented that they incur high costs in ensuring that they are OSH-compliant. In general, employers felt that they spent a significant amount of time keeping up with the required documentation, planning, managing and implementing systems to comply with the rules. Respondents felt that OSH legislation created a lot of additional paperwork. One respondent noted that this had "reached ridiculous levels for office based environments."

Holidays Act

As in 2005, many respondents feel that interpreting and implementing the Holidays Act 2003 is a large compliance cost. One employer said, "Most concerns come about from being worried that I think I've understood the requirement, only to find out later that my interpretation may be incorrect. Then the law is changed anyway and with parts of those changes I may miss the subtlety of the meaning."

A number of employers commented on the incidental costs arising from changes to the Holidays Act such as educating staff on the legislation, updating employment contracts and changing paperwork, policies and procedures to meet relevant requirements.

3.4.3. ENVIRONMENT RELATED COMPLIANCE COSTS

At a glance

In 2006 the average enterprise spent approximately 95 hours on environment-related compliance, the lowest amount since the survey began. The percentage of respondents who engaged external advice remained the same as 2005, while the average external cost fell from the sharp increase in 2005. On an FTE basis, costs were the highest since 2003.

Table 4: Summary Comparison for Environmental Compliance Costs (2003-2006)

Respondents answering this section (2006)					99.7%
Average total cost (2006)					Decrease
Average total cost per full-time equivalent employee (2006)					Increase
Year	2003	2004	2005	2006	
Average total cost	\$7,673	\$5,387	\$8,100	\$5,195	
Average total cost per FTE	\$118	\$81	\$58	\$94	
Average mean annual hours spent within enterprise on Environmental costs (all sizes)	167	123	140	95	
Average internal cost	\$3,181	\$2,422	\$2,887	\$2,046	
Maximum annual hours spent by enterprise internally on environmental costs	10,000	10,400	50,000	200,000	
Average external cost	\$19,263	\$17,515	\$32,770	\$20,367	
Maximum annual amount spent by enterprise externally on environmental costs	\$1,800,000	\$800,000	\$2,000,000	\$500,000	
Environmental costs as a % of total compliance costs	17.0%	17.9%	15.3%	13.6%	
% of respondents who employed external environmental advisers	23.6%	17.0%	16.1%	16.1%	

For 2006, 13.6% of total compliance costs were for environment-related issues, the lowest figure over the history of the survey.

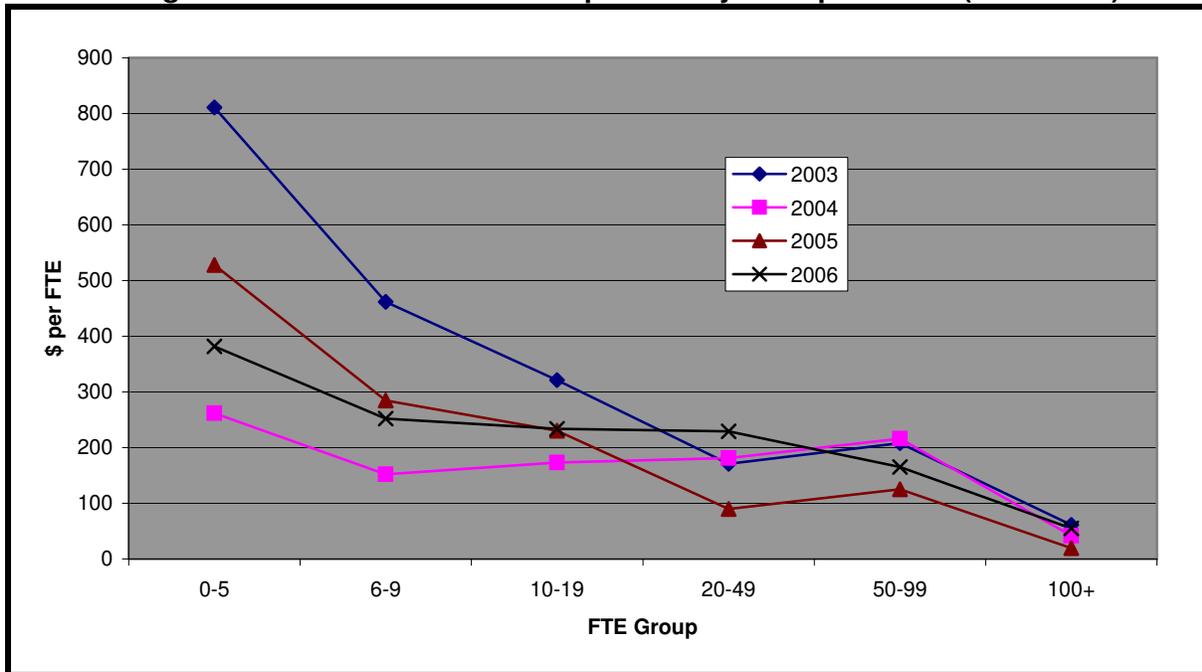
The number of hours per annum spent within the enterprise on environment-related compliance issues decreased by 32.6% from 2005 to 2006. The maximum annual hours spent by an enterprise on environment-related compliance requirements again rose considerably, from 50,000 in 2005 to 200,000 in 2006.

The proportion of respondents using external advisers for environment-related compliance issues is the same as in 2005 (16.1%). These respondents on average spent \$20,367 per annum on advice, down from \$32,770 in 2005. The maximum amount spent by an enterprise on external advice for environment-related compliance requirements was \$500,000, the lowest top value since the survey began.

Respondents had average total environment-related compliance costs of \$5,195 in 2006, a decrease of 35.9% from 2005, and around the same level of 2003. On a per FTE basis, total employment-related compliance costs increased from \$58 in 2005 to \$94 in 2006, which was bettered only by the \$118 recorded in 2003.

Figure 11 shows the 2006 results displaying a broadly similar pattern to that of 2004 and 2005, where the cost per FTE fell the larger the enterprise became. The only noticeable exception was an increase in costs for the 20-49 FTE group, although this was not significantly larger than the 2003 and 2004 results.

Figure 11: Environmental Costs per FTE by Enterprise Size (2003-2006)



3.4.3a Respondent Comments – Environment Related Compliance Costs

As well as providing costs, respondents also commented on environmental related compliance costs. A total of 93 respondents provided comments.

General

As in previous years, most comments related to the Resource Management Act (RMA) and Hazardous Substances and New Organisms Act (HSNO). Again, it appears that the nature and extent of environment-related compliance costs depends on the nature of the enterprise and on specific projects undertaken during the year.

A common opinion expressed by employers was that environmental requirements are often uncertain, which can lead to a lack of consistency in their application.

Border Control

A few respondents said their business faced significant compliance costs in relation to border control. In particular, it was noted that MAF appear to be passing more and more cost onto employers.

Hazardous Substances and New Organisms Act (HSNO)

As in 2005, a number of respondents feel that understanding and complying with HSNO requirements is time consuming and costly.

One respondent said they were finding it difficult to understand their responsibilities in relation to HSNO and they feel “the government is trying to force us into using a consultant to properly handle our compliance with relation to this”.

Resource Management Act (RMA)

A number of respondents commented on the high environment-related compliance costs associated with the RMA, with many saying it is very costly and time consuming to apply for and retain the consents required under the Act.

Some respondents said they employ specialised staff or external consultants to deal with the RMA. One respondent commented, “These costs and requirements are out of control and when you have to venture into them you certainly know why it is called the Rich Man’s Act ... the more money you throw at it the more positive the outcome!”

Local Authority Requirements

Some respondents feel that local authority requirements are a large compliance cost. It was noted that there is no consistency within Council’s rulings or guidelines and they feel “the council is making up the rules as they go along”.

3.4.4. 'OTHER' COMPLIANCE COSTS

At a glance

The average enterprise spent 212 hours on 'other' compliance requirements over 2006, which was around mid-range compared with the previous years results. On average, enterprises spent \$23,308 on advice relating to 'other' compliance requirements for the year, while firms responding to the 'other' costs section by FTE group showed the highest result over the history of the survey.

Table 5: Summary Comparison for 'Other' Compliance Costs (2003-2006)

Respondents answering this section (2006)		100%		
Average total cost (2006)		Decrease		
Average total cost per full-time equivalent employee (2006)		Increase		
Year	2003	2004	2005	2006
Average total cost	\$8,475	\$5,351	\$9,963	\$8,574
Average total cost per FTE	\$131	\$80	\$72	\$155
Average mean annual hours spent within enterprise on 'other' costs (all sizes)	261	164	246	212
Average internal cost	\$4,968	\$3,229	\$5,054	\$4,590
Maximum annual hours spent by enterprise internally on 'other' compliance costs	20,000	11,000	65,000	40,000
Average external cost	\$17,954	\$11,692	\$28,238	\$23,308
Maximum annual amount spent by enterprise externally on 'other' costs	\$800,000	\$3,840,000	\$1,000,000	\$2,000,000
'Other' costs as a % of total compliance costs	18.8%	22.2%	18.8%	22.4%
% of respondents who employed external advisers	19.5%	18.7%	18.3%	19.3%

Table 5 shows that for 2006, 22.4% of total compliance costs were for 'other' issues (i.e. those that were neither tax, employment, nor environment-related issues). This was the highest percentage value recorded for this segment since the survey began.

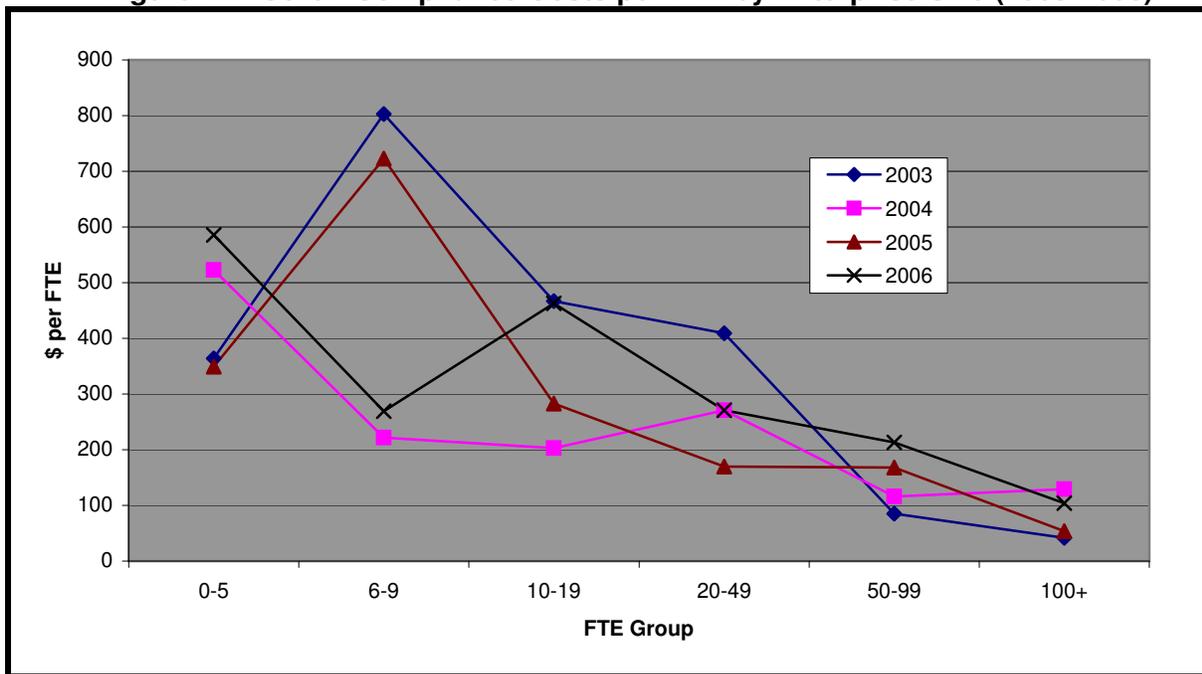
The average number of hours per annum spent within the enterprise on 'other' compliance issues decreased fell to 212.2 in 2006. Only the 2004 result of 164 hours was lower. The maximum annual hours spent by an enterprise on 'other'-related compliance requirements was 40,000 – down on the 65,000 recorded in 2005.

The proportion of respondents using external advisers on 'other' compliance issues increased from 18.3% in 2005 to 19.3% in 2006, although this was still below the 19.5% figure for 2003. These respondents on average spent \$23,308 per annum on advice, down on 2005 but still well above the values for 2003 and 2004. The maximum amount spent by an enterprise on external advice for 'other' compliance requirements was \$2,000,000, double that of 2005 but still not as high as the top figure for 2004. It is important to note that these large values have not been included in the analysis for any of the four years because of the extreme influence large values have on the overall results.

Respondents had average 'other' compliance costs of \$8,574 in 2006, a decrease of 13.9% on 2005 but almost on a par with the result for 2003. On a per FTE basis, 'other' compliance costs were the highest recorded since the survey began, at \$155, with the 2003 result (\$131) in second place.

Figure 12 shows a trend of falling costs per FTE. Of the four broad compliance cost groups, the 'other' group is generally less likely to show real trend patterns from year to year, because it encompasses all other compliance costs that could be affected with any number of legislative changes or amendments to regulations. The pattern for 2006 seems somewhat similar to 2004 results, while results for the 6-9 FTE group continues to alternate between highs and lows, this year showing a result similar to 2004.

Figure 12: 'Other' Compliance Costs per FTE by Enterprise Size (2003-2006)



3.4.4a Respondent Comments – 'Other- Related Compliance Costs

As well as providing costs for 'other' compliance, respondents made comment on 'other'-related compliance costs. A total of 219 respondents provided extra comments.

General

The most significant 'other' compliance costs in 2006, in order, are:

1. Statistics New Zealand surveys
2. Companies and Securities laws
3. Transport issues
4. Education issues, e.g. dealing with NZQA and Tertiary Education Commission
5. Consumers issues
6. Health sector issues, e.g. audits, certification, Pharmac, District Health Boards
7. Food safety

Other areas mentioned were Commerce Commission requirements; collection of fines for the Department of Justice; purchasing New Zealand & Australian Standards; District Licensing Authority; registration requirements for charities; and Department of Internal Affairs requirements.