

**Final Report: Scoping Study on the Costs of Compliance of  
Small Business**

*for*

The Board of Taxation

*by*

Atax (the Australian School of Taxation)

Faculty of Law

The University of New South Wales

Authors:

Dr Margaret McKerchar

Helen Hodgson

Michael Walpole



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## **EXECUTIVE SUMMARY**

This report presents the findings of the scoping study conducted by Atax (Australian School of Taxation, UNSW) for the Board of Taxation into small business compliance costs. The Board of Taxation commissioned the scoping study as part of its review of small business compliance costs, a matter referred to the Board by the Treasurer who asked the Board to identify areas where small business compliance costs might be reduced.

For the purposes of this research, 'small business' was defined as including businesses with a turnover of less than \$5m and with fewer than 20 (full-time equivalent) employees. Compliance costs included monetary, time, opportunity and psychological costs; and were not limited to taxation compliance costs, although these were the primary focus of the research.

The scoping study was required to use a qualitative research design. Grounded theory was determined as the most appropriate strategy of inquiry given the nature of the research problem. In depth interviews were conducted individually with thirty small businesses and three accountants (primarily located in NSW) using convenience sampling.

A number of theories were then developed, grounded in the experience of the small business interviewees. The theories were developed through various stages of matrix analysis and refinement.

The five theories that emerged from this process were:

1. The nature and scale of the small business and the extent to which it has a computerised and integrated accounting system in place, influences its tax compliance costs.
2. Small businesses tend to broker their tax compliance obligations to external parties so as to minimise their personal time involvement. That is, they value their time input in running their business above the monetary costs of compliance incurred on brokerage. They pay willingly for this brokerage where they feel confident in the standard of advice and service provided.
3. While all small businesses incurred tax compliance costs, they are not an issue for all small businesses nor necessarily their major compliance cost concern.
4. Compliance with other non-tax regulations does impose a substantial burden on small business, particularly those businesses that employ others, operate in varying locations or are engaged in agriculture. These non-tax regulations are generally at state and local government levels. It is the breadth and complexity of these regulations that are of major concern to small business, and in addition, in respect of workers' compensation, its cost. Small businesses generally would be in breach of OH&S regulations.

5. There are limited incidental benefits perceived by small business in respect of tax compliance.

These theories were then critically analysed in comparison to:

- the existing body of literature on compliance costs and related studies;
- submissions made to the Board of Taxation and the Banks Taskforce, which included submissions by professional and industry bodies as well as individuals; and
- the accountants interviewed as part of this study.

This validation process confirmed the theories, which are now presented to the Board of Taxation for consideration. However, given the nature of the research design, the extent to which the findings apply to the broader population of small business in Australia is unknown. Improved confidence in the generalisability of the theories could be achieved by further testing against other sources such as focus groups of small business proprietors, and professional and industry bodies.

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## 1 Introduction

On 4 November 2005 the Federal Government announced that it had asked the Board of Taxation to undertake a scoping study of tax compliance costs facing the small business sector and to provide a final report to the Treasurer during the second half of 2006.

The Treasurer asked the Board to work closely with small business, particularly micro business, to identify the major areas where compliance costs might be reduced. The Board was asked to take into account:

- the purpose and object of the law;
- the relationship between taxpayer compliance costs and government administration costs;
- costs incurred by business for non-tax reasons and any additional costs incurred by businesses or their advisors for tax reasons (tax compliance costs);
- transitional costs and ongoing tax compliance costs;
- taxpayer circumstances and commercial practices;
- other legislation; and
- any other matters the Board considers materially impact on small business tax compliance costs.<sup>1</sup>

Concurrently, a Taskforce chaired by Mr Gary Banks was underway to identify practical options for alleviating the compliance burden on business from Government regulation. This taskforce was appointed in October 2005 to examine and report on areas where regulatory reform could provide significant immediate gains to business. Its report, entitled “Rethinking Regulation”, was delivered to the Government on 31 January 2006 and released to the public on 7 April 2006.

The report of the Banks Taskforce devotes a chapter to issues relating to financial regulation. The report makes a number of recommendations, some of which have already been adopted by the Government in its response to the report. A formal response to the report in which 158 of the 178 recommendations were adopted was released on 16 August 2006. As these recommendations have not yet been implemented, their impact has not been examined in this report.<sup>2</sup>

### 1.1 Submissions from the Public to the Board of Taxation

The Board of Taxation called for public submissions into its study on the compliance costs of small business, noting that individuals and organisations that made submissions to the Banks Taskforce did not need to make further submissions to the Board,<sup>3</sup> unless there were further issues to be raised.

A number of submissions were made directly to the Board of Taxation. The list of submissions is attached.<sup>4</sup> The submissions were made available to the researchers and

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<sup>1</sup> Treasurer’s Media Release No 095, dated 4 November 2005.

<sup>2</sup> Report of the Taskforce on Reducing Regulatory Burdens on Business - Final Government Response 15 August 2006 <http://www.treasury.gov.au/contentitem.asp?NavId=002&ContentID=1141>.

<sup>3</sup> These submissions are available at <http://www.regulationtaskforce.gov.au/submissions/index.html>.

<sup>4</sup> Refer Appendix 1.

were useful in developing the design of the research, including the formulation of themes to be explored and in the identification of industries of potential interest.

## **1.2 Tender Requirements**

The Board of Taxation called for tenders to undertake research to provide information relevant to the terms of reference of the review. The objective was to identify and describe small business compliance costs (with a particular emphasis on tax compliance costs) in qualitative terms and with outputs to be presented in matrix form.

The tender required the successful consultant to comprehensively identify sources of small business compliance costs, with a particular focus on tax compliance costs, and prepare a report for the Board of Taxation's Working Group. For the purposes of this study, compliance costs were defined as costs incurred by business specifically to fulfil regulatory and/or tax obligations, over and above costs that would otherwise be incurred by small business.

## **1.3 Definition of Small Business**

There are many possible definitions of small business and the exact meaning of the term may vary in different contexts, such as tax, labour relations and statistical reporting.<sup>5</sup> It was recognised that an explicit definition needed to be adopted in the scoping study to facilitate both a greater understanding of the effects of compliance costs on small business and comparative analysis to previous studies. Before reaching an appropriate definition to be adopted by the scoping study, consideration was given to the characteristics of small business in Australia.

Table 1 shows that some 91.4% of businesses in Australia have a turnover of less than \$1 million and 98.1% with less than \$5m, leaving only 57,554 businesses with a turnover greater than \$5 million.<sup>6</sup>

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<sup>5</sup> For example, the Australian Bureau of Statistics (ABS) *Business Demographics* section (and in particular the Director, John Blanchette) have assisted Atax in the past by preparing up-to-date data using the ABSBR (ABS Business Registry) data as it relates to BAS information.

<sup>6</sup> Warren, N, Payne G and H Hodgson, 2006, "Research and Recommendations on the Definition of Small Business" Report to ICAA.

**Table 1: Number of Small Businesses in Australia**

Turnover Ranges	<20 Employees			≥20 Employees			Number of Businesses		
	Number	% of total based on: Turnover range	% of total based on: Employees	Number	% of total based on: Turnover range	% of total based on: Employees	Number	% of Total	Cumulative Total
<\$25k	260,589	99.7%	9%	791	0.3%	1%	261,380	9%	8.7%
\$25-99k	1,252,715	99.9%	43%	1,426	0.1%	2%	1,254,141	42%	50.3%
\$100k-\$499k	1,031,900	99.0%	35%	9,433	1.0%	11%	1,041,333	35%	84.8%
\$500k-\$999k	188,287	94.0%	6%	11,895	6.0%	14%	200,182	7%	91.4%
\$1m-\$4.999m	164,525	82.0%	6%	36,203	18.0%	44%	200,728	7%	98.1%
\$5m-\$9.999m	13,007	56.0%	0%	10,042	44.0%	12%	23,049	1%	98.9%
\$10m - \$14.999m	16,080	81.0%	1%	3,876	19.0%	5%	19,956	1%	99.5%
\$15m - \$19.999m	1,111	35.0%	0%	2,084	65.0%	3%	3,195	0%	99.6%
>\$20m	4,530	40.0%	0%	6,824	60.0%	8%	11,354	0%	100.0%
Total	2,932,744	97.0%	100%	82,574	3.0%	100%	3,015,318	100%	

Initial briefings by staff of the Board of Taxation indicated that while the Board’s focus was on micro business issues, the Board did not wish to exclude other small businesses from the scoping study. Whilst compliance costs associated with employing staff were considered to be an important aspect of tax compliance costs, the Board of Taxation was also interested in identifying some of the compliance costs of those businesses without employees.

Based on these considerations, the definition of a small business as adopted in the scoping study was limited to those businesses with an annual turnover of \$5 million or less and with 20 or fewer equivalent full time employees. This definition accounts for 98% to 99% of businesses in Australia but, as suggested in Table 1, the majority of those included in this definition will have turnovers (well) under \$2 million and may be better described as micro businesses.

## 2 Literature Review

Research into the level and incidence of compliance costs (and the extent of under (or over) compliance) has increased over time as governments around the world have come under increasing criticism for the compliance burdens imposed on small business.<sup>7</sup> The cost of administering and complying with the tax law is a deadweight cost to the community that needs to be minimised on efficiency grounds.<sup>8</sup>

### 2.1 Defining Compliance Costs

The tender defined compliance costs as costs incurred by business specifically to fulfil regulatory and/or tax obligations, over and above costs that would otherwise be incurred by small business. This can be otherwise expressed, and expanded as follows:

“those costs incurred by taxpayers in meeting the requirements of the tax law.

These would include:

- taxpayers’ own labour, unpaid helper and internal staff costs;
- costs of external advisers; and
- incidental or overhead costs such as specific travel, stationery, postage, computer use etc.”<sup>9</sup>

### 2.2 Measuring Compliance Costs

Extensive literature exists on the measurement of compliance costs. There is considerable variation evident in the research methods employed and some aspects of measurement remain problematic. It needs to be borne in mind that the compliance cost literature is still a relatively new discipline and is continuing to evolve.

Generally, compliance costs fall into one of four categories:

- **Money or external costs** including amounts paid to external advisors or to internal staff engaged on compliance activities. There may be associated managerial benefits with these costs, so the issue of apportionment becomes relevant. For example a computer may be used primarily to prepare a Business Activity Statement (BAS), but is also used for invoicing or preparing cash flow reports.<sup>10</sup> Some studies use the net cost to reflect these benefits.
- **Time** spent personally (or by unpaid helpers) on compliance activities. The core problem in measuring this category of costs relates to the appropriate measure to place on time spent on compliance activities by the taxpayer.

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<sup>7</sup> Evans, C, 2003, “Studying the studies: An overview of recent research into taxation operating costs”, *eJournal of Tax Research*, Vol 1 No 1, pp.64-92.

<sup>8</sup> Oliver, T and S Bartley, 2005, “Tax System Complexity and Compliance Costs – Some Theoretical Considerations”.

[www.treasury.gov.au/documents/1009/PDF/05\\_Tax\\_Complexity\\_and\\_Compliance.pdf](http://www.treasury.gov.au/documents/1009/PDF/05_Tax_Complexity_and_Compliance.pdf).

<sup>9</sup> Evans, C, Ritchie, K, Tran-Nam, B and M Walpole, 1997, *A Report into Taxpayer Costs of Compliance*, Australian Taxation Office, Canberra at p 3.

<sup>10</sup> Lignier, P, 2006, “A Silver Lining in the Tax Compliance Cost Cloud? A Study of Managerial Benefits Arising from Tax Compliance in Small Business”, Conference Proceedings, 7th International Tax Administration Conference, Coogee April 2006.

- **Opportunity costs** or the cost of not undertaking certain activities as a result of the compliance costs associated with that activity. Again, this is difficult to quantify; and
- **Psychic or psychological costs** which has proved to be the most challenging area in terms of measurement. Firstly, there is a problem associated with establishing the extent of the costs in relation to a particular individual, the qualitative dimension, while the second issue is whether a monetary value can be ascertained and attributed to the costs.<sup>11</sup>

## 2.3 Key Prior Studies

Table 2 is a listing of the key Australian and New Zealand studies of compliance costs that were reviewed in the scoping study. The research method and key findings of each are identified. Further discussion follows on a number of these studies.

**Table 2: Key Australian and NZ Compliance Cost Studies**

Study	Research Method	Key Findings
Pope, Fayle & Duncanson (1990) <sup>12</sup>	Quantitative	Studied personal income tax compliance costs in the 1986/87 year and concluded that they were between 7.9% and 10.8% of the revenue yield.
Pope, Fayle & Chen (1991) <sup>13</sup>	Quantitative	The compliance costs of company income tax were found to be between 11.4% and 23.7% of revenue yield.
Wallschutzky and Gibson (1993) <sup>14</sup>	Qualitative	The compliance burden of a range of business taxes paid by small business was examined. With the exception of Wholesale Sales Tax, small business reported that the taxes were neither difficult to deal with nor time consuming.
Pope Fayle & Chen (1993) <sup>15</sup>	Quantitative	A study of employment related taxes on small business was examined. The compliance costs were around 1.7% of revenue for payroll tax and PAYE obligations. FBT compliance costs were considerably higher at 10.9% of revenue.

<sup>11</sup> Woellner, R, Coleman, C, McKerchar, M, Walpole, M and J Zetler, 2001, "Taxation or Vexation – Measuring the Psychological Costs of Tax Compliance" in Evans C, Pope J and J Hasseldine, "Tax Compliance Costs: A Festschrift for Cedric Sandford," Prospect Media, Sydney pp.35-50.

<sup>12</sup> Pope J, Fayle R and M Duncanson, 1990, The Compliance Costs of Personal Income Taxation in Australia 1986/87 ATRF.

<sup>13</sup> Pope J, Fayle R and D Chen, 1991, The Compliance Costs of Public Companies' Income Taxation in Australia ATRF.

<sup>14</sup> Wallschutzky, I and B Gibson, 1993, Small Business Cost of Tax Compliance *Australian Tax Forum*, Vol 10 No 4 pp.511-543.

<sup>15</sup> Pope J, Fayle R and D Chen, 1993, The Compliance Cost of Employment Related Taxation in Australia ATRF 1993.

Study	Research Method	Key Findings
Pope Fayle & Chen (1994) <sup>16</sup> :	Quantitative	Company income tax compliance costs were 14.5% of revenue yield and compliance costs were regressive in nature.
Evans, Ritchie, Tran-Nam & Walpole (1997) <sup>17</sup> :	Quantitative	Both personal and business taxes were studied. Net compliance costs were estimated at 7% of revenue. However, compliance costs were regressive with larger businesses experiencing net benefits.
Yellow Pages Small Business Index (1996) <sup>18</sup> :	Quantitative	This report, which was commissioned by the Small Business Deregulation Taskforce, chaired by Charlie Bell, found that small business spend about 16 hrs pw on financial matters, of which about 3 hrs pw is directly tax related.
Ritchie (2001) <sup>19</sup>	Qualitative	A New Zealand study of business taxpayers, based on a diary methodology, concluded that GST is the tax that is foremost in the minds of business, with income tax seen as a by-product of the GST data. Businesses with computerised systems required less work to prepare end of year accounts.
CPA Australia (2003) <sup>20</sup>	Quantitative	Compliance obligations of small business generally underwent little change between 2001 and 2003. However, those reporting changes tended to report an increase in obligations.
Glover & Tran-Nam (2005) <sup>21</sup>	Qualitative	Recurrent costs of complying with the GST were lower than the transitional cost, and could be expected to continue to decline over time. Psychic costs were noted to exist, but no attempt was made to measure the impact.
Evans, Carlon & Massey (2005) <sup>22</sup>	Mixed	Poor record-keeping by SMEs did not necessarily lead to a greater risk of audit, an increase in compliance costs or cash flow problems.

<sup>16</sup> Pope J, Fayle R and D Chen, 1994, The Compliance Costs of Companies Income Tax in Australia ATRF.

<sup>17</sup> Note 9.

<sup>18</sup> Yellow Pages Special Report – The Paperwork Burden 1996  
[http://about.sensis.com.au/resources/SBA-Archive/sba\\_cc.php](http://about.sensis.com.au/resources/SBA-Archive/sba_cc.php).

<sup>19</sup> Ritchie, K, 2001, “The Tax Compliance Costs of Small Business in New Zealand: in Tax Compliance Costs” in Evans, C Pope J and J Hasseldine, *Tax Compliance Costs: A Festschrift for Cedric Sandford*, Prospect Media, Sydney, pp.297-316.

<sup>20</sup> Carey, P, Simnett, R and G Tanewski, 2005, “Providing Business Advice for Small to Medium Enterprises”, CPA Australia.

<sup>21</sup> Glover, J and B Tran-Nam, 2005, “The GST recurrent compliance costs/benefits of small business in Australia: A case study approach”, *Journal of the Australian Tax Teachers Association*, Vol 1 No 2, pp.237-258.

Study	Research Method	Key Findings
Colmar Brunton (2005) <sup>23</sup>	Quantitative	Colmar Brunton conducted the research for the NZ Inland Revenue Dept. A survey methodology was adopted. It confirmed the regressive nature of tax compliance costs and that GST took more time than other taxes.
ACCI Pre Election Survey Series <sup>24</sup>	Quantitative	This series of surveys provides a ranking of the issues of most concern to business. It is useful in mapping trends, as the data are available from 1996 to 2001, based on a snapshot of business concerns in the months preceding the four Federal elections over this period. The frequency of changes to, and complexity of, taxation legislation consistently ranked as the most significant issue for business. However it is worth noting that the percentage of respondents expressing concern with taxation compliance costs has decreased from 78% in 1996 to 60% in 2004. <sup>25</sup>

Note that this list excludes studies specifically relating to the former wholesale sales tax (WST) and to the transitional costs of implementing the Goods and Services Tax (GST). It is also worth noting that most of these Australian studies reviewed periods prior to the introduction of A New Tax System (ANTS) in 2000, while at the time of the two New Zealand studies, a GST had been operative for some time.

It is well established in the literature that compliance costs are regressive in nature, ie when the costs are compared to the size of the business, the proportion increases.<sup>26</sup> This is to some extent explicable by the high proportion of fixed to variable costs experienced by business.<sup>27</sup>

Most of these studies employed quantitative research methods in attempting to establish the cost of compliance, or the time that taxpayers spent in complying with their taxation obligations. The use of quantitative (typically survey) methods to measure compliance costs does have inherent weaknesses and these are generally recognised (for example, in the measurement of psychological costs).

<sup>22</sup> Evans, C, Carlon, S and D Massey, 2005, "Record Keeping Practices and Tax Compliance of SMEs", *eJournal of Tax Research*, Vol 3 No 2, pp.288-334.

<sup>23</sup> Colmar Brunton, 2005, "Measuring the Tax Compliance Costs of Small and Medium Sized Businesses – a Benchmark Survey", Final Report prepared for NZ Inland Revenue, <http://www.taxpolicy.ird.govt.nz/news/archive.php?year=2005&view=383>.

<sup>24</sup> Australian Chamber of Commerce & Industry, Pre-Election Survey Series, 1996, 1998, 2001, 2004 <http://www.acci.asn.au/SurveyPreElection.htm>.

<sup>25</sup> These questions may not be directly comparable as the pre 2000 surveys refer to compliance costs, while the post 2000 surveys segregate BAS completion and other taxes. However the result for both categories in the later surveys are similar.

<sup>26</sup> Note 14; note 24.

<sup>27</sup> Note 16 at 59.

There are several studies included in the list of studies at Table 2 that employed qualitative research methods and these can provide different and deeper insights (for example, in identifying factors not previously considered by researchers, or in observing taxpayer behaviour rather than relying on self-reports). In particular:

- Wallschutzky and Gibson<sup>28</sup> and Ritchie (NZ)<sup>29</sup> used a diary methodology for the respondents to record their compliance activities;
- Glover and Tran-Nam<sup>30</sup> used a case study approach to identify compliance costs through a series of in depth interviews;
- Evans, Carlon and Massey<sup>31</sup> combined surveys with interviews in relation to the record keeping activities of small business.

In addition, Bickerdyke and Lattimore<sup>32</sup> examined the findings of several industry organisations in relation to compliance activities undertaken by their members and produced rankings of the degree of concern raised by various compliance activities, including taxation.

## 2.4 Process of Being Compliant

A review of the literature indicates that there are a number of strategies that small business employs to facilitate compliance with the relevant authorities. These strategies include:

- the brokerage of compliance functions to third parties, either internally through employing specialised staff, or to an external third party; and
- the implementation of computerised systems to assist with the record-keeping functions.

### 2.4.1 Brokerage of Compliance Obligations

It is well documented that Australians are highly reliant on external advisors in relation to their tax compliance obligations, with over 90% of business returns being lodged by tax agents since the late 1980s to date.<sup>33</sup> This compares with 80% of New Zealand business.<sup>34</sup> The process of preparing annual accounts and lodgement of income tax returns is regarded by many taxpayers as requiring the specialist knowledge and services of an accountant or registered tax agent.

The relationship between small business and their external advisors has been considered in a number of earlier studies. Wallschutzky and Gibson<sup>35</sup> suggested that the cost of

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<sup>28</sup> Note 14.

<sup>29</sup> Note 19.

<sup>30</sup> Note 21.

<sup>31</sup> Note 22.

<sup>32</sup> Bickerdyke, I and R Lattimore, 1999, "Reducing the Regulatory Burden: Does Firm Size Matter?", Staff Research Paper, Industry Commission, <http://www.pc.gov.au/ic/research/information/regburd/regburd.pdf>.

<sup>33</sup> Note 20 at p 3; McKerchar, Margaret, 2005, The Impact of Income Tax Complexity on Practitioners in Australia *Australian Tax Forum*, Vol 20 No 4 at p 532.

<sup>34</sup> Note 23 at p 9.

<sup>35</sup> Note 14 at p 534.



seeking formal advice from external advisors was a barrier to small business obtaining advice when necessary. There was also a perception that accountants were deficient in one or more areas in which small business required advice, or were excessively cautious when providing advice.<sup>36</sup>

Glover and Tran Nam reported that small business experienced higher fees paid to external advisers following the introduction of ANTS.<sup>37</sup> To put this finding in context, many of the businesses in that study would not have had obligations under the former WST system, while being required to lodge activity statements under ANTS. Respondents reported seeking minor advice from their accountant more frequently as it was not often practical to seek advice from the ATO. There was, however, a clear perception that accountants had used the changes in the system as a pretext to increase their fees.<sup>38</sup>

In a more recent study, Evans et al<sup>39</sup> discussed record keeping arrangements with the external advisers as well as with the small business respondents and found a clear perception gap between small business and advisers. Thirty one percent of the practitioners who responded to the survey reported that they were not confident of the accuracy of their clients' record keeping systems, although 80% considered the systems were adequate for tax purposes. This contrasts with the 95% of small business respondents who were confident that their records were accurate.<sup>40</sup>

Coupled with the reliance on external advisers, small business appears to be becoming increasingly reliant on the services of bookkeepers. Bookkeepers seem to be filling the gap between the specialised services of external accountants and the capabilities of small business proprietors. Wallschutzky and Gibson noted that generally small business did not have anyone within the firm who was formally trained in taxation matters.<sup>41</sup> The 1996 Yellow Pages survey<sup>42</sup> reported that 28% of small business used the services of an internal bookkeeper – whether employed full time, part time or on a casual basis. This proportion rose as the number of employees within the firm and the turnover of the firm increased. By 2006 Evans et al<sup>43</sup> reported that 76% of the financial records of small business were maintained in-house, with a further 9% using the services of an external bookkeeper.

## 2.4.2 Accounting Systems and Computerisation

The computerisation of business records is also seen as an important factor in compliance activity. The rate of computerisation of business records seems to have increased. Wallschutzky and Gibson noted that computerisation of accounting systems was likely to result in considerable cost savings if the systems were properly designed

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<sup>36</sup> Tan L M, 1999 “Taxpayers’ preference for type of advice from tax practitioner: A preliminary examination”, *Journal of Economic Psychology*, 20 431-447.

<sup>37</sup> Note 21 at 247.

<sup>38</sup> Supra at 247.

<sup>39</sup> Note 22.

<sup>40</sup> Supra at p 309.

<sup>41</sup> Note 14 at p 534.

<sup>42</sup> Note 18.

<sup>43</sup> Note 22 at p 321. Note that whether the records were maintained by the owner or an employee was not specified.

to meet the needs of the business.<sup>44</sup> Of the twelve businesses that participated in that study, seven were computerised to some extent. In the 1996 Yellow Pages survey, 58% of businesses reported using computerised accounting systems. Of those businesses that had computers, 75% used accounting software.

As part of the introduction of ANTS, businesses were encouraged to update their accounting systems through government subsidies for computer systems and software.<sup>45</sup> Interviewees' comments in the study by Glover and Tran Nam showed an increasing awareness of the use of computers in record keeping. However the computer related costs were estimated at only 4% of the compliance costs for those businesses. By 2006 Evans et al reported that 89% of businesses had at least partially computerised their record keeping systems.<sup>46</sup> However practitioners responding to the survey reported mixed views in relation to the benefits of computerisation to clients. While most practitioners advocated computerised systems, believing that they improved the accuracy of their clients' records, "a significant minority" believed that client errors limited the reliability of computerised records maintained by their clients.<sup>47</sup>

The previous Australian compliance cost studies show that Australian businesses are willing to engage external assistance in the maintenance of their financial records and to ensure compliance with their taxation obligations. As computers have become more integrated in the community generally, they have also become an integral part of how small business manage their record keeping obligations.

## **2.5 Employment Related Compliance Issues**

It is evident from the literature that there is a relationship between the number of employees that a business has and the overall compliance burden of that business. To some extent this can be explained by the scale of the business, which is likely to increase as the number of employees increases. However the qualitative studies show that there is a compliance burden imposed on businesses by virtue of the fact that they have employees. The NZ experience<sup>48</sup> suggests that tax compliance stress levels are higher where a business has employees.

### **2.5.1 Employment Related Taxes**

In the taxation context, compliance issues are evident in respect of payroll tax, PAYG withholding tax, superannuation guarantee levy and fringe benefits tax (FBT). The availability of small business thresholds effectively excludes most small business from the imposition of payroll tax. PAYG withholding tax has not been found to cause a significant compliance burden.<sup>49</sup> Small business has continually reported difficulties in complying with the superannuation guarantee requirements.<sup>50</sup> Wallschutzky and

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<sup>44</sup> Wallschutzky, I and B Gibson, 1993, "Small Business Cost of Compliance Project: Final Report" May 1993 (unpublished) at p 21.

<sup>45</sup> Eligible small businesses and not for profit organisations were entitled to a \$500 voucher that could be exchanged for computer software or hardware that was compliant with ANTS.

<sup>46</sup> Note 22 at p 320.

<sup>47</sup> Supra at p 313.

<sup>48</sup> Note 23 at p 102.

<sup>49</sup> Note 23 at 77, 14 at 130.

<sup>50</sup> It is arguable that the superannuation guarantee is not in fact a tax, however it is administered by the ATO and is regarded by small business as a statutory impost.

Gibson reported that in the first year after the introduction of the superannuation levy business found its calculation and payment to be complex. This was not merely an implementation issue, as demonstrated by the data from the ACCI series of pre-election surveys which continually rank compliance with the superannuation guarantee levy as among its highest concerns. Based on these surveys, the percentage of respondents concerned about the impact of the superannuation guarantee had in fact increased from 68.5% in 1996 to 73% in 2004.

The ACCI survey includes attitudes to FBT, however there is evidence that small business does not have the same level of concern in relation to FBT as does larger business.<sup>51</sup> The published data are only disaggregated in the 2001 year, where small business ranks FBT as 33 on the list of concerns, while the overall ranking is 20. Similarly Bickerdyke (1997)<sup>52</sup> disaggregated the 1996 data to find that business with fewer than 20 employees ranked FBT at 5, while businesses with between 10 and 1000 employees ranked FBT as its major concern.

Reports and surveys have consistently recommended that the FBT year be aligned with the income tax year.<sup>53</sup>

### **2.5.2 Other Employment Related Obligations**

There are many other non taxation compliance obligations that arise as a result of having employees. The ACCI series encompasses some of these employment related issues. The following employment related issues have been identified as being of concern to employers over the series of surveys:

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<sup>51</sup> Note 24, 2001 survey.

<sup>52</sup> Note 32.

<sup>53</sup> See for example note 14 at 538, Bell (Chair) 1996 Time For Business: Report of the Small Business Deregulation Taskforce [www.daf.gov.au/reports/time\\_for\\_business.pdf](http://www.daf.gov.au/reports/time_for_business.pdf).

**Table 3: Issues of Concern to Small Business: ACCI Survey Series**

	<b>1996</b>	<b>1998</b>	<b>2001</b>	<b>2004</b>
	<b>% (ranking)</b>	<b>% (ranking)</b>	<b>% (ranking<sup>54</sup>)</b>	<b>% (ranking<sup>55</sup>)</b>
Unfair Dismissals	72.1% (8)	70.7% (7)	73.6%(5)	73%
Workers' compensation	67.6% (15)	69.5% (12)	67.9%(10)	77%
Award regulations	56.8% (28)	59.6% (35)	55.3% (34)	47%
OH&S obligations	55.4% (30)	61.4% (28)	64.8%(21)	n/a
Superannuation Guarantee	68.5% (11)	67.5% (16)	66.0% (6)	73%
Compliance with GST / Sales Tax	59.0% (23)	58.8% (39)	64.5% (12)	57%
Time to complete BAS	n/a	n/a	63.1% (18)	60%
Compliance with other taxes	78.1% (2)	77.7 (3)	58.8% (30)	49% - 53%
Fringe Benefits Tax	76.8 (3)	70.5% (9)	62.2% (33)	68%

Clearly, these additional compliance activities are seen as being at least as onerous as the related taxation obligations. It is particularly interesting to note the increasing level of concern in relation to workers' compensation and superannuation guarantee issues.

Various tax compliance costs have been included in the above table as a basis of comparison. However it is noted that there seems to be a drop in the overall level of concern over tax compliance cost following the ANTS reforms in spite of the fact that more businesses were required to comply with the BAS and GST than with the former WST system. While GST and BAS concerns were higher in 2001 immediately following the introduction of ANTS, this declined between 2001 and 2004. The level of general compliance concern appears to have dropped following ANTS. However the change in the questions resulting from the change in the tax system does limit direct comparisons.

### **2.5.3 Multiple Levels of Compliance Obligations**

There is an additional level of tax complexity added through the federal system of government that exists in Australia. Constitutionally, responsibility for different aspects of governance rests in the three levels of government. For practical purposes, most taxes, including income tax and GST are administered by the Federal government; land tax and employment issues are administered by the relevant state government, and planning issues are administered locally. This leads to business dealing with multiple

<sup>54</sup> The rankings in relation to small business were published separately from the index which has not disaggregated small business from large business.

<sup>55</sup> Note that rankings were not published in the 2004 report.

bureaucracies and working with varying criteria in relation to their compliance obligations.

The development of the European Union (EU) has required government in European countries to address similar issues. In addition to the requirements imposed by the EU, business in Europe is also required to deal with the national government, and in many countries also with a more local level of government. Sweden,<sup>56</sup> Holland<sup>57</sup> and Germany<sup>58</sup> are all implementing programs to reduce compliance cost for business. This is being addressed by reviewing compliance costs at the national level, and trying to synchronise requirements with the EU requirements.

#### 2.5.4 Attitudes Towards Compliance

People's willingness to pay tax requires a positive attitude towards tax compliance and working with the tax authority.<sup>59</sup> There is considerable evidence in the compliance literature to support the existence of this relationship in spite of its nature not being fully understood. Taxpayer compliance behaviour is a complex, dynamic and multi-faceted phenomenon and subject to many influences – of which taxpayer attitude is but one. However, it is an important influence for two reasons. Firstly, tax evasion has been found to increase where taxpayer attitudes worsen,<sup>60</sup> and secondly, there has been a growing global trend for tax regimes (including Australia) to rely on self assessment which in turn requires high levels of voluntary compliance to be achieved.<sup>61</sup> It is also relevant to bear in mind that attitudes may be based on myth and misperception, that they are not simple to change nor can they be changed effectively in the short-term.<sup>62</sup>

Based on the literature, factors such as culture, personal economic considerations, tax ethics, the general level of taxation, the level of tax knowledge, the perceived equity (or inequity) of taxation and the features of the tax system itself have been found to influence taxpayers' attitudes.<sup>63</sup> Further, a more recent Australian study has found that taxpayer attitude was one of four key drivers in compliance (and non-compliance behaviours) in that it influences the taxpayer's intent. This study found that dissatisfaction with ATO services had a negative influence on taxpayers' intent to

<sup>56</sup> Munnich, M, "The Regulatory Burden and Administrative Compliance Costs for Companies" A Survey by the Confederation of Swedish Enterprise, Brussels Office: [sn.svensktnaringsliv.se/.../Publikationerview/5739DEDFCF225E39C1256EDF005CC324/\\$File/PUB200407-007-1.pdf](http://sn.svensktnaringsliv.se/.../Publikationerview/5739DEDFCF225E39C1256EDF005CC324/$File/PUB200407-007-1.pdf).

<sup>57</sup> Netherlands Ministry of Finance: Reducing Red Tape for Business [http://www.compliancecosts.com/default.asp?CMS\\_ITEM=1FB1E52BE6E74675B3C6AC5F1A6F01A5X1X40260X07](http://www.compliancecosts.com/default.asp?CMS_ITEM=1FB1E52BE6E74675B3C6AC5F1A6F01A5X1X40260X07) 21/8/2006.

<sup>58</sup> Lohmann, B, 2006, "Domestic Government in the Netherlands and Germany: Towards a Comparative European Perspective A Living European Constitution?" Speech, 25/06/2006 [http://www.staat-modern.de/Presse/Reden-,10037.850258/Domestic-Government-in-the-Net.htm?global.back=/Presse/-%2c10037%2c0/Reden.htm%3fmlink%3dsmo\\_liste](http://www.staat-modern.de/Presse/Reden-,10037.850258/Domestic-Government-in-the-Net.htm?global.back=/Presse/-%2c10037%2c0/Reden.htm%3fmlink%3dsmo_liste).

<sup>59</sup> For example, Schmolders, G, 1970, "Survey Research in Public Finance – A Behavioural Approach to Fiscal Theory" *Public Finance*, Vol. 25 No. 2 pp.300-306.

<sup>60</sup> Lewis, A, 1982, *The Psychology of Taxation*, St Martin's press, New York.

<sup>61</sup> Loo, E, McKerchar M and A Hansford, 2005, "An international comparative analysis of self assessment: what lessons are there for tax administrators?" *Australian Tax Forum*, Vol. 20 No. 4, pp. 667-708.

<sup>62</sup> Note 59 at note 1.

<sup>63</sup> Dean, P, Keenan, T and F Kenney, 1980, "Taxpayers' Attitudes to Income Tax Evasion: An Empirical Study", *British Tax Review*, Vol. 1 pp.28-44.

comply.<sup>64</sup> Whilst intent to comply may not be reflected in the ultimate behaviour exhibited by the taxpayer, it is nevertheless a powerful indicator.

Thus in undertaking the scoping study, it was considered that understanding the interviewees' attitudes towards tax and the extent to which their attitudes had been influenced by their compliance activities was important.

## **2.6 Summary of Key Findings from the Literature**

The literature review identified a number of key findings that will subsequently be compared to the findings of the scoping study. These are:

- Compliance costs are regressive in nature;
- Business is willing to engage third party support to assist with their compliance obligations;
- Computers are becoming an integral part of business management, including record-keeping;
- Employers experience more stress in complying than other businesses that do not employ staff, and this is regressive in its effect;
- Employment related issues extend beyond taxation compliance to other employment related laws including workers' compensation, identification of contractors and appropriate award rates;
- Inconsistency between obligations imposed by different authorities, and multiple reporting obligations increase the compliance obligations of small business;
- The attitude of the proprietor towards tax will impact on their attitude towards taxation and the psychological compliance cost incurred.

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<sup>64</sup> Niemiowski, P, Baldwin, s and A Wearing, 2003, "Tax Related Behaviours, Beliefs, Attitudes and Values and Taxpayer Compliance in Australia", *Journal of Australian Taxation*, Vol. 6 No. 1 pp. 132-163.

### 3 Research Design

This section of the report includes an explanation of the research approach and design used in the scoping study.

#### 3.1 Research Approach

Under the terms of the contract, the scoping study was required to use a qualitative strategy of inquiry. At the outset, it is important to understand the nature of the knowledge claims that can be derived from qualitative research and how they differ from those derived from quantitative research.<sup>65</sup> Quantitative research is based on the assumption of positivism or postpositivism – that the researcher, employing scientific method, can be ‘positive’ about the claims of knowledge when studying the behaviour and action of humans. In practice, such research is directed at examining causal relationships in a reductionist manner – that is, the intent is to reduce the ideas into small discrete sets of ideas that can be empirically tested in accordance with standards of validity and reliability. The accepted approach in this type of research is to begin with a theory, collect data that either supports or refutes the theory, and then make necessary revisions before conducting additional tests. Quantitative research allows knowledge claims in the nature of statistical generalisations to be made about broader populations.

Traditionally, quantitative research has dominated claims about knowledge. However, from the 1960s onwards other perspectives have emerged, including qualitative research, which are generally accepted as providing a richer understanding of human behaviour. The knowledge claims of qualitative research are socially constructed. That is, the researcher does not begin with a theory, but inductively builds a theory based on the understanding or meanings of those being studied. Open ended questions are asked of interviewees and the researcher listens to what people say or do in their own setting.

Theories can be compared to other sources of data and then further refined in order to improve confidence in the overall findings. This process of comparing findings of one study with those of others is referred to as cumulative validation<sup>66</sup> and is commonly used by researchers to validate the findings of qualitative studies and to extend the breadth of population to which the knowledge claims could apply. Knowledge claims are made in the form of analytical, not statistical, generalisations. Depending on the level of validation achieved, analytical generalisations are normally limited to the population from which the substantive theory has been derived. Qualitative research recognises that phenomena are complex and that their meanings are not easily fathomed or just taken for granted.<sup>67</sup> Its main contribution is that it does allow the nature of a problem to be better understood and thereby facilitating the development of appropriate guides to action.

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<sup>65</sup> For further discussion on the merits of the various research approaches and strategies of inquiry see for example Creswell, J, 2003, *Research Design*, 2<sup>nd</sup> edn, Sage, Thousand Oaks CA.

<sup>66</sup> Sarantakos, S, 2006, *Social research* 3<sup>rd</sup> edn, Palgrave, Macmillan, Basingstoke UK p.86.

<sup>67</sup> Strauss, A and J Corbin, 1998, *Basics of Qualitative Research*, 2<sup>nd</sup> edn, Sage, Thousand Oaks CA.

There are a variety of strategies of inquiry associated with qualitative research, including ethnographies, case studies, phenomenological research, narrative research and grounded theory. Each strategy of inquiry has its own features and thereby research problems to which it is more suited. A grounded theory strategy was selected as the most appropriate for this research problem. In grounded theory, the theory derived by the researcher is 'grounded' in the views and observations of the interviewees in the study. This process involves using multiples stages of data collection and the ongoing refinement of information and the theories derived. Grounded theories, because they are drawn from data, are likely to offer insight, enhance understanding and provide a meaningful guide to action.<sup>68</sup>

Creswell identifies the two primary characteristics of grounded theory as the constant comparison of data with emerging categories and the theoretical sampling of different groups to maximise the similarities and differences of information.<sup>69</sup> Data analysis requires both critical and creative thinking, and procedures (such as themes lists and the conceptual organisation of data), that help provide some standardization and rigor to the process.

The normal process in grounded theory is to code data in a developmental fashion. That is, open or 'first run' coding is usually done in the first instance to expose the differences and similarities between actions, events and interactions. The next stage is axial coding whereby the initial codes are scrutinized to ensure that each is fully elaborated and delineated. The final stage is selective coding by which all categories are unified around a 'core' category allowing a higher level of generality. This developmental process of coding allows the researcher to refine the data collected and its meaning in order to work 'out the plot of the story to be told'.<sup>70</sup> This notion of a descriptive narrative about a central phenomenon is the essence of qualitative research.<sup>71</sup>

### 3.2 Research Design

Using grounded theory as the appropriate strategy of inquiry, the research design was formulated.<sup>72</sup> Based on a theme list (Attachment 1), data was collected by conducting in depth interviews and observations with 30 small business owners. The interviews were conducted by the three researchers themselves in the business premises of the interviewee (as far as practical) using convenience sampling.<sup>73</sup> The shortcomings of

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<sup>68</sup> Ibid p 12.

<sup>69</sup> See note 65 p 14.

<sup>70</sup> Liamputtong, P and D Ezzy, 2005, *Qualitative Research Methods*, 2<sup>nd</sup> edn, Oxford, Melbourne, p 269.

<sup>71</sup> See note 67 p 148.

<sup>72</sup> The research design outlined in this section is in accordance with the details as previously provided in the tender document and as approved by the UNSW Human Research Ethics Committee (HREC) (06.2.083).

<sup>73</sup> Interviews 1-27 were conducted in person, as were the interviews with the three accountants. Interviews 28-30 were conducted by telephone given the location of the interviewee at the time (e.g. interstate, regional NSW).



convenience sampling were recognised, but given the time constraints<sup>74</sup> and the qualitative nature of the research, they were regarded as unavoidable (but not critical).<sup>75</sup>

The researchers collaboratively, and after consideration of the submissions received by the Board of Taxation, identified a range of industry groups<sup>76</sup> of interest and then made direct approaches to small business operators within these groups based on purposive convenience (such as proximity of location to the researcher at the time and the availability of the owner) until the target number of interviews were completed. Some interviewees were known to the researchers, but not in any professional sense in that there was no prior knowledge of the business owner's views on the research topic. Obviously, the more systematic and widespread the theoretical sampling, the more conditions and variations that would be discovered and built into the theory and thereby improve its precision.<sup>77</sup> Interviewees were drawn from both regional and metropolitan areas, though primarily from NSW.

In-depth interviews can be time consuming and do require sensitivity on the part of the researcher. A focus group would have been an alternative means for data collection, but it may have meant that individuals' responses may have been influenced by the direct presence of their peers. Each interview took 90 minutes on average to conduct. The use of the theme list guided the interviewer and improved the internal consistency of the data collection process. Throughout the conduct of interviews and the construct of theory, the three researchers worked closely together.

As a separate exercise, in-depth interviews were conducted with four accountants in accordance with the same theme guide. Seeking the views of accountants was important given the high reliance small business taxpayers have on tax agents in complying with tax laws. These interviews were expected to provide a separate data source that could be used to test theories that emerged from the business interviewees. Additional sources to be used for the ongoing refinement of theories would include submissions to the Board of Taxation; ATO reports; consultation with the Board of Taxation and a review of the broader literature on compliance costs both in Australia and overseas (including OECD).

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<sup>74</sup> There was effectively only a fortnight available in which to conduct the interviews.

<sup>75</sup> Even in quantitative research, there is the issue of non-response bias and the extent to which findings can be generalised.

<sup>76</sup> The broad industry groups initially identified were: building and construction; not-for-profits; agriculture; services; food retail; other retail; and motor trades.

<sup>77</sup> See note 67 at p 267.

## **4 Theory Construct**

Theory construct takes place over a number of stages. In its preliminary stage, areas of interest are identified from the data collected. These areas are then used as the basis for further data refinement and the construct of theories for subsequent testing.

### **4.1 Preliminary Stage**

The researchers' records of interviews were initially open coded and then reconfigured using axial or pattern coding<sup>78</sup> to provide more meaningful units of analysis. These units were then presented in draft form as conceptually ordered matrices for consideration by the Board of Taxation at its meeting of 21 July 2006. This interim report included eight matrices or tables<sup>79</sup> and identified seventeen areas of interest to be explored more deeply in terms of developing and validating grounded theories.

Tables A1 to A7 in Attachment 3 present the data collected from the thirty small business interviewees, with Table A8 summarising the data collected from the interviews with three accountants. Some brief descriptive comments follow in this section based on the tables.

#### **4.1.1 Characteristics of the Businesses (A1)**

The thirty businesses examined had a diversity of characteristics including location, turnover and business structure. Two franchise businesses were included and three not-for-profits. Many businesses were run as family concerns (typically husband and wife) and did employ others in varying capacities. A number of proprietors interviewed had self managed superannuation funds (SMSF). Whilst the majority of interviewees were male aged between 40 and 50 years, there was diversity evident in both the gender and age group of interviewees. Two interviewees were from non-English speaking backgrounds (NESB) and another was a new migrant to Australia. Most of the businesses under consideration were registered for the purposes of the goods and services tax (GST) and made taxable supplies.

#### **4.1.2 Bookkeeping Practices (A2)**

A number of features regarding the more general bookkeeping practices of the businesses examined were evident. Firstly, based on the type of bookkeeping system in place, the businesses examined appeared to fall into one of four groups. Half of the businesses interviewed appeared to have computerised accounting systems that were central to their business operations. That is, the computerised systems were the primary source of data capture and were normally updated at least on a daily basis. Five businesses interviewed collected data manually (for example, hand written invoices)

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<sup>78</sup> Miles, M and A Huberman, 1994, *Qualitative Data Analysis*, 2<sup>nd</sup> edn, Sage, Thousand Oaks, p.69.

<sup>79</sup> Summary tables (or matrices) 1-7 related to the 30 small business interviewees, summary table 8 was based on interviews with three accountants.

and then input the data into a computerised system less regularly (varying from every other day to once a quarter). Nine businesses interviewed operated only a manual bookkeeping system. One business had yet to establish any bookkeeping system. Of the business owners using manual systems, the business had been in operation between 5 and 25 years with turnovers between \$100,000 and \$1.4 million reported. The owners themselves were between 30+ years and 60+ years. That is, it did not appear that any one of these factors alone determined the bookkeeping practices of the businesses under consideration.

Franchisees had software provided by the franchisor. Some businesses used industry-specific software. Software used was generally commercial products rather than that available from the Australian Taxation Office (ATO). Business owners appeared to have varying levels of expertise in respect of computerised accounting systems.

Another feature regarding bookkeeping practices was the party who performed the function. Half of the business owners interviewed undertook the bookkeeping function themselves, spending from 3 hours a month to 2 days a week on this activity. Eight businesses reported that the books were maintained (either partially or fully) by an external bookkeeper. Five businesses reported that the books were kept by a family member and a further five businesses relied on internal staff to perform the bookkeeping function.

### **4.1.3 BAS Practices and Income Tax Return Preparation (A3)**

In Table A3 the interviewees bookkeeping practices in relation to the completion of the BAS and other returns are delineated. In respect of BAS, 15 of the businesses interviewed relied upon an external accountant to complete their BAS, and 2 used an external bookkeeper. Only 4 of the business owners interviewed completed the BAS themselves. With one exception, businesses used cash accounting for GST. Most businesses lodged their BAS quarterly and paid between \$100 - \$1000 per quarter for this service (of the fees reported, the average was over \$500). The variation in fee did not appear to be related directly to turnover but was more a reflection of the nature of the business.

A number of businesses reported that the completion of the BAS was incidental to their normal bookkeeping activities, while others reported that it took up to an additional one day per week (in this case, monthly BAS were lodged). Those businesses that completed their BAS themselves and reported that the time taken was minor (1 hour per quarter) or incidental were generally those that had computer accounting systems that were central to how they conducted their business (such as the franchisees; preschool, picture framer).

All businesses (other than the personal trainer who was yet to lodge any returns) relied upon an external accountant to prepare their income tax returns. End of year accounts were commonly prepared, but not audited. Accounting fees disclosed ranged from \$300 to \$25,000 per annum.

#### **4.1.4 Staff Related Issues (A4)**

Table A4 provides a summary of the nature and extent of employee- related issues that gave rise to compliance costs. In respect of fringe benefits, only one of the businesses interviewed provided fringe benefits for employees other than themselves, with two companies providing fringe benefits for their owner/directors. Some business owners were unsure whether or not they paid fringe benefits tax, one other noted that although benefits were provided, they were neither reported for tax purposes nor the appropriate records maintained. It was apparent that deliberate decisions had been made (for example, having the business reimburse the owner for business travel costs incurred) by many businesses not to have to engage with the compliance requirements of fringe benefits tax. One (of the two) small business that did provide and report taxable fringe benefits found that the lack of alignment in reporting years gave rise to additional compliance costs in terms of recordkeeping.

WorkCover/workers' compensation was commonly raised as an issue by businesses that had employees. In particular, difficulties arose with the definitions (of an employee), calculations (forward projections) and payment (amount and timing).

Having employees, and particularly where more than one award rate applied, affected the compliance costs of the small business operators interviewed. Further, there was often a degree of uncertainty over the employment status of workers (employee or contractor?). This uncertainty had a follow on effect in respect of any liability for superannuation. Having to make payments to a number of funds (and having small payments accepted by same) was also a concern.

#### **4.1.5 Compliance with Other Regulations (A5)**

There was considerable evidence of the compliance burden imposed on small business by government at the federal, state and local level. The extent to which the burden was 'problematic' varied, and appeared to vary with the nature of the industry and whether or not a licence was required in order to operate. For example, agriculturists reported quite extensive compliance requirements including pesticide usage, animal safety, and environmental controls – most of which were state requirements. The preschool interviewed had to comply with the licensing requirements of the Dept of Community Services (DOCS). Those in the building and related industries had to comply with local council requirements (such as development applications; noise levels) which varied from locality to locality and were subject to change. The real estate agent had to lodge an annual return with the Dept of Fair Trading regarding the trust account. The viticulturist interviewed also had a range of compliance obligations unique to that industry (such as wine equalisation tax (WET)).

Where businesses had incorporated, there was a need to comply with the ASIC requirements – but this was effectively done by the accountant. Other than the farmer being required to provide data to the ABS, most of the other compliance requirements arose at the state and local level. These regulations affected the day to day operations of the business – the owners appeared to have a good understanding of the compliance requirements and handled them themselves rather than relying on an accountant or third party.

Compliance with occupational health and safety legislation was commonly not regarded as a concern – whether or not there were employees. Most businesses were mindful of the need to have a safe workplace, but few ensured that they were fully compliant. Those who were more aware of the OH&S requirements (such as the builder #25) reported that many of the rules were ridiculous, inflexible and unmanageable for small business.

#### **4.1.6 Compliance Costs (A6)**

Table A6 presents the three most costly compliance activities as identified by each of the businesses interviewed. It also identifies the nature of the cost and provides general related comments made by the interviewees. Businesses tend to refer to BAS and GST as meaning the same activity- and as such, it tended to dominate as the most costly compliance activity. Superannuation – both SMSF and for staff (where choice of funds was available), was also a costly compliance activity. The apportionment of business and private expenses for tax purposes was also mentioned. It was apparent from many of the additional comments made that many business owners regarded tax compliance as a ‘nuisance’ and time consuming. They would prefer to be running their business.

Businesses that had well integrated accounting systems (such as the preschool, real estate agent, meat wholesaler, picture framer and post office franchisee) generally did not rate GST or BAS as being an onerous task. Where compliance costs were reported, they were generally in the nature of time, monetary and stress in various combinations and levels of concern.

#### **4.1.7 Incidental Costs and Benefits of Compliance Activities (A7)**

Table A7 presents the incidental costs and benefits of tax compliance as identified by the small businesses interviewed. A number of comments were collected in respect of cashflow and these are delineated in the table. Other comments related to the general theme of incidental costs and benefits are also presented.

For a number of small businesses, the completion of a BAS each quarter did provide a good ‘snapshot’ of how the business was going. Some felt that the BAS forced them to be more disciplined in their reconciliations and did make end-of-year easier. However, others felt that they already had good systems in place and that the BAS did not make any positive contribution to the business (other than the two businesses making mostly GST free supplies who both commented on the positive impact on cashflow).

#### **4.1.8 Interviews with Accountants (A8)**

Interviews were conducted with three accountants and their comments are presented clustered on a range of issues including the bookkeeping practices of their clients, simplified tax system (STS), FBT, BAS, GST, superannuation and incidental costs and benefits of tax compliance. As previously noted, Table A8 does not in the first instance form part of the grounded theory analysis of the views of small business, but does provide a point of comparative analysis for the later stages of theory refinement.

#### 4.1.9 Identification of Areas of Interest

From a review of tables A1-A7, seventeen areas of interest were identified for discussion with the Board of Taxation at its meeting 21 July 2006 and are listed below.

1. Most business owners interviewed relied upon external or internal bookkeepers, external accountants and/or their spouses to undertake their tax compliance obligations for them – that is, compliance, to a large extent, was brokered. This brokerage appears to be a coping mechanism. Where brokerage gave rise to additional monetary costs, businesses owners regarded this as money well spent. It was also apparent that in many cases the brokerage was provided as a favour on account of a family or friendly relationship, thus the monetary cost of compliance was not at ‘market’ rate. The reasons for brokerage varied from time constraints and being otherwise occupied running the business (time and opportunity cost) to feelings of uncertainty and/or inadequacy (psychological cost).
2. Businesses that felt comparatively less stressed about tax compliance were those that expressed trust in their accountant; or in the adequacy of their own reporting systems. The owner’s attitude towards the accountant and to bookkeeping practices would appear to affect the psychological cost of compliance.
3. Business owners who felt that their tax compliance activities were a ‘nuisance’ rather than a stressful activity were more likely to be those who did not have employees, a SMSF, cashflow constraints or profitability concerns.
4. Age, gender or turnover did not appear to be related to the reporting of stress.
5. Compliance costs appeared to be higher where businesses supplied goods or services interstate (or overseas).
6. Businesses that had set up post GST, and who were engaged with the tax system, appeared to be less stressed by their tax compliance obligations than were their pre-GST counterparts.
7. Businesses that managed their own superannuation funds (SMSF) found the related compliance requirements difficult. Otherwise, choice of business structure did not appear to be a driver of compliance costs (at least not in terms of stress or time).
8. Small business did not appear to have compliance cost issues in respect of FBT. It appeared that, as a coping mechanism, they actively managed their affairs in order not to have to deal with the compliance costs of this regime.
9. Uncertainty of the differentiation between an employee and a contractor for tax, superannuation, WorkCover and workers’ compensation insurance purposes was a common theme and a clear driver of compliance costs (and of the costs associated with overcompliance) and a deterrent to employing workers (and apprentices).

10. Uncertainty as to correct awards and rates caused stress (and took too much time to resolve with certainty) where businesses employed staff. Many businesses coped with this compliance cost by paying over the award.
11. The calculation of WorkCover charges was difficult and required future predictions to be made.
12. There was some resentment evident in respect of the payment of workers' compensation insurance. It was regarded as expensive. It was also felt that its administration could be improved (in relation to 9 above and also in respect of the calculations required).
13. Employees having a choice of superannuation fund caused additional compliance costs (to the employer).
14. Having to pay small amounts to superannuation funds (in the case of casual employees) and having to make superannuation payments on time caused additional compliance costs (time and stress).
15. The need to comply with OH&S laws (and many other non-tax regulations) was acknowledged, but compliance was not a priority.
16. Different industries appeared to have different issues in terms of regulations (other than tax and those related to employment issues) that imposed a compliance cost burden. Agriculture and industries with licensing requirements (such as hotel, preschool) appeared to be the most affected in this regard.
17. The most widely held view was that tax compliance activities did not give rise to incidental benefits to small business (in that they felt they monitored business performance anyway), other than perhaps to make the preparation on the annual income tax return easier (not a benefit as such, but more so a reallocation of time spent).

This interim report was discussed with the Board of Taxation at its meeting on 21 July 2006. At that meeting it was felt that further consultation would be required with small business representative bodies, as well as with industry bodies. If possible, consultation would take place with ATO small business consultative groups prior to the finalisation of the scoping study. Wider consultation (for example, with industry bodies) would best be conducted following the presentation of the final report.

## **4.2 Refined Stage**

In accordance with grounded theory and matrix analysis, the seven matrices based on the interviews with small business proprietors were then refined into one matrix around five themes with the focus being on the drivers of compliance costs and understanding the causal relationships. This matrix is presented as Table 4, commencing on the next page of this report. The five themes, as listed below, represent a refinement of the seventeen areas of interest previously identified.

1. Compliance costs driven by how obligations are met (practices).
2. Compliance costs driven by industry issues (inherent).
3. Compliance costs driven by having staff.
4. Compliance costs driven by non-tax obligations.
5. Perceptions and attitudes of small business operators.



**Table 4: Matrix of Small Business Compliance Costs and Issues**

BUSINESS	PROCESSES	PRACTICES	STAFF	OTHER REGS	ATTITUDES
1 NFP (preschool)	Integrated; computerised; BAS by internal staff; incidental time; ext ACC; TO \$200K	NFP Church agency; pre-GST; licence required; GST free supplies	No packaging; pay award; external agency manages payroll & super	DOCS; OH&S - more important than tax	Cautious, pragmatic; maintaining licence and limiting liability of greater concern than tax compliance - not concerned
2 Services (PR)	Manual; BAS by owners 9hrs/Q; ext ACC; TO \$500K	Family company; pre GST; SMSF; small client base; taxable supplies; BAS forces them to look at books at least quarterly	H & W only; FBT issues with parking, travel & reporting period	SMSF (complex)	Uncertain; nervous; waste of billable hrs; time; money spent on tax compliance main concern
3 Motor trades (mechanic)	Computerised; integrated; industry specific software; weekly reports; BAS by ext BK; 2 days/wk by owner; TO \$700K	Family company; pre GST; taxable supplies; falling profit margins and cashflow issues since GST	Pay award; no reporting of FB; black money; admin fee for choice of superfund	Licensing; OH&S (unworkable regulations)	GST an issue, but falling profit margins a greater concern; too many regulations
4 Food (bakery)	computerised; integrated; franchisor software; weekly reports; BAS by owner 1 day/Q; ext ACC	Family company; franchise; post GST; mixed supplies; reporting cycle dictated by franchisor	Pay award; red tape with apprentices; single superfund	Workers' comp (form difficult to understand & cost)	Tax compliance takes more time, but is less of a concern than workers' comp
5 Services (hotel)	Computerised; integrated; daily reports; ext BK; BAS by ext ACC but not satisfied; TO \$2M	Partnership; post GST; stock control; taxable supplies; reporting cycle needed for management purposes and bank	In house payroll; casuals on award; full time staff on contracts; superfund of choice OK	Licensing requirements; OH&S (too hard); local council (DA process unpredictable)	Resents being unpaid tax collector but accepts the reality; licensing and planning issues a greater concern than tax compliance
6 Construction (carpenter)	Manual; BAS by spouse using ATO software 2days/Q; ext ACC	Sole trader; post GST; work mainly for the one client; taxable supplies; little monitoring of business but probably easier to do books quarterly	One apprentice - externally managed	Doesn't bother with OH&S	Tax compliance takes spouse time, but is simple

	BUSINESS	PROCESSES	PRACTICES	STAFF	OTHER REGS	ATTITUDES
7	Services (personal trainer)	No system; TO \$50K	Sole trader; new migrant; new business; business name not registered; not registered for GST	Nil	Unaware	Confused; mild stress; doesn't want to know about any compliance requirements
8	Services (real estate)	Computerised; integrated; industry specific software; 2 ext BKs; BAS by ext BK; daily reporting; relies on ACC positive relationship; TO \$1M	Trust; post GST; internal control of trust account and rent rolls important; regular reporting necessary to monitor cashflow position	In house payroll; cars provided but staff pay personal costs so no FBT	Dept of Fair Trading (reporting on trust account; rent rolls); OH&S; CPD required by staff for professional indemnity insurance	The cost of running business a greater concern than the cost of tax compliance
9	Services (barrister)	Combination; not integrated; spasmodic receipts; monthly reports; BAS checked by ext ACC \$500/Q; TO \$300K	Sole trader, chambers run by company; pre GST; rural based -extensive WR travel receipts, logbook & paperwork; BAS makes preparation of annual tax return easier, but doesn't add anything to the business	One employee (not trained as BK); wages done in house but checked by ext ACC	SMSF (complex and changing rules); professional requirements; OH&S not a high priority	Frustrated; time and money costs; GST major concern, then SMSF; more efficient to use ext ACC, but expensive
10	Retail (fashion)	Manual; BAS by ext BK; ext ACC; high level of trust in both; TO \$500K	Company; SMSF; pre GST; taxable supplies; no incidental benefits	Casual employees only; owner does pay; company reimburses owner for business MV expenses so as not to involve FBT	Unaware/ no concerns	Happy to pay high fees to BK and ACC and avoid stress; busy running the business
11	Construction (builder)	Combination; not integrated; cashbook by spouse; BAS by ext ACC \$800/Q; rely on accountant too much; TO \$700K	Company; SMSF; pre GST; taxable supplies; no incidental benefits	Unsure whether contractors or employees; pay super and workcover for all to be safe; easier to pay over award	Unsure; rely on ACC (eg. ASIC; SMSF) and peers (OH&S)	Stress a major issue, not sure of tax compliance obligations; time and cost of compliance also of concern; tax not top priority
12	NFP (community group)	Computerised; integrated; accruals; monthly reports; BAS by int ACC; ext ACC; TO 800K	Co-op; pre GST; mixed supplies; using qualified int ACC reduces mistakes and saves on audit costs; GST reconciliations have improved accounting systems; monthly reports anyway so BAS not an issue	No FB and no packaging; workplace agreements for FT staff and pay award for casuals; pay super on OT earnings but unsure if correct; offer choice of fund, but need to be registered with many funds and some won't accept small payments	Various, but not onerous	Superannuation (casuals) major compliance issue (time), then GST

	<b>BUSINESS</b>	<b>PROCESSES</b>	<b>PRACTICES</b>	<b>STAFF</b>	<b>OTHER REGS</b>	<b>ATTITUDES</b>
13	Food (meat wholesaler)	Computerised; integrated; weekly reports; monthly BAS by ext ACC \$300/M; positive relationship; TO \$1M	Sole trader; post GST; GST free supplies; BAS generates positive cashflow and can see where money is going; Sole trader, taxable supplies; STS no stocktake; limited travel so no need for logbook; quarterly BAS makes end of year much easier; good snapshot of business performance	No staff but assistance by family members	Various, but not onerous; probably in breach of OH&S	Very positive towards BAS; cashflow a greater concern than tax compliance costs
14	Manufacturing (picture framer)	Computerised, integrated; BAS by owner; ext ACC (little confidence); TO \$140K	Partnership, pre GST; unsure of STS but have never done a stocktake; taxable supplies; no incidental costs or benefits	Has set up spreadsheet to calculate wages; pays over award; one superfund; no FB	WorkCover (forecasting is difficult and end up overpaying upfront)	Tax compliance easily managed; no stress; systems well set up
15	Manufacturing (upholsterer)	Manual; BAS by ext ACC; would prefer greater control; lack of confidence in ext ACC (\$3KY); TO \$500K	Company, SMSF; pre GST; high set-up costs; stock control important; mixed supplies; BAS is a costly interference, doesn't add to business	No staff	No obligations apparent	Tax compliance (BAS) major concern - stress, time and money; changing to MYOB and spouse to do BAS in future; working long hours and not making much; paying too much in tax
16	Retail (petrol station)	Computerised; integrated; industry specific software; weekly reports; BAS by ext ACC (\$1K/Q); positive relationship	Company; pre GST; complex record keeping requirements including WET; GST and apportionment on work travel tedious; interstate and export sales have further tax compliance costs; taxable supplies; no incidental benefits, was already efficient	One award; inhouse payroll; super OK; resents paying workers' comp	Environmental requirements of local council - but easy to work with; OH&S- mindful, but rules are not practical for small business	Running business is top concern; tax compliance is stressful - prefer to pay ext ACC to do BAS; having to pay Workers' comp next most costly compliance activity
17	Agriculture (winery)	Combination; not integrated; weekly reports; bookkeeping by owner and ext ACC \$800/M; monthly BAS; positive relationship		One award; one employee now a contractor; casuals always paid though the books; ensure no FB for directors	Numerous and often onerous (mostly federal and local level); OH&S not a concern	Very stressed by tax compliance activities and time taken; BAS most costly compliance activity

	<b>BUSINESS</b>	<b>PROCESSES</b>	<b>PRACTICES</b>	<b>STAFF</b>	<b>OTHER REGS</b>	<b>ATTITUDES</b>
18	Food (café and take away)	Computerised, not integrated; monthly reports; BAS by ext ACC (family) \$210/Q; TO \$190K	Partnership; post GST; mixed supplies; compliance is a cost of doing business	Constrained by cost and complexity of both WorkCover and super	Comply with health regs (local) - important for licence and insurance purposes	Tax compliance takes up most time, but is not as stressful as local council
19	Retail (greengrocer/grocer)	Manual; BAS by ext ACC \$100/Q; TO \$1.4M	Sole trader; mostly GST free supplies; NESB; positive impact on cash flow; tax compliance done as part of bookkeeping	Labour costs - incl WorkCover and super - are expensive	Local council - health, signage	Positive; BAS most costly compliance activity but not stressful
20	Service (property maintenance)	Manual; annual; spouse assists; ext ACC; TO \$50K	Sole trader, pre GST; not GST registered	N/A	Local council - noise	Hates paperwork - stressful
21	Service (post office)	Computerised; integrated; franchisor software; daily reports; quarterly BAS by spouse; incidental; ext ACC; TO \$600K	Partnership; franchise; post GST; mixed supplies; GST collected kept in mortgage offset account	Limited use of casual employee	Local council - signage, parking	Positive-BAS is most costly compliance activity, but very simple given franchisor software
22	NFP (professional body)	Combination; not integrated; Treasurer; ext ACC; TO \$51K	Incorporated; pre GST; not GST registered	N/A	Co-op - legal requirements re. reporting, meetings	No issues
23	Transport (taxi)	Manual; self/spouse; monthly reports; BAS by ext ACC \$1Kpa incl	Sole trader; pre GST; taxable supplies; emphasis on tax compliance has cleaned up industry	Contractors only, but must have ABN; pays WorkCover	Medical checks & insurance for licence	Negligible tax compliance costs; competition and impact on profit was a bigger issue
24	Services (swim school)	Computerised; integrated; ext BK; quarterly BAS by ext ACC (family friend); TO 200K	Company; pre GST; apportionment of private/business expenses fiddly; taxable supplies; quarterly or end of year tax compliance made no real difference to time needed	Contractors, but does pay super (more than 10 funds) and workers' comp; avoids FBT (messy)	Professional registration requirements; screening re. child protection	Time - BAS biggest nuisance; then choice of superfunds

BUSINESS		PROCESSES	PRACTICES	STAFF	OTHER REGS	ATTITUDES
25	Construction (builder)	Manual; monthly reports (spouse assists); BAS by ext ACC \$600/Q; TO \$550K	Company; pre GST; taxable supplies; managing cash outflows with GST imposed a compliance cost	Cost of workers' comp a constraint	Local councils (red tape, lack of consistency, change); OH&S - inflexible and unmanageable; industry licences expensive; home owner warranty expensive	Time and stress - mainly in dealing with BAS; then keeping abreast of changes
26	Motor trades (repairer)	Manual; quarterly BAS by int BK (part-time); heavily reliant on int BK and ext ACC	Company; NESB; pre GST; taxable supplies	No issues; pay award	Local council (parking, waste disposal); requires annual licence for vehicle inspection	Unable to rank compliance activities by cost; leave accounting & tax to BK & ACC; owners prefer to be in the workshop
27P	Agriculture (broad acre farming)	Computerised; integrated; eBank; daily reports; quarterly BAS by ext ACC (pressured to reduce fees) \$6.4K pa incl	Partnership; SMSF; pre GST; employees need to complete logbooks; taxable supplies; tax compliance was part of accounting practices	Complex calculation of workers' comp; super must be accurate	ABS; numerous state and local regs that take time and money; environmental legislation is onerous and unpredictable	High stress caused by mass of regs; environmental compliance most costly in terms of time
28P	Manufacturing (electrical)	Computerised; integrated; daily reporting; quarterly BAS by int BK 1 day/mth; ext ACC	Incorporated NFP; pre GST; taxable supplies; time taken to complete BAS was an incidental cost - no real benefit	Workers' comp (cost); salary packaging available (take advantage of NFP threshold)	Federal (reporting on grants); OH&S important	GST most costly compliance activity (time)
29P	Agriculture (sheep, grain, cattle)	Combination; quarterly BAS by owner (extra day/Q); ext ACC (changed for more personal service); TO \$400K	Partnership; pre GST; taxable supplies; log book maintained; private/business MV expenses split for GST took time at startup; BAS figures used for farm benchmarking study; BAS information needed for end of year tax return	Pays super for all employees regardless of earnings (fair)	State (RLPB, noxious weeds, hoops to get funding from groups such as Landcare); OH&S (pesticides, chemicals) logbook kept for certification; cost of required courses	BAS - takes time but not stressful; inflexible and unreasonable deadlines enforced by ATO
30P	Services (outsourcing consultant)	Computerised; not integrated; ext BK; monthly reports; quarterly BAS by ext BK \$4350/M; ext ACC; heavily reliant on both BK and ACC; TO \$800K	Company & family trust; post GST; taxable supplies; some export; interstate; separate GST bank A/C; fiddly split of GST for travel, accommodation, parking	Directors and contractors only; WorkCover (cost) and extent of definition of employee; inconsistent rules for WorkCover across states (time)	ASIC; set up costs re. business name, logo, trademarks; State Records Act (SA) imposes costs re. data security	Stress and time taken on compliance activities in general; mostly outsourced to ext BK and ext ACC

#### **4.2.1 Compliance Costs Driven by How Obligations are Met (Practices)**

This section of the matrix includes key words to signify the features of how the businesses operated that appeared to be most relevant to their compliance costs. The features herein included the type of accounting system (manual, computerised, combination) and the extent to which it was integrated into the day-to-day business activities. Integrated systems were those that directly captured transactional information (for example, software or hardware was used to produce tax invoices at point of sale). Combination systems (for example, hand written invoices that were subsequently entered into a computerised accounting system) tended not to be integrated and required the reprocessing of transactional data. The regularity of internal reporting (usually in the form of bank reconciliations) is also shown.

The parties performing various compliance functions are identified including the use of external bookkeepers (ext BK), internal bookkeepers (int BK) and accountants (ACC). The regularity of business activity statements (BAS) is shown, as is the party responsible for their completion and the relevant costs (usually monetary). Where information was available regarding the nature of the relationship between the business and its external bookkeepers and/or accountants it is reported. Turnover (TO) is reported where disclosed.

#### **4.2.2 Compliance Costs Driven by Industry Issues (Inherent)**

This section of the matrix includes key words to signify the business structure (including franchise arrangements), the existence of a self managed superannuation fund (SMSF) where appropriate, and whether the business was established pre- or post-the introduction of GST. Other features considered to be appropriate here are recorded such as the type of supplies made, the existence of industry specific software, and any unusual record keeping requirements or compliance cost issues (whether start up or ongoing) or trading patterns (for example, export, interstate) that were identified by the business. Incidental costs and benefits of compliance activities are also recorded in this section.

Note that no patterns of behaviour could be ascribed to the gender and age of the interviewee, or the location of business hence this information is generally not reported in the matrix.

#### **4.2.3 Compliance Costs Driven by Having Staff**

This section of the matrix highlights the key features of compliance costs related to having staff (includes employees and contractors) as reported by the businesses interviewed. Where no staff was employed in the business, N/A (not applicable) is shown. The features shown in this section generally relate to payrolls, awards, superannuation (super), workers compensation (workers comp), and WorkCover.

#### **4.2.4 Compliance Costs Driven by Non-tax Obligations**

This section of the matrix highlights the many non-tax obligations with which businesses are required to comply. These range from meeting standards imposed by professional bodies (for example, barrister), to satisfying licensing requirements (for example, preschool, taxi driver) and meeting the requirements of local councils. Of the government regulations reported, they were more so imposed at the state and local level. In some cases (for example, the three agricultural businesses) these obligations

appeared quite significant. Businesses generally acknowledged that they had obligations under occupational health and safety (OH&S) though few were in a position to know what they were. Of those that did have a greater awareness (for example, builder) they felt that the regulations were unworkable for small businesses.

#### **4.2.5 Perceptions and Attitudes of Small Business Operators**

In this section of the matrix the perceptions and attitudes of small business to tax compliance (and to paying tax) and the costs imposed are captured. Where costs were incurred, their nature is reported. The relativity of the burden imposed by tax compliance compared to other compliance obligations is also reported.

### **4.3 Deeper Analysis**

The incidence and extent of tax compliance costs were varied. Given the level of outsourcing of tax compliance activities, small businesses incurred not insubstantial monetary costs, but very few appeared to be overly concerned by this impost. Of greater concern appeared to be the amount of their own time that was required to be spent on compliance activities and the stress that resulted. That is, their focus was clearly on running their business and unnecessary diversions were not welcomed.

#### **4.3.1 Influence of Practices**

In mapping back, businesses that had computerised and integrated accounting systems required less of the interviewees' time in fulfilling tax compliance obligations and stress was less evident (and in some cases, attitudes to tax compliance were in fact very positive). A good example of this influence is in the case of the two franchisees, but there are also many other examples amongst the interviewees (for example, the picture framer and the meat wholesaler). The exceptions to this general principle were the hotel and the petrol station – both businesses at the larger end of the small business spectrum (in terms of turnover). That is, turnover may well have been a contributing factor. However, both these businesses had considerable non-tax compliance obligations to manage also, thus indicating that industry-specific issues may also be a contributing factor.

Where the compliance activity was brokered (to a bookkeeper or accountant) the extent to which the relationship was a positive one did appear to impact on the attitude of the owner/operator. For example, where there was a lack of confidence or trust in the accountant or bookkeeper (i.e. the burden not shared), interviewees (for example, the upholsterer; the sheep grain cattle farmer) reported greater stress and resentment of compliance requirements and/or paying taxes or dealing with the ATO in general.

The influence of brokerage was also relevant in the case of manual accounting systems. Interviewees with manual and/or non-integrated accounting systems that they managed themselves (including preparation of BAS) did report uncertainty and frustration more so than other interviewees. Those business using manual systems that brokered the BAS to an accountant with whom they had a positive relationship, did not find tax compliance stressful or time consuming.

Many businesses, particularly those with computerised integrated systems, were producing regular reports for management purposes, more regularly than required for the BAS. In these cases where the BAS was produced in-house, there were negligible

costs or benefits arising from tax compliance. However, where the BAS was done externally and at a monetary cost, there was some resentment of the impost.

### **4.3.2 Influence of Inherent Factors**

Interviewees that had SMSF did find the compliance obligations complex and usually left them to their accountant to manage. The exception to this principle was the barrister who managed his own fund, but did report that the time involved in compliance activities was a substantial cost. Many small businesses were incorporated, but relied on the accountant to ensure that the related compliance obligations were met.

Whether the business was established pre- or post- GST did not appear to be influential in terms of the incidence and extent of compliance costs or the attitude of the interviewee. In contrast, the type of supply did appear to be influential. The two businesses with GST free supplies (the greengrocer – long established and using manual systems, and the meat wholesaler - newly established and using integrated computerised systems) both felt very positive towards GST and BAS. The implication here is that the interviewees' perception of compliance costs was influenced by having to pay the tax itself (or get a refund as in the case of the greengrocer and meat wholesaler). This may also explain why the petrol station and hotelier both had negative feelings. The cost of compliance and the payment of tax itself have become merged in their minds.

Businesses that had franchisor support or industry software did appear to be less concerned by their tax compliance obligations. The apportionment of GST across private and business expenditure was raised by a number of interviewees as a compliance issue that took time to resolve – but this appeared to be related to specific industries where travel for business was more prevalent. Specific industries – such as viticulture, did appear to have quite complex tax issues in calculating GST and in fulfilling their tax compliance obligations. Small businesses that engaged in export did also appear to have more complex tax compliance obligations.

As to whether or not incidental benefits arose from fulfilling tax compliance obligations, there were mixed responses from the interviewees. In mapping backwards, interviewees who had integrated computerised systems or combination non-integrated systems did generally report that the BAS compliance activity did not 'add' anything to their business. The only exceptions to this finding were the farmer who used the BAS figures for a benchmarking study, and the meat wholesaler who had cashflow issues and welcomed his monthly GST refund. The interviewees who felt the BAS compliance activity did provide an incidental benefit were more likely to be those with manual systems who found it did force them to 'do the books' more often rather than leave it to the end of the year.

### **4.3.3 Influence of Staff**

The term 'staff' is used broadly here as many of the business used employees and contractors, but were unclear of the distinction. Having staff did add to compliance costs – virtually every interviewee with staff had compliance issues. The easiest situations were where there were fewer staff members, there were fewer awards applicable, there were no fringe benefits or salary packaging available, and where a liability for superannuation arose, all payments were made to the one fund. Employers had often developed coping strategies. For example, many paid over the award; fringe



benefits or salary packaging were virtually non-existent; choice of superannuation fund was discouraged; contractors were engaged rather than employees; and employment of apprentices or non-family members was constrained.

More difficult situations that could not be so managed did cause considerable compliance costs. For example, the complexity of the terms and calculations for workers' compensation was commonly raised, as was its cost. Many businesses were unsure of which 'staff' needed to be included in these calculations. It appeared that there may have been an extent of over-compliance (in terms of monetary costs) in this regard in addition to the time spent on the paperwork. The situation was further compounded when businesses had interstate operations as the workers' compensation rules vary.

A number of the 'staff' issues (superannuation for casuals, workers' compensation) were rated more highly by some interviewees than was tax compliance in terms of the overall costs incurred.

#### **4.3.4 Influence of Non-tax Obligations**

Most of the compliance cost issues reported were in respect of obligations imposed at the state and local government level. Those interviewees engaged in agriculture (including viticulture) did appear to be faced with a considerable compliance burden (in terms of time dealing with the volume of rules relating to obligations) that did not appear to be co-ordinated by the external parties responsible for enforcement.

Dealing with local councils did appear to be problematic for many of the interviewees, especially for those whose business took them across councils (such as the builder). Rules appear to change frequently and to be inconsistent. Considerable time and money was spent on dealing with local councils and this was a cause of frustration for some interviewees (for example, the café).

Most interviewees were conscious of the existence of OH&S obligations, but usually only in a broad sense. Those interviewees who did appear to have a more informed understanding of their OH&S obligations insisted that the requirements were unworkable for small businesses.

Where non-tax compliance obligations were a part of licensing requirements (for example, the preschool, the swim school, the taxi driver), they were taken more seriously.

#### **4.3.5 Influence of Attitudes**

Interviewees were asked to rank the most costly compliance activities that were required of them. For some, tax compliance activities are the most stressful and time consuming of their compliance obligations. There were others who were more concerned about running their business, keeping their licence and managing their cashflow. There were several for whom tax compliance was not an issue (though it is noted that at least one of these was not registered for GST).

Overall, it would be reasonable to conclude that the cost of tax compliance (time, money and stress) is a concern for small business. Time appeared to be the most

important cost as it keeps the small business owner away from operating the business. However, there were many non-tax obligations imposed on small business that added to the compliance burden.

#### **4.4 Conclusions**

From this study and the discussion thus far, five theories, grounded in the experiences of the interviewees, are proposed:

- 1. The nature and scale of the small business and the extent to which it has a computerised and integrated accounting system in place, influences its tax compliance costs.**
- 2. Small businesses tend to broker their tax compliance obligations to external parties so as to minimise their personal time involvement. That is, they value their time input in running their business above the monetary costs of compliance incurred on brokerage. They pay willingly for this brokerage where they feel confident in the standard of advice and service provided.**
- 3. While all small businesses incurred tax compliance costs, they are not an issue for all small businesses nor necessarily their major compliance cost concern.**
- 4. Compliance with other non-tax regulations does impose a substantial burden on small business, particularly those businesses that employ others, operate in varying locations or are engaged in agriculture. These non-tax regulations are generally at state and local government levels. It is the breadth and complexity of these regulations that are of major concern to small business, and in addition, in respect of workers' compensation, its cost. Small businesses generally would be in breach of OH&S regulations.**
- 5. There are limited incidental benefits perceived by small business in respect of tax compliance.**

## 5 Comparative Analysis and Theory Validation

Having developed the five grounded theories, they were then compared to the existing body of literature, to the submissions to the Banks Taskforce and to the Board of Taxation, and to the interviews conducted with the accountants as part of the scoping study (Table A8 refers). Internal research by the Australian Taxation Office was also considered. This comparative analysis is an important part of ascertaining the validity (or otherwise) of the theories developed in the scoping study.

### 5.1 Business System

**The nature and scale of the small business and the extent to which it has a computerised and integrated accounting system in place, influences its tax compliance costs.**

This finding is consistent with the trends observed in previous studies, and with the observations of the accountants interviewed.

Compliance costs tend to be higher for companies than for unincorporated entities. The technical requirements of the business structure, such as ASIC compliance, tend to be invisible to the operator, but they are reflected in higher external compliance costs.

The use of computers in the business environment has become increasingly common since the early studies. Only nine of the 30 businesses interviewed in the current study continue to rely on a solely manual system – and two of those were actively selecting an appropriate computerised system. Computers, and appropriate software, are no longer seen as only being needed by large businesses. This has led to the development of “off the shelf” accounting software solutions which are marketed directly to small business. While there are dangers in the use of such packages if they have not been set up properly for the specific business, they have led to the proprietors of small businesses having more access to their financial information. There are also many industry specific packages now available, however there are still issues relating to the integration of data with their accounting package.

The sample included businesses with very high numbers of transactions, eg the service station and the hotel, as well as lower transaction rates. Businesses with a higher turnover and transaction rate were more likely to be reliant on an integrated accounting system. This increases the accounting transactional costs, but makes it more difficult to isolate the compliance costs of the business.<sup>80</sup>

Glover and Tran Nam<sup>81</sup> reported that the increased availability of computerised accounting packages since the introduction of ANTS was perceived as a benefit by some interviewees. The submission from MYOB to the Banks Taskforce<sup>82</sup> reported that while many firms are using computer accounting packages to prepare their BAS, they do not always understand the details of the package that they are using. While the

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<sup>80</sup> See note 19.

<sup>81</sup> Note 21.

<sup>82</sup> Available at <http://www.regulationtaskforce.gov.au/submissions/index.html> (17/8/2006).

records show a substantially accurate picture of the GST liability of the firm, the coding of the statistical labels is not always correct.

The accountants interviewed reported that most clients are now using computer software. This ranges from bank coding software to full accounting software packages. Accountant 1 does not take on clients who do not maintain their records electronically, while the service offered by Accountant 2 includes setting up basic bank coding software for the client. Two of the accountants observed that there are problems caused by incorrect data entry.

Accountants 1 and 3 reported that the increased computerisation has shown some incidental benefits to businesses as proprietors have more immediate access to financial statements, and are more aware of how the business is performing.

The increasing use of computerised systems, while reducing compliance costs overall, also contributes to the regressive impact of compliance costs. The cost of setting up an appropriate system tends to be a fixed or stepped cost without reference to the turnover of the business.

## 5.2 Brokerage of Compliance Activities

**Small businesses tend to broker their tax compliance obligations to external parties so as to minimise their personal time involvement. That is, they value their time input in running their business above the monetary costs of compliance incurred on brokerage. They pay willingly for this brokerage where they feel confident in the standard of advice and service provided.**

This is also consistent with previous studies. In its submission to this review, the Motor Trades Association specifically commented on the level of reliance that its members have on external services for record keeping as well as accounting advice.

Given that there is clearly a heavy reliance on the use of third parties for bookkeeping services, this could arise from two key sources:

- Small business proprietors may be “opting out” of their obligations, on the basis that they are confused by the technical requirements and would prefer not to have to deal with them or are concerned that they will get it wrong inadvertently; or
- Small business proprietors may make a decision that although compliance with the requirements is within their capabilities, they can use their time more profitably in dealing with the business activities: there is a marginal cost benefit in brokering the compliance activities.

Both of these attitudes are reported in the literature. Based on our research, the latter reasoning was more prevalent as a driver of compliance brokerage.

There is an almost universal reliance on external advisors for the preparation of annual accounts and lodgement of income tax returns. It is at this level that many of the complexities of the tax system are encountered. The submissions from the professional bodies to the Banks Taskforce and this review; and the interviews with accountants highlighted different issues to those raised with us directly by the small businesses that we interviewed. For example, the issues raised in formal submissions included

- the simplified tax system,<sup>83</sup>
- payments to directors and Division 7A of the Income Tax Assessment Act 1936<sup>84</sup>,
- self assessment and penalties,<sup>85</sup>
- consistency of definitions.<sup>86</sup>

In discussions with the small business interviewees these issues did not arise. If prompted most of the interviewees did not know whether they were affected by such measures as these are among the matters that they leave substantially in the hands of their accountants. This is consistent with Ritchie<sup>87</sup> who was surprised by the finding that one of the key reasons given for the use of an accountant by NZ small business was the depreciation provisions.

The interviews with accountants showed a diversion in their approach to BAS preparation. Accountant 1 does not usually prepare BAS for clients. The approach of that firm was to reconcile the BAS with the income tax return, but not to review the underlying data – even though she acknowledged that most clients don't understand what they are doing. Accountant 2 preferred to prepare the BAS from data coded by the client. He observed that it was more cost effective for the client to have the accountant prepare the BAS, when compared with the cost of having the accountant do an audit to correct errors. Accountant 3 would prepare BAS if required, but it represented a small proportion of the firm's work as most clients did it 'in-house'.

The major work done by all of the accountants for their clients was the end of year financials and tax accounts. This involves examination of issues such as eligibility for the simplified tax system. Accountant 2 has developed a series of worksheets to assist in working through these issues, for use within the accounting practice. Accountant 1 and accountant 2 also provide clients with a number of tools to simplify the record keeping burden, such as a spreadsheet to track payroll and superannuation requirements.

Clients do not always fully understand the issues that the accountants raise with them, particularly when the client is expected to make a choice or decision, and they may project their frustration with the complexity of the taxation system onto their accountant. Accountant 2 reports having lost a client after assisting them through a complex audit, apparently due to a perception that the accountant was responsible for the issues that arose.

The accountants interviewed did report that some clients resent paying the accounting fees that result from complexities in the system. The time spent by accountants on such issues will be reflected in the fees charged by the accountants, becoming part of the compliance cost to the client. However, as reported by Accountant 2, they also resent taking time away from their own business to do the compliance work. Accountant 1 notes that "there are too many other things for business to worry about and their

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<sup>83</sup> See submissions from Australian Chamber of Commerce and Industry, Motor Trades Association of Australia.

<sup>84</sup> Taxation Institute of Australia; Institute of Chartered Accountants in Australia.

<sup>85</sup> Taxation Institute of Australia; CPA Australia; Australian Chamber of Commerce & Industry.

<sup>86</sup> Institute of Chartered Accountants in Australia, Taxation Institute of Australia, ACT Office of Small Business.

<sup>87</sup> Note 19 at p 312.

expertise is not tax<sup>77</sup>. It appears that those businesses that use bookkeepers as an interim step between their own record keeping and the accountant probably do so as a means of containing accounting fees. Accountant 3 uses the business planning aspect of his work to add value to the services provided to clients.

This puts into context the findings of Dirkis & Bondfield<sup>88</sup> who reported that compliance costs had increased post Ralph / ANTS. However this report examined the impact of the legislative reforms, and was based on discussions with tax professionals rather than a systematic direct survey of small business. While small business proprietors are concerned about the complexity of the tax laws, they limit the psychic cost by contracting out of it – thus converting the psychic cost to a financial cost. The accountants do report, however, that clients will react adversely if they feel that the level of accounting fees is excessive.

### 5.3 Scale of Concern

**While all small businesses incurred tax compliance costs, they are not an issue for all small businesses nor necessarily their major compliance cost concern.**

The major Australian quantitative studies were undertaken prior to the introduction of A New Tax System<sup>89</sup>. Following the period of transition to the New Tax System concern by business over their compliance costs as such does seem to be decreasing. There is still concern over the overall complexity of the taxation system, but small business seems to be dealing with this by brokering out their obligation so that they can get on with doing business.

The post ANTS studies<sup>90</sup> indicate that while compliance costs are still of concern to small business, they have decreased from the transitional period, and can be expected to continue to decrease.

When asked to rank the cost of their compliance activity the cost of completing the BAS and GST were generally ranked among the highest in terms of time and financial cost, consistent with the submissions to the Banks taskforce and this review. To some extent this cost, particularly the time cost, was recognised as being a saving against time that would otherwise be needed when preparing annual accounts. However the psychic cost was more likely to arise from other compliance requirements.

As discussed above, the accountants interviewed have observed that some clients resent the level of fees that are charged. This may be as it is a quantifiable, external cost that becomes a focus of concern. This is consistent with the observations of Glover that clients perceive accounting fees to have increased since ANTS.<sup>91</sup>

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<sup>88</sup> Dirkis, M and B Bondfield, “Small business: the first casualty of tax reform compliance” <http://www.taxinstitute.com.au/go/seminar-papers/small-business-the-first-casualty-of-tax-reform-compliance-a-qualitative-study> pp 21-23.

<sup>89</sup> Evans note 9 analysed data collected in 1995; Wallschutsky note 14 collected data in 1992; Pope conducted surveys over the period from 1986 to 1991.

<sup>90</sup> ACCI note 24 has conducted both pre and post ANTS data, Glover note 21 has examined 1999 to 2002

<sup>91</sup> See note 21 at 247.

There does seem to be an attitude that small business is getting on with business, and while they may grumble about the compliance burden, it is seen as part of the environment of doing business.

## 5.4 Non Tax Compliance Costs

**Compliance with other non-tax regulations does impose a substantial burden on small business, particularly those businesses that employ others, operate in varying locations or are engaged in agriculture. These non-tax regulations are generally at state and local government levels. It is the breadth and complexity of these regulations that are of major concern to small business, and in addition, in respect of workers' compensation, its cost. Small businesses generally would be in breach of OH&S regulations.**

Other compliance concerns are ranked more highly by small business than the cost of compliance. In particular, issues related to employment such as workers' compensation and superannuation guarantee charges rank very highly on the list of concerns of small business. These concerns were also reflected in the submissions to the Banks Taskforce.

- Workers' Compensation<sup>92</sup> - the particular concerns in relation to workers' compensation relate to the method of estimating premiums, then confirming them subsequently, particularly as the insurance period does not coincide with a standard accounting period.
- Superannuation Guarantee<sup>93</sup> - in particular, the implementation of the choice regime was seen as imposing an administrative burden, although only two of the businesses interviewed were dealing with multiple superannuation funds.
- Self Managed Superannuation Funds - were also poorly understood.
- Contractor v Employee differentiation<sup>94</sup> – employers tended to either accept the contractor's status at face value, or treat all workers as employees.<sup>95</sup>

There are some areas where small businesses take a pragmatic approach and effectively implement systems to limit exposure to certain burdens. In particular:

- FBT is raised regularly by industry organisations as a problem for small business, within the scoping study only four businesses reported providing fringe benefits, and three of those did not pay FBT as the benefit was structured to limit exposure. This is consistent with the NZ experience, as reported in by Colmar Brunton,<sup>96</sup> that businesses are more likely to provide fringe benefits as the number of employees increases.

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<sup>92</sup> Starkis Design, Submission to the Banks Taskforce.

<sup>93</sup> Australian Chamber of Commerce and Industry, MYOB, Council of Small Business of Australia, Restaurant and Catering Australia, National Institute of Accountants, Taxation Institute of Australia.

<sup>94</sup> Starkis Design, Submission to the Banks Taskforce; CPA Australia; Institute of Chartered Accountants in Australia.

<sup>95</sup> It is noted that legislation has been introduced to address this issue, however as it retains the common law test for determining whether a person is at law a contractor, it is unlikely to assist in alleviating the existing confusion.

<sup>96</sup> Note 23 at 112.

- Occupational health and safety regulations was an area where some small businesses did report psychological costs. The main concern was that they could not keep up with, and comply with, all of the necessary regulations. However, they tended to be pragmatic about the issue. None of the interviewees reported accidents that could be attributed to an unsafe workplace.
- Award or over award wages were usually paid as a means of working around the industrial relations system.

All accountants interviewed reported dealing regularly with issues unrelated to income tax, GST or BAS. Clients contact their accountant for advice in relation to specific queries, such as unusual payroll transactions. Particular reference was made to superannuation, employee / contractor distinction, workers' compensation, occupational safety and health, and land tax. Land tax was raised by two accountants, probably as a localised response to the recent NSW land tax changes.

Fringe benefits tax and payroll tax were less of an issue, as fringe benefits were usually limited to the proprietors or a reimbursement arrangement was implemented. Most small businesses are below the payroll tax threshold.

ASIC requirements were generally managed within the accounting firm by the use of an employee with a specific job description relating to ensuring that clients comply with the ASIC reporting requirements; such as lodgement of returns and notices of changes to the registration details.

It was found that the most onerous requirements tended to be industry specific requirements. This may have been because there are limited opportunities to broker such matters out to third parties. The three interviewees from the agricultural sector reported a particularly heavy burden in complying with environmental and development regulations.

The interviewees included only one business trading across jurisdictions, but the lack of harmonisation between states in relation to workers' compensation was an issue. This was also raised by one accountant interviewed and in submissions to the Banks Taskforce and to the Board of Taxation (ACT Office of Small Business, ICAA, Corporate Taxpayers Association).

## 5.5 Incidental Benefits

**There are limited incidental benefits perceived by small business in respect of tax compliance.**

It is difficult for business to separate tax compliance costs from general accounting activities. The diary methodology used by Ritchie<sup>97</sup> attempted to separate tax and accounting functions, and found that the additional time spent on tax compliance was

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<sup>97</sup> Note 19.



relatively small as the accounting activities were required as a part of good business practice.

The benefits noted by our interviewees tended to relate to access to up to date financial data; the use of computer accounting packages; and the effect of spreading the work into quarterly periods rather than an annual task.

This was confirmed by the accountants interviewed, who noted that the increased computerisation has shown some incidental benefits to businesses as proprietors have more immediate access to financial statements, and are more aware of how the business is performing.

A number of small business interviewees, notably the franchisees and the hotelier, prepared regular statements for management purposes and on that basis did not note any managerial benefits from their tax compliance requirements.

## 6 Conclusions

The refinement of the matrix resulted in the following five theories being proposed:

- 1. The nature and scale of the small business and the extent to which it has a computerised and integrated accounting system in place, influences its tax compliance costs.**
- 2. Small businesses tend to broker their tax compliance obligations to external parties so as to minimise their personal time involvement. That is, they value their time input in running their business above the monetary costs of compliance incurred on brokerage. They pay willingly for this brokerage where they feel confident in the standard of advice and service provided.**
- 3. While all small businesses incurred tax compliance costs, they are not an issue for all small businesses nor necessarily their major compliance cost concern.**
- 4. Compliance with other non-tax regulations does impose a substantial burden on small business, particularly those businesses that employ others, operate in varying locations or are engaged in agriculture. These non-tax regulations are generally at state and local government levels. It is the breadth and complexity of these regulations that are of major concern to small business, and in addition, in respect of workers' compensation, its cost. Small businesses generally would be in breach of OH&S regulations.**
- 5. There are limited incidental benefits perceived by small business in respect of tax compliance.**

Comparative analysis was undertaken to test these theories against the key themes that emerged from the literature review, submissions to the Banks Taskforce and the Board of Taxation, and to the accountants interviewed.. The findings and themes from these various sources are consistent with the theories proposed.

The literature shows that computers are becoming an integral part of business management, including record-keeping; which is consistent with theory 1, that the extent of computerisation impacts on small business compliance costs. This was supported by accountants who reported that most small business now use some form of computerised records. Businesses with higher level of transactions were more reliant on integrated computer systems which provide information for management purposes as well as compliance.

The second theory is also consistent with the literature, which shows that small businesses are willing to engage third party support to assist with their compliance obligations. This may be a response to either time and/or psychological costs in dealing with their tax compliance obligations. However, the interviews with accountants indicated that some clients expressed concern over the level of fees charged. The proposed theory is qualified to the extent that small business is not always satisfied that value for money is received, which may be because small business does not recognise the complexity of the issues that the accountant is required to address. That is, small business is prepared to broker its compliance obligation and incur the cost, but do not necessarily feel that there is much choice in the matter.

The third theory was also qualified by the experience of accountants in relation to concern over fees. However it appears that the attitude to compliance costs is similar to other business expenses. It is a necessary cost of doing business that small business will contain where possible, and therefore they will question those costs where the costs seem excessive, as they would in relation to other business costs.

Other costs, particularly employment related costs, were clearly a major source of compliance cost, as proposed in theory 4. While such costs may not be as large as the tax compliance cost, they are more time consuming for small business to deal with. This may be for a number of reasons, for example because these issues are more complex than mere record keeping; small business is less familiar with the requirements as they arise less frequently, or because they cannot be brokered out to a third party. The accountants confirmed this through their discussion of the matters on which they are asked to advise.

The main incidental benefit that arises through compliance obligations is improved managerial reporting. There is a difference of opinion here between the accountants and the small business interviewed. While accountants report having seen improvements, small business tended to claim that these reports would be prepared without the compliance obligation. This is consistent with the difficulties experienced in other studies in separating compliance functions from other functions.

The theories stand up to validation against the literature, the accountants interviewed and the submissions to the enquiries.

## **6.1 Strengths and Weaknesses**

The strength of qualitative research is that it allows the researcher to explore the issue in more depth, gaining an understanding of why and how compliance costs are incurred, and how they affect business, as compared to quantitative research which explores what

the costs are and attempts to quantify the issue. Qualitative research is useful in trying to understand the reasons behind specific behaviour.

In terms of data collection, qualitative research traditionally employs methods that are interactive and people-orientated, including open-ended interviews and observations, in the interviewee's normal work setting. This enables the researcher to study the context or setting of the interviewees, to collaborate with them, and to collect and interpret their meaning. Joining them in the business environment assisted the business proprietor to participate fully, and assisted the researchers in identifying areas of high compliance activity through observation and discussion.

The main advantage of personal in-depth interviews is that they allow participants to provide their own subjective meanings and interpretations and are thereby most compatible with a grounded theory approach. A major limitation of in-depth interviews is that they are time consuming and require the interviewer to be highly skilled and sensitive. The use of three interviewers was necessary to ensure the project could be completed within the required time frame.<sup>98</sup> The use of more than one interviewer can affect the quality of the data, so this issue was addressed by the use of a standard interviewing protocol, and by regular debriefings between all team members. All transcripts were coded by the one research to ensure consistency, which also improves the reliability of the findings.

In depth interviews require the interviewers to remain objective. This was addressed by setting the protocol and allowing the interviewee to do the talking in his or her own words, and in his or her own setting. This approach gives the researchers, and thus the Board of Taxation, access directly to views and practices of the small business proprietor without excessive filtration and interpolation of that data.

A disadvantage as a result of using the interview method for data collection, and of qualitative research generally, is that the sampling of businesses was necessarily limited. The selection of interviewees was through convenience sampling (driven by time constraints), which did limit the ability to select a wide cross section of the business community. In turn, this raises the question of the extent to which the theories derived in this manner can be applied more broadly. That is, how far can the results be generalised?

At all stages in the research the necessary steps have been taken to ensure the reliability and external validity of the findings of the scoping study. Reliability has been addressed in ensuring that the process of the study (as described in detail throughout this report) has been consistent and stable across researchers and methods. External validity has been addressed by undertaking the comparative analysis of the theories developed in the scoping study to other sources.

Qualitative findings can only be made on the basis of the population studied and thus the theories developed in the scoping study are grounded in the views and practices of the small business proprietors that were interviewed. The extent to which these theories would apply to all business proprietors in Australia is not known. However, the more

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<sup>98</sup> Only two weeks were available to conduct the thirty interviews.

sources to which the findings of the scoping study are compared and found to ‘fit’ then external validity and generalisability can be further enhanced.

## 6.2 Further Research

This research was commissioned as a scoping study to identify the information relevant to the terms of reference of the review. In accordance with the terms of the tender, the sources of small business compliance costs (with a particular emphasis on tax compliance costs) have been studied using a qualitative research design and the output presented in matrix form.

In the meeting with the Board of Taxation on 21 July 2006 further avenues for developing the research were discussed including the possibility of consulting with the Taxation Commissioner’s small business reference groups. Unfortunately their meeting dates were such that this could not be scheduled prior to the date for completion of the scoping study. The next stage of the research should involve testing the theories against:

1. Small business representative bodies<sup>99</sup> and
2. Business and professional representative bodies, which should also address the perception differences between small business proprietors and their advisors.<sup>100</sup>

Another issue that emerged from the study is the role of computers and accounting software in record keeping and in meeting compliance obligations. Further research should be undertaken in this area in that appropriate technology and/or training may offer potential to reduce the compliance cost of small business.

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<sup>99</sup> For example the ATO Small Business Reference Group.

<sup>100</sup> For example, there may be a relationship between the low take up rate of the simplified tax system, the perception of complexity by advisors and the lack of awareness by small business proprietors.

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**Attachment 1:**

**SUBMISSIONS**  
in relation to the  
**SMALL BUSINESS TAX COMPLIANCE COSTS STUDY**

No.	Submitting Organisation	Date Received
1	Institute of Chartered Accountants Australia (ICAA)	24/02/06
2	Motor Trades Association of Australia (MTAA)	27/02/06
3	Tax Institute of Australia	27/02/06
4	Australian Chamber of Commerce & Industry	08/03/06
5	Penna Michael (Alistair Michael)	18/04/06
6	Restaurant & Catering Australia	18/04/06
7	CPA Australia	28/04/06
8	Council of Small Business Associations in Australia (COSBOA)	05/06/06

A late submission was received from Mr Sumner-Potts on 03/05/06.

## Attachment 2

### **THEME LIST:**

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#### 1. CHARACTERISTICS OF THE BUSINESS

*Develop a broad understanding of the nature of the business, its activities, structure, turnover, number of employees, life cycle phase, decision-making processes and other features that could be related to its compliance costs.*

#### 2. SOURCES OF COSTS

*What compliance activities (based on the three categories below) are being undertaken, when did they commence, how often are they done, and why?*

- Compliance activities specifically undertaken as a result of tax regulation
- Compliance activities specifically undertaken as a result of other regulations
- Compliance activities incurred for other reasons

#### 3. NATURE OF COSTS

*For each compliance activity identified, estimate the relative 'costs' (may include time, monetary or psychological)*

*Which activities are the most 'costly'? (use ranking)*

*What causes the costs?*

*Which costs are one-off as opposed to recurring?*

*Which compliance activities are undertaken within the business and which are undertaken by external parties (such as accountant, solicitor, bookkeeping services). Why are external parties used?*

#### 4. INCIDENTAL BENEFITS

*Are there any incidental benefits that arise from any specific compliance activity?*

**Attachment 3: Primary Tables**  
**Table A 1: Characteristics of the Business**

Interviewee Details		Industry	Structure		Location	Turn-over	Run by	Other Workers (excl owners/operators)				Age	GST reg	Supp lies	
Gen-der	Age		Operating	Other				FT	PT	Cas ual	Vol				Contr actor
1	M	60+	NFP (preschool)	Church agency		Metro	\$150K	Commit-tee	3	Y	Y		15	Y	GST free
2	F	40+	Services (PR)	Company (H & W)	SMSF	Metro	\$500K	Directors (H&W)					7	Y	Tax-able
3	M	50+	Motor trades (mechanic)	Company (H & W)		Metro	\$700K	Director	4				20	Y	Tax-able
4	F	40+	Food (bakery)	Company (H & W)		Metro	not known	Director (W)	3			Y	3	Y	Mixed
5	M	30+	Services (hotel)	Partnership (individual + family co)		Metro	\$2M	Director	3			Y	4	Y	Tax-able
6	M	40+	Construction (carpenter)	Sole trader		Metro	\$100K	Sole trader				Y	5	Y	Tax-able
7	F	20+	Services (personal trainer)	Sole trader		Metro	\$50K	Sole trader					1	N	
8	M	40+	Services (real estate)	Family trust	Corp'tee + corp ben-eficiary	Metro	\$1M	Director	4			2	4	Y	Tax-able
9	M	60+	Services (barrister)	Sole trader	Company (operates chambers)	Regional	\$300K	Sole trader	1				20	Y	Tax-able
10	F	50+	Retail (fashion)	Company (own)	SMSF	Regional	\$500K	Director		2			15	Y	Tax-able
11	F	40+	Construction (builder)	Company (H & W)	SMSF	Regional	\$700K	Directors (H&W)	1			2	20	Y	Tax-able
12	F	50+	NFP (community group)	Co-operative		Regional	\$800K	Directors (12)	3	2	Y		50	Y	Mixed
13	M	20+	Food (meat wholesaler)	Sole trader		Regional	\$1M	Sole trader					4	Y	GST free
14	M	40+	Manufacturing (picture framer)	Sole trader		Regional	\$140K	Sole trader				2	9	Y	Tax-able
15	M	50+	Manufacturing (upholsterer)	Partnership (father son)		Regional	\$500K	Partners					26	Y	Tax-able

	Interviewee Details		Industry	Structure		Location	Turn-over	Run by	Other Workers (excl owners/operators)				Age	GST reg	Supp lies	
	Gen-der	Age		Other	Operating				Other	FT	PT	Cas ual				Vol
16	M	50+	Retail (petrol station)	Company (H & W)	SMSF	Regional	\$5M	Director (H)	1					11	Y	Mixed
17	M	50+	Agriculture (winery)	Company (H & W)		Regional	\$1M	Directors (H&W)	1	1		60	1	24	Y	Tax-able
18	M	50+	Food (café and take away)	Partnership (H & W)	Owned by SMSF	Metro	\$190K	Partners				1.5		3	Y	Mixed
19	M	60+	Retail (greengrocer/grocer)	Sole trader		Metro	\$1.4M	Sole trader	4	3				15	Y	Mixed
20	M	30+	Service (property maintenance)	Sole trader		Metro	\$50K	Sole trader						8	N	
21	F	40+	Service (post office)	Partnership (H & W)		Metro	\$600K	Partners		1				4	Y	Mixed
22	F	40+	NFP (professional body)	Incorporated NFP		Metro	\$51K	Committ-ee				Y		40	N	
23	M	60+	Transport (taxi)	Sole trader		Metro	withheld	Sole trader					3	25	Y	Tax-able
24	F	30+	Services (swim school)	Company (own)		Metro	\$200K	Director		1			30	10	Y	Tax-able
25	M	50+	Construction (builder)	Company (H & W)		Metro	\$550K	Directors (H&W)	1					7	Y	Tax-able
26	M	50+	Motor trades (repairer)	Company (father son)		Metro	not known	Director (son)	1	1				20	Y	Tax-able
27	P	40+	Agriculture (broad acre farming)	Partnership (family co's)	SMSF	Regional	withheld	Directors 3 brothers	2			4			Y	Tax-able
28	P	40+	Manufacturing (electrical)	Incorporated NFP		Metro	\$1.3M	Board of Directors	10	20				21	Y	Tax-able
29	P	60+	Agriculture (wool, grain, cattle)	Partnership (H&W)	Family company hold land	Regional	\$400K	Partner (H)				12		40	Y	Tax-able
30	P	40+	Services (outsourcing consultant)	Company (own)	Family trust	Interstate	\$800K	Director (H)					3	2	Y	Tax-able

**Table A 2: Bookkeeping Practices:**

	Industry	Turn-over	System	Reconcile	Done by	Time taken	Cost	Other
1	NFP (preschool)	\$150K	MYOB		Various staff	6hrs wk		Staff collect and receipt fees. Staff members have had 2 days training on MYOB. Chairman spends 10 hrs/mth on preschool business.
2	Services (PR)	\$500K	Manual but about to change to MYOB.		Owners	3hrs mth		Small number of 'blue chip' clients. Bad debts are very low. Moving to a computerised system on 1/7/06.
3	Motor trades (mechanic)	\$700K	MYOB + job costing system	Weekly	Ext bookkeeper	2 days wk		Job costing software costs \$1200pa and is well designed for the type of business. Used to check turnover and margins weekly. "You might think you've had a good month but there were a lot of small jobs moving around - fewer jobs may give better figures". The bookkeeper was formerly employed fulltime, now is a part time contractor. As a result, the owner is spending an extra 2 hours per day on bookkeeping and tax related activities.
4	Food (bakery)	not known	POS franchise software + MYOB	Weekly	Franchisee	10 hrs wk		Franchisor-provided software takes the hard work out of calculating GST on supplies. Owner is not sure herself of which supplies are taxable or GST free. Franchise software is based around takings, expenses need to be manually entered into MYOB. Franchisor requires a monthly P & L.
5	Services (hotel)	\$2M	POS software + MYOB	Daily	Ext bookkeeper		\$500 pw	All tills are linked to database. Daily reports produced for stock control and turnover.
6	Construction (carpenter)	\$100K	Manual		Self	2hrs wk		95% of work is for the one builder who is a prompt and reliable payer - within 7 days.
7	Services (personal trainer)	\$50K	None (other than manual invoices)		Self	1hr wk		When first started business in Australia (from NZ) was unaware of the need for an ABN. Followed this up on-line and found the ATO website very confusing - 'half it goes over your head'. "An easy interactive system for new businesses seeking advice would be helpful". Is yet to lodge first Australian tax return and will seek professional advice - a bookkeeper to help set up spreadsheets and an accountant to prepare the tax return. Lack of engagement with the tax system.
8	Services (real estate)	\$1M	MYOB for general accounts; specialised industry software (REST) for trust account	Daily	2 ext bookkeepers		\$18K pa	Only one bookkeeper used previously, but due to an error made last year (that resulted in a qualified audit report), found it better for internal control purposes to use 2 bookkeepers and separate their areas of responsibilities. Bookkeeping fees last year were \$32K including substantial remedial work. Trust account audit costs \$5Kpa. High priority given to daily bank downloads and reconciliations done by property management staff (mainly to identify rent in arrears so that owners' insurance was not voided).

	Industry	Turn-over	System	Recon-cile	Done by	Time taken	Cost	Other
9	Services (barrister)	\$300K	Manual + Cash Manager	Monthly	Chambers clerk	5hrs mth		Barrister does the banking and has developed a form to help him with the banking and to record fees and GST liability. Receipts are spasmodic depending on the timing of cases. Most clients are solicitors, so few bad debts. If you do work for Legal Aid you have a long wait to get paid. Barrister pays all accounts by cheque or credit card and paperwork (for expenses only) processed by clerk. Lot of travel with the job so have to keep extensive receipts.
10	Retail (fashion)	\$500K	Manual cashbook	Quarterly	Ext bookkeeper		\$100 /Q	Owner is good at record keeping and pays all accounts herself as soon as they are received. Bookkeeper has set up the books. Owner did have a log book once and understands she is now right "for a few years".
11	Construction (builder)	\$700K	Solution 6 + diary records for wages	Quarterly	Director (W)	6hrs/ Q		Web cashbook used to enter data and do a basic reconciliation.
12	NFP (community group)	\$800K	MYOB including ledgers (accrual accounting)		Int accountant	2 days wk		Innocent but horrendous mistakes made in the past when less qualified staff employed. Errors caused by people not understanding how the software worked and what its limitations were (eg. in doing reversals; in processing invoices after the BAS period had closed; in setting up accounts indicating appropriate GST status and rate; tracking GST). Employing a qualified accountant has halved the audit cost. Financial year end not 30 June, but doesn't present any real problems.
13	Food (meat wholesaler)	\$1M	MYOB	Weekly	Self	1hr wk		Very comfortable working with computers generally. Does a reconciliation each week so that the cash position for the next week is known. Wouldn't want to use a bookkeeper, doesn't want others to know his business.
14	Manufacturing (picture framer)	\$140K	MYOB (only First Accounts)	Quarterly	Self	Un-sure		MYOB used to print receipts and capture data. Owner has set up an Excel spreadsheet with the tax rates as a lookup table (took about 10 hours to set up, but worth the effort upfront) used for wages. Excel also used to keep track of debtors then move them into MYOB once payment received. All expenses paid on Mastercard. Easy to do then you're not missing anything. Every quarter input the expenses and wages to MYOB and do a reconciliation. Very IT competent.
15	Manufacturing (upholsterer)	\$500K	Manual cashbook to date, but about to change to MYOB	Quarterly	Father	Un-sure		"Dad currently does the books, but we're about to change to MYOB. We don't expect MYOB to take us less time, but we want have more ownership of what's going on, to take back control. We know how the cashflow is and keep our finger on the pulse. Finding the time will be the difficult part, we work long hours already and are not making huge amounts of money. Will do a course in MYOB and so will my wife. Everything will then go straight into the computer. We're paying lots in tax and it gives you the *****!"

	Industry	Turn-over	System	Recon-cile	Done by	Time taken	Cost	Other
16	Retail (petrol station)	\$5M	BREEZE (manage stock + debtors); bowlers connected to console; POS terminal; MYOB (wages)	Daily	Self			Will only sell stock in shop that is barcoded. Cash register separates out taxable and GST free supplies.
17	Agriculture (winery)	\$1M	Hand written cellar door receipts and MYOB	3 times/wk	Self + ext accountant	1 day wk (self)	\$800 /mth	Owner inputs data and has internal weekly reporting. Accountant comes out very month to check, "it's like having an auditor". Have to have good inventory records - a shrinkage and wastage account is required. "Need to have a real mentality to be able to do the bookwork, it's complex". Spouse does not do any of the paperwork. "I feel I've changed from being a wine producer to being an accountant, and it's not my choice. I try to battle through. A lot of others in the industry are noncompliant, but just throw their hands in the air and say - come and get me you *****!"
18	Food (café and take away)	\$190K	MYOB	Daily	Self	.5 hrs night		Accountant has set up MYOB and upgrades it annually for the owners. It's well set up and used daily to record takings and to create invoices. Owner does a bank reconciliation monthly.
19	Retail (greengrocer /grocer)	\$1.4M	Manual records of purchases and costs	Monthly	Self	1 day mth		Hand written records are updated monthly and provided to the accountant each quarter. Accountant works out the split between GST free and taxable supplies.
20	Service property maintenance	\$50K	Has QUICKEN, but records mostly hand written and hand sorted for accountant	Annually	Self	20 hrs pa		Invoices are sorted manually into categories and provided annually to accountant. Most invoices are done manually. QUICKEN is used for invoices that are mailed out. Wife used to do the bookwork, but they have fallen out over it so now he does it himself.
21	Service (post office)	\$600K	Software provided by franchisor makes bookkeeping easy	Daily	Partner (W)	1.5 hrs/Q		Sales information is provided literally at the touch of a button. Most purchases are from Australia Post provided on an itemised account. Very little time spent on additional data entry.
22	NFP (professional body)	\$51K	Mix of manual and electronic record keeping	Monthly	Treasurer			Quite simple records compiled by Treasurer and audited annually by accountant who prepares annual financial statement for lodgement with the Registry of Co-operatives and Associations as required.
23	Transport (taxi)	With-held	Manual	Monthly	Self	1hr wk		The owner does the books and his wife checks them. He does monthly invoices for the drivers (charging them for the use of the plate and 'sharing the bag' in certain situations). He keeps cab charge and credit card dockets for 6 mths in case of a query.

	Industry	Turn-over	System	Recon- cile	Done by	Time taken	Cost	Other
24	Services (swim school)	\$200K	MYOB		Self + PT bookkeeper	2 days wk		Payroll is done using Excel. Relies on family help.
25	Construction (builder)	\$550K	Mostly handwritten information	Monthly	Wife	2days mth		All records kept for seven years. Wife keeps the books. She pays the credit cards and then codes statements and sends hard copy to accountant. Accountant obtains bank statements from Ebank and codes them as far as possible then faxes to wife for other items to be coded, then statement is faxed back.
26	Motor trades (repairer)	not known	Handwritten invoices	Daily	Self + PT bookkeeper			Purchases are all on account or COD. All records are kept manually.
27 P	Agriculture (broad acre farming)	With- held	CASHBOOK PLUS software is used and electronic information from eBank	Constant- ly	Self			Farmer has successfully pressured accountant to reduce fees, but is paying less than many others using the larger accounting practices. Feels that accounting paperwork is constant with bills falling due on different dates as other businesses control their own work and cashflow.
28 P	Manufact- uring (electrical)	\$1.3M	Daily cashbook using SAGE	Monthly	GM + PT bookkeeper	BK - 2 days mth		General Manager keeps the daily cashbook which is then reconciled monthly and a P & L prepared by PT bookkeeper. Ext accountant does annual audit and prepares financial reports.
29 P	Agriculture (sheep, grain, cattle)	\$400K	Mix of manual and electronic record keeping (using CASH MANAGER)	Daily	Partner (H)	3.5hrs wk		This farmer reported a constant need to undertake record keeping and compliance. He says he is in his office every night for at least an hour - half this time is compliance and half for financial record keeping purposes. He commented in this regard – one of the problems with electronic banking is you can see how much you paid and to whom – but there is no record of “why?”. You have to analyse this and it is time consuming. But as a farmer you need to know where you are at and what it costs to produce a kilogram of wool. So you have to analyse costs.
30 P	Services (outsourcing consultant)	\$800K	MYOB	Monthly	Ext bookkeeper		\$450 /mth	Business administration is outsourced to a contract bookkeeper who also compiles and lodges the BAS. The owner estimates that he also spends an hour a month on tax related activities.



**Table A-3: BAS Practices and Income Tax Return Preparation**

BUSINESS		BAS				OTHER RETURNS				COMMENTS
Industry	Preparer	Basis	Timing	Extra cost	Extra time	Income tax	EOY Financials	Audit	Cost paid	
1 NFP (preschool)	Staff	Cash	Q		Incidental	Ext accountant	Y	Y	\$1.1K	The BAS is prepared by staff from MYOB report and signed off by the Chairman who reported that "the BAS is not a drama now that the system has settled down". There is an issue relating to accumulating reserves for anticipated operating costs, as the accounts should not show a profit.
2 Services (PR)	Self	Cash	Q		9hrs/Q self	Ext accountant	Y	SMSF	Not disclosed	Accountant does not appear to do a BAS reconciliation. Non reporting company so no ASIC returns required. The directors tend not to pay dividends from the company, so they are not required to interact with the franking system. They take profits by way of salary and superannuation. They are aware of and take advice on Div 7A loan issues.
3 Motor trades (mechanic)	Ext BK	Cash	Q	Y	2hrs/day	Ext accountant	Y		\$2K	Accountant has undertaken a business review and identified lower margins as the cause of a 15% fall in net profit since introduction of GST. There has been a discount war in relation to spare parts. There was resentment that car manufacturers (who are subsidised by the government) set the benchmark price that consumers will accept.
4 Food (bakery)	Self	Cash	Q		1day/Q self	Ext accountant	Y		\$3.5K	"Probably wouldn't take as long to produce the BAS if I did it more frequently. It's my fault, I always leave it to the last minute".
5 Services (hotel)	Ext ACC	Cash	Q	Y		Ext accountant	Y	N	\$25K+	Bookkeeping (for management purposes) is outsourced. The external accountant prepares the BAS, quarterly reports, EOY financial statements and the income tax return. There are no ASIC requirements as the personal and company accounts are separate. Not particularly happy with what is being provided, given the fees and is "trying to get the BAS back".

BUSINESS		BAS				OTHER RETURNS				COMMENTS	
Industry	Preparer	Basis	Timing	Extra cost	Extra time	Income tax	EOY Financials	Audit	Cost paid		
6	Construction (carpenter)	Spouse	Cash	Q		2days/ Q	Ext accountant	N	N	Not disclosed	eRecord is used to prepare BAS. The accountant prepares the tax return from the eRecord figures. Very quick and easy, doesn't take long and costs as much for the annual return as his mates pay for each BAS.
7	Services (personal trainer)									Not applicable	Is not GST registered and is yet to lodge an income tax return in Australia. She was surprised to find the division in functions between a bookkeeper and an accountant. Given their relative charges, she thinks she will have to use both. She wants someone who can work with her without adding to the confusion.
8	Services (real estate)	Ext BK	Cash	Q	Y		Ext accountant	Y	Y	Not disclosed	The accountant is a specialist in the real estate industry and "knows her stuff". Would speak to her monthly and visit a couple of times a year. Also subscribes to the accountant's financial services newsletter (additional cost of \$1500/Q). He is willing to pay the relevant fees as he is not an accountant. "If you spend money protecting yourself in one year, you should make it up in increased profits in the next year". Audit of trust account cost \$5Kpa.
9	Services (barrister)	Ext ACC	Cash	Q	\$500/ Q	1day/ Q staff	Ext accountant	Y	N	\$2K	BAS is prepared by the chambers clerk, but all records are sent to the accountant at the end of the quarter for checking. The accountant then lodges the BAS. The clerk phones the accountant if unsure. The clerk is not trained as a bookkeeper and doesn't feel confident in doing the BAS herself. She has made mistakes in the past and they've had to be corrected. Always has a lot of travel costs and they are time consuming to account for GST. Required to keep a log book, it is a real imposition. "Probably not done correctly nor up-to-date".

BUSINESS		BAS					OTHER RETURNS				COMMENTS
Industry	Preparer	Basis	Timing	Extra cost	Extra time	Income tax	EOY Financials	Audit	Cost pa		
10	Retail (fashion)	Ext ACC	Cash	Q			Ext accountant	Y	N	\$5K incl	Owner feels that she has limited capacity with figures and prefers to concentrate on "what she can do best". She has too many other obligations in running the business to do the accounting and compliance work. She has a lot of trust in both the accountant and bookkeeper. She doesn't care what it costs, she is happy to pay to have professionals do this work for her. This way she says she "is not stressed and the government can do what they like - I'm a very honest taxpayer".
11	Construction (builder)	Ext ACC	Cash	Q	\$800/Q		Ext accountant	Y	N	\$1K	"We've changed accountants and tried to get more organised as a result of the fear campaign with the introduction of GST. Doing the BAS is beyond us, we have to rely on the accountant to do this. We're not entirely confident that we should have to trust the accountant to the extent that we do have to - but we're just not confident about what we're doing. The accountant has tried to knock us into shape and to force us to look at our business practices, but at the back of our head we're always worried that we're not doing things properly. We're not worried about what the accountant charges us, it's expedient. We have a SMSF, but we leave that to the accountant to manage".

BUSINESS		BAS				OTHER RETURNS				COMMENTS
Industry	Preparer	Basis	Timing	Extra cost	Extra time	Income tax	EOY Financials	Audit	Cost paid	
12	NFP (community group)	Int ACC	Accrual	Q		Ext accountant	Y	Y	\$9K	BAS is not difficult to do now that qualified accountant is employed. "We reconcile monthly anyway, so BAS is not really a problem". The accountant now works on the ledgers and then reconciles to the GST summary, rather than the previous practice of just paying what the summary said. The auditor found that GST was overpaid by \$1200 in an earlier year, but the time and cost involved in correcting the error is not worth it. "MYOB allows you to set various rates for GST, really have to be careful in setting rates and checking boxes, it's better not to rely on the system too much. I rely on the auditor for advice, especially on abnormal transactions and for identifying other mistakes - for example, we hadn't realised that we needed to make a provision for LSL for casuals employed over 5 years".
13	Food (meat wholesaler)	Ext ACC	Cash	M	\$300/M	Ext accountant	N	N	\$2.5K	Has to generate tax invoices, but it's not a problem. Has a template set up and has to do it anyway to estimate the costs of production. Give the monthly MYOB reconciliation (on disk) to the accountant who prepares and lodges the BAS. Happy to pay the accountant "they fix up a lot of my mistakes, I'm always stuffing up". Works on having the GST refund as quickly as possible, 7-10 days into the next month. Doing the BAS is "so good" you can see where your money is going.
14	Manufacturing (picture framer)	Self	Cash	Q		Ext accountant		N	\$600	The BAS information is already captured as part of the business accounting process, so quite straightforward. Have just changed accountants and the new one has found errors in past returns (overclaim of capital allowances in an STS pool and an underpayment of \$1200 in tax). "We're now amending the returns because I want to do the right thing and be able to sleep at night. I'm really annoyed with the old accountant and think he should pay any interest or penalty on his mistake. It's also

BUSINESS		BAS				OTHER RETURNS				COMMENTS
Industry	Preparer	Basis	Timing	Extra cost	Extra time	Income tax	EOY Financials	Audit	Cost paid	
										going to cost me extra to have the new accountant fix the other one's mistakes and I think that's wrong. It's not right, you have to sign the return to say it's correct, but how do you know?" Lost confidence in accountants and doesn't think there is enough accountability. "If I did a job and made a mess of it I'd give a refund or fix it up". Have spoken to the new accountant about STS, but given the errors that were made, doesn't think it is simple at all. "But not having to do a stocktake is a real bonus though". Don't need to keep a logbook given kims travelled. Unsure of CGT implications down the track as he works from home. Will worry later. Has kept all records.
15	Manufacturing (upholsterer)	Ext ACC	Cash	Q		Ext accountant	Y	N	\$3K incl	Not sure if in STS, has never done a stocktake. Monthly figures provided to accountant and "he tells you the amount to pay. We're changing to MYOB next month to do the BAS ourselves. We just don't feel that dealing with a big accountant has any personal sense and we don't know if the accountant knows all that he should".
16	Retail (petrol station)	Ext ACC	Cash	Q	\$1000/Q	Ext accountant	Y	N	Not disclosed	Owner was entering transactions himself through MYOB, now doesn't bother. Tried to do the BAS himself for a couple of years, got into a real mess and was always rushed and always late. Now leaves it all to the external accountant. Owner pays all bills by cheque and records GST amount on butt. Accountant works off cheque butts, but doesn't look at the source documents. The owner is happy to pay to have the BAS completed, he has "a lot of other things to worry about". The set up costs for GST were high - updating of computers and software. Not much of his own time is involved in doing the BAS.

BUSINESS		BAS				OTHER RETURNS				COMMENTS	
Industry	Preparer	Basis	Timing	Extra cost	Extra time	Income tax	EOY Financials	Audit	Cost pa		
17	Agriculture (winery)	Ext ACC	Cash	M	\$800/M	1day/week self	Ext accountant	Y	N	Not disclosed	BAS is done monthly, "it becomes too wild and woolly if let go". Owner does the basic inputs and then accountant to check his entries and prepares the BAS. Need to keep separate records of wholesale and retail stock and this becomes complex. Also need separate records for WET and GST. Because of small turnover, business is eligible for WET rebate, but still needs to add it on to retail invoices. WET is added notionally onto wholesale sales to work out the correct GST (which is payable on the notional WET, or at a rate of 12.9%). The notional WET is refundable. Freight then needs to be shown separately and the normal GST rate applied. Where the wine is landed in store, there needs to be separate prices depending on the state as the fuel levies differ. "I could easily do my BAS, but I use an accountant instead. It's like a double check and then I feel happier about signing off on my return. The accountant is like an auditor". Keep good records. Working out GST on partly work related travel is a time consuming.
18	Food (café and take away)	Ext ACC	Cash	Q	\$210/Q		Ext accountant	Y	Y		Tax is handled using MYOB. Well set up so little daily effort. Quarterly information provided to accountant for "BAS, tax and superannuation". MYOB allocates GST input credits and calculates GST amount for BAS. Most suppliers provide GST free products (fresh food). Owner balances the till nightly, calculates takings and creates invoices. Electronic information then provided to accountant for BAS.
19	Retail (greengrocer/grocer)	Ext ACC	Cash	Q	\$100/Q	incidental self	Ext accountant	N	N	\$1.6K	Most supplies are GST free. The accountant handles the split and the business pays little GST as the input credits are high. This was seen as a positive thing compared to the WST system in which no credits were available.

BUSINESS		BAS				OTHER RETURNS				COMMENTS	
Industry	Preparer	Basis	Timing	Extra cost	Extra time	Income tax	EOY Financials	Audit	Cost pa		
20	Service (property maintenance)	Ext ACC	Cash	Annual		incidental	Ext accountant	N	N	\$300 incl	Leaves his tax affairs as late as possible, hates the work. Has just submitted his 2004/05 tax return - was told he would have to do it if he wanted to keep the FTB.
21	Service (post office)	Spouse	Cash	Q		1.5hrs/Q	Ext accountant	N	N	\$500	BAS is prepared using eRecord from ATO website. Only takes her about 1.5 hrs per quarter, it really is only a data entry exercise that she can do on her PC at home. "Sales information is provided literally at the touch of a button". All the information from eRecord is then used by the accountant to prepare the annual income tax return, he comes to their home for about 4-5 hours once a year to do this.
22	NFP (professional body)						Ext accountant	Y	Y	\$3.7K	Treasurer is responsible for tax compliance, but the association is not registered for GST so no BAS required. Annual financial statements must be prepared by an accountant who also provides an audit report.
23	Transport (taxi)	Ext ACC	Cash	Q		incidental	Ext accountant	N	N	\$1K incl	Tax is "very black and white" with no margin for argument and he would rather be in the right. He and his drivers all had to get ABNs with the introduction of GST. He insists on his drivers having an ABN, he won't deal with "fly by nighters".
24	Services (swim school)	Self	Cash	Q		incidental	Ext accountant	N	N	No charge	BAS is quick once the data are in. It used to take half a day per BAS, but quicker now. She has her BAS lodged by family friend at no charge, no charge for annual tax return either.
25	Construction (builder)	Ext ACC	Cash	Q		\$600/Q	Ext accountant	Y	N	\$6.5K	Accountant prefers handwritten information and working from bank statements.
26	Motor trades (repairer)	Int BK	Cash	Q			Ext accountant	Y	N	\$4K	The internal bookkeeper does the BAS with advice from the external accountant.
27P	Agriculture (broad acre farming)	Ext ACC	Cash	Q		Y	Ext accountant	Y	N	\$6.4K incl	Accountant prepares BAS by relying on information provided by eBank.
28P	Manufacturing (electrical)	PT BK	Cash	Q		1day/mth	Ext accountant	Y	Y	\$3K	It takes the bookkeeper an extra day a month to do the BAS.

BUSINESS		BAS				OTHER RETURNS				COMMENTS
Industry	Preparer	Basis	Timing	Extra cost	Extra time	Income tax	EOY Financials	Audit	Cost pa	
29P Agriculture (sheep, grain, cattle)	Self	Cash	Q		3.5hrs/wk + 7hrs/Q	Ext accountant	Y	N	\$5K incl	He does as much as he can himself. He does his own BAS quarterly (calls it 'doing the GST'). He provides the records to his accountant at the end of the year for his income tax return - so important to get BAS right. The accountant advises on record keeping and BAS matters as they come up (e.g. how to deal with unusual things). He does his own Diesel Fuel Rebate quarterly. He said there is complexity especially in relation to tax value of livestock and depreciation. He relies entirely on the accountant's professional judgement. He has changed accountant - he had the same firm for 30 years but as owners changed he just became a number so he changed to a firm with a more personal service. Other areas of complexity - personal/business split of expenses on car and phone etc. (He uses the periodic log book method for mileage on the family car - a nuisance at the time but saves time later.) Under GST in the early days they needed to get set up for a correct domestic/business split of GST inputs.
30P Services (outsourcing consultant)	Ext BK	Cash	Q	\$450/mth	1hr/mth self	Ext accountant	Y	N	\$60K	Some of the supplies are international and one big customer requires itemised invoices showing GST splits. There are usually only 3-4 invoices per month, but lots of fiddly purchases - computers and computer equipment, stationary, parking, travel and accommodation expenses. In terms of banking, a separate GST account is kept and this is a hassle having to transfer funds in and out of it.



**Table A-4: Staff Related Issues**

	Industry	Provide fringe benefits	WorkCover/Workers' Comp	Super	Employee/contractor	Comments
1	NFP (preschool)					Payroll is prepared by an external agency at a cost of about \$2.5Kpa. The Chairman doesn't want the worry of getting the pays wrong. Have been using the agency for about 15 years. Agency also manages superannuation. No fringe benefits provided to employees. Salary packaging is not available - Chairman prefers to keep everything up front and above board to limit potential issues. They prefer to pay the award rates rather than having to negotiate outside the award. They subscribe to an employer updating service at a cost of \$600pa. There was a recent case where they would have benefited from less rigid rules in relation to unfair dismissal. Pre-school recently had a WorkCover audit.
2	Services (PR)	Y				There are FBT issues - generally minor issues like parking and travel. This is the area in which they are most nervous as they are not sure that they are properly identifying potential fringe benefits. The different reporting period was described as a "pain in the backside. If there is one thing this review could do it would be to align the FBT and IT periods". It's a problem to go back to previous year's IT documentation for one to prepare the FBT return. Workers' compensation was not seen as a problem. Complying with the requirements of a SMSF are a challenge - they are not sure whether setting up one was the best advice the accountant could have given them.
3	Motor trades (mechanic)	Y		Y		They do not account for fringe benefits - it is timewasting. They have found other ways of helping employees - eg. they do not provide cars for employees, but have courtesy cars for clients that are used by employees when necessary. The employees are paid award wages, managed internally. This will be supplemented by cash payments to meet market rates and assistance is given in providing parts for their own backyard businesses. There is a lot of black money in the market and this is seen as the only way to maintain profit margins. Superannuation is handed through an industry fund. He offers employees their choice of fund, but advises them that there will be an admin charge - no one has chosen their own fund.
4	Food (bakery)		Y	Y		Wages paid weekly using MYOB. No particular problems with casual staff. Award rates paid. Was a collective agreement in place in relation to the franchisor, but it is unclear how the changes in the IR system will affect. She prefers the certainty of staying with the award. There are 2 apprentices, and there is a lot of red tape involved with the Dept of Training in relation to their hours and training requirements. Although this is a nuisance she couldn't work without them for cost reasons. Total wages are below the payroll tax threshold. Superannuation is paid quarterly into a single fund. So far she has not had to deal with choice of fund issues. Her own superannuation is in the same fund. Her accountant has suggested a SMSF, but she hasn't pursued it as she doesn't want to take on the administration issues. Workers' Comp is her major concern- "at least the BAS and superannuation forms are fairly self-explanatory". Workers' Comp forms difficult to understand - not sure if doing them properly. Specific issues include: wages definition; estimating wages vs actuals; recent outsourcing arrangement from GIO to brokers; mismatch in coverage dates.

	Industry	Provide fringe benefits	WorkCover/Workers' Comp	Super	Employee/contractor	Comments
5	Services (hotel)				Y	Is very aware of employee/contractor issues. Ensures that contractors are all genuine businesses, complete compliance statement annually. Both co directors take salary through partnership. Below payroll tax threshold. Has had grouping issues checked in view of different business interests – “one of my other partners got caught out”. Payroll all handled in-house by bookkeeper. Has negotiated contracts with 2 full time staff, casuals all on award. It is accepted practice in the industry, and is easier. Provides certainty. Not happy about some entitlements under the award, but otherwise would have to negotiate them anyway. Superannuation – pays into industry fund – including self. Does ask whether employee wants choice of fund – generally they know their choice entitlement. A few have requested choice of fund, has complied with no admin fee.
6	Construction (carpenter)					Apprentice is through an Army apprentice training scheme - no financial or other obligations or related issues
7	Services (personal trainer)					N/A
8	Services (real estate)					Wages – paid in-house. Sales rep is paid salary + commission. No particular problems arise from inclusion of commission in calculations. As he only has one agent, he pays a reasonable salary + a share of the gross sales – industry standard is low salary + commission on personal sales. This works better for them as he has to spread time between the rental (20%) and sales (40%) side, but must maintain a certain level of sales to keep business healthy. Other 40% of time – don't know where it goes – not specifically on compliance activities. No Payroll tax. FBT issues – 2 cars provided, but employees make contributions to cover personal usage rather than pay FBT – NB needed to check with bookkeeper. Is member of Industry Employers Assoc - provide advice & assistance on employment-related matters when needed.
9	Services (barrister)			Y		Chambers clerk does her own wages, but is checked by external accountant. No fringe benefits provided. Rules for SMSF take up a lot of time. They are complex and change frequently. Did try using a financial advisor, but felt he wasn't very competent, so have managed on own since.
10	Retail (fashion)					Owner does the wages, has a look up book to work out withholding. She pays all the motor vehicle expenses herself and then is reimbursed by the company for work-related travel - rather than have to worry about FBT.

	Industry	Provide fringe benefits	WorkCover/Workers' Comp	Super	Employee/contractor	Comments
11	Construction (builder)	Unsure	Y	Y	Y	Unaware of any FBT liability, there may be (in relation to motor vehicle), but if so, the accountant looks after it for them. Husband works out wages based on diary records and superannuation (they had a WorkCover audit once and they had to go through the husband's diary beforehand to create a wage book). Accountant does the group certificates and works out amount of WorkCover payable. They have several 'workers' but unsure as to whether they should be correctly be employees or contractors. One is using PAYG withholding, but others use ABNs and then include GST. "They're all paid over award. They have to work out and cover their own travel. There is an award covering travel, but it's easier to pay them over it anyway. We probably pay too much, but they're good workers. We pay superannuation and WorkCover for all of them, even though we're not sure if they're employees or contractors for tax purposes. We're worried that the hammer will fall and we'd be up for backpayments, so we'd rather pay upfront instead. They're not needed all the time, it depends on the jobs and the weather. Easier and cheaper if none of them were employees.
12	NFP (community group)		Y	Y		"Payroll system is better now, we're adhering to employment declarations provided by casuals, rather than just making ad hoc arrangements, especially for pensioners. Full time staff are on workplace agreements, there are no salary packaging arrangements available and no fringe benefits provided. All other staff are paid as per relevant award. There are different awards and often different rates for overtime. We're not sure whether we are required to pay superannuation on overtime earnings. The auditor's advice is 'no', but it is a grey area and we pay super just in case. Superannuation is the biggest total pain. The main problem is with casuals - they use different funds and we need to be a registered employer with each for the contribution to be accepted. We usually use XXX but they won't take small amounts any more and the ATO has closed off the small accounts. It's in the too hard basket. If you don't make a contribution by the set date you get penalised - but sometimes you can't get anyone (fund) to take the cheque? What do you do?"
13	Food (meat wholesaler)					N/A
14	Manufacturing (picture framer)		Y			Does look up the relevant award, but pays over it. All employees are in the one superannuation fund. Workers comp is done once a year at the end of September. Need to work out amount paid for wages for the past year and then forecast for the following year. Bit of a pain. "I paid in advance for 2 people, but now that work has fallen off I've forked out too much. I'll get it back eventually, but it's a financial rip off. It needs to be paid based on last year, not on a forecast. Predicting is difficult". No fringe benefits provided.
15	Manufacturing (upholsterer)					N/A

	Industry	Provide fringe benefits	WorkCover/Workers' Comp	Super	Employee/contractor	Comments
16	Retail (petrol station)					MYOB used by owner for payroll, "it is excellent". The withholding detail is a 5 second monthly printout. All employees under the one award. "I hate handing out money for Workers Comp insurance, it really irks me". Has had no interaction with WorkCover. Superannuation is not too bad, just a couple more cheques. Regarding changes to workplace agreements - "we're not planning to do anything. If someone comes, then we'll worry about it".
17	Agriculture (winery)	Y			Y	One state award covers everyone. One 'employee' is now a contractor - his choice. Includes superannuation as part of the deal. Still count the payment for workers comp purposes, but have made him take out public liability insurance for himself. Weekly reporting is now more difficult, he provides an invoice incl GST. Casual workers often ask to be paid in cash, it's just easier for them and they're not interested in compliance. "We won't employ them on a cash basis. We have directors' loan accounts, but pay interest at the statutory rate so as not to have any FBT issues. We always pay the private part of any travel expenses for the same reason".
18	Food (café and take away)		Y	Y		Superannuation is the biggest constraint on hiring staff. It also encourages cash payments (which we do not do). WorkCover is another constraint on hiring - but it is like insurance for us so less of an issue.
19	Retail (greengrocer/grocer)		Y	Y		Labour is expensive, with an annual labour bill of \$180K. Owners try and work on weekends and public holidays to not incur extra wages. Superannuation at 9% is paid as is WorkCover.
20	Service (property maintenance)					N/A
21	Service (post office)		Y	Y		Owner does the wages, PAYG Withholding and superannuation contributions that arise when a casual worker is employed. Pays Workcover, costs \$200pa.
22	NFP (professional body)					N/A
23	Transport (taxi)		Y		Y	Pays WorkCover (a few thousand pa) for his drivers (contractors).
24	Services (swim school)		Y	Y	Y	Instructors are regarded as contractors, but owner does pay superannuation for them. Under choice of superannuation rules the owner has to deal with 10 or more superannuation funds which is a nuisance. There is also Workers Compensation insurance to be paid - the return is due seven days after Xmas which is very inconvenient. There is no FBT issues as she avoids messy tax areas if possible.

	Industry	Provide fringe benefits	WorkCover/Workers' Comp	Super	Employee/contractor	Comments
25	Construction (builder)		Y		Y	Workers Compensation was seen as a major cost to the business and the definition of employee vs contractor was very problematic. Workers Comp and award requirements are a constraint on hiring apprentices. This builder has worked out that in the first year after rest days, days off for TAFE, sick days, etc he would be paying an apprentice \$650 per week for 3 working days of output per week. The Government subsidy does not compensate adequately.
26	Motor trades (repairer)					Workers Comp is paid. WorkCover inspectors visit the site now and then.
27 P	Agriculture (broad acre farming)			Y		Superannuation contributions in respect of employees must be absolutely "spot on". Workers comp payments are required and details of calculation of contributions have to be checked. WorkCover is not a big issue but was aware that insurers' officials were very active locally. Having a SMSF requires annual valuation of assets to be done. The business uses many vehicles and different fuels petrol/diesel, on farm/off farm. The vehicles require that accurate logbooks be kept and the fuel records (for on farm fuel use and its acquisition) also have to be kept punctiliously. This is a cause of tension with employees. They have to be reminded to complete log books. They have to be reminded not to fill vehicles and equipment from the wrong tank etc.
28 P	Manufacturing (electrical)	Y	Y	Y		GM does the wages and PAYG summaries. The summaries don't take a significant amount of time - automated and only about an hour to produce. Do complete a workers comp return (have had one claim in 21 years) - "workers comp insurance is quite expensive". Do take advantage of FBT exemption for NFP - it provides a salary packaging opportunity for staff.
29 P	Agriculture (sheep, grain, cattle)			Y		He does his own PAYG returns and always pays the superannuation for all of them irrespective of whether they fall above or below the threshold that makes this necessary - just not fair to pay the same for all.
30 P	Services (outsourcing consultant)		Y			Owner was particularly unhappy about having to have WorkCover (RSI is the typical work-related injury in this business). It's expensive and its cost is based on a % of payroll with a very broad definition of 'employee' which lifts the payroll base. He regards it as almost an extra payroll tax. WorkCover involves both time and direct costs. There is time cost in familiarising with the rules and an annual return is required (direct cost) - this is more expensive as the business operates across at least three states with different rules for each and each requiring an annual return and having different compliance implications. The FBT logbook requirement is regarded as a great nuisance.

**Table A-5: Compliance with Other Regulations**

Code	Industry	Federal	State	Local	OH&S	Other	Further comments on regulation
1	NFP (preschool)				<p>This is the second major area of concern, particularly in relation to any personal liability that may be attached to the Chairman and other committee members. To manage the risk the chairman arranged to have an OH&amp;S audit about 18 months ago. However he is concerned that this would not eliminate one-off incidents that may result in a liability.</p>	<p>Most significant compliance issue relates to licensing requirements of Dept of Community Services (DOCS). There are periodic audits of the facility, and non-compliance with the current requirements often requires major structural work to the premises. Some requirements seem nonsensical to the committee – eg nappy changing facility costing around \$12,000, when the centre provides education for 4 &amp; 5 year olds, and which has never been used since installation. DOCS licensing requires staffing numbers and qualifications.</p>	<p>There is some concern that the committee may not be aware of all regulations affecting their operations. For example there was recent debate on whether volunteer parents needed clearance to work with children. The approach adopted tends to be a cautious approach: ask the relevant regulator, then comply anyway to the extent that it is practical. The Chairman has a pragmatic approach to the DOCS requirements, finding it easier to comply than to resist and risk the licence.</p>
2	Services (PR)				<p>Not seen to be a problem.</p>		<p>Industry specific issues relate to the Australian Electoral Commission returns of public donations - eg. attending fundraising dinners and PI insurance</p>
3	Motor trades (mechanic)		<p>He received 5 yrs worth of backdated assessments even though appropriate notifications were in place, which really hit cash flow. He</p>		<p>He has had some robust discussions with inspectors, but so far has not run into problems. He believes that the regulations are</p>	<p>There is a lot of black money in the market as this is seen as the only way to maintain profit margins – eg parts purchased, payments</p>	<p>It is hard to keep up with all the tincy wincy regulations everywhere.</p>

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Code	Industry	Federal	State	Local	OH&S	Other	Further comments on regulation
4	Food (bakery)		<p>can't pass these costs on to the customer as the pricing is market driven. He found transferring his licences &amp; registration very time wasting. He had to transfer the business name with one department and the workshop licence with another, and couldn't work out which had to happen first as they both needed current details. Finally the licence had 2 changes recorded.</p>		<p>unworkable in a workshop. Many regs can't be complied with without creating other problems. He acknowledges that some workshops are bad, but questions whether they are the ones being inspected.</p>	<p>from customers, topping up wages for trades-men. It is seen as a business decision. Eg – recently purchased 2 computer monitors for cash discount. Saved \$50 &amp; will still claim depreciation. He maintains a separate set of records so that he can see the real business figures as well as the official figures. Also charges different hourly rates to different types of customers.</p>	<p>Franchisor ensures that systems of work comply. They provide training &amp; spot audit /review if required. Eg assisted with workplace injury last year. Generally she finds compliance work inconvenient, but there are good reasons for it and it has to be done.</p>

Code	Industry	Federal	State	Local	OH&S	Other	Further comments on regulation
5	Services (hotel)	<p>Other taxes – liquor franchise tax used to be very time consuming, manual system with varying rates. Superseded by GST &amp; legal changes. Subject to WET, but pays to the wholesalers – no problems at this end.</p>	<p>Betting Tax – probably the easiest tax to comply with as it is all remotely monitored – changed 5 years ago. All machines monitored by TAB, have permanent link – eg if machine turned off. OSR sends account for tax due. Chooses to keep own records of turnover to compare to OSR, but not necessary. There have been problems where figures don't match up, generally very easy to resolve with TAB/OSR. Views this as separate system to rest of the business. Probity checks on owners – very strict checks for pokies, more of a compliance issue than paying the tax. Other licence checks also one of the three major compliance issue for the business. Land Tax – has concerns about valuation issues – very hard to challenge assessments, not transparent. Very bureaucratic when trying to challenge assessment.</p>	<p>Local government – can be very time consuming. Main problem is the DA process, &amp; complying with local planning laws: eg a sign is 12cm into public space, has to pay licence fee \$700pa. Other signs would be more non-compliant – waits for them to come to him. Local government can be unpredictable “You don't know the ground rules”.</p>	<p>Probably skirts around the law – is too hard. Has done training courses &amp; had risk assessment, but has not fully implemented system – eg OH&amp;S committee. “Every hotel in NSW would have about 8 books &amp; files re OH&amp;S gathering dust on their shelves – I don't know anyone, even the big hotels, that would be fully compliant.”</p>		



Code	Industry	Federal	State	Local	OH&S	Other	Further comments on regulation
6	Construction (carpenter)				Doesn't bother about it – applies safe system of work, but is only responsible for himself – makes sure apprentice learns safe work practices. Maintains accident insurance, but hasn't had injury serious enough to take time off work.	Contractor requires him to have own public liability insurance - has to have proof.	
7	Services (personal trainer)		Has a business name on her card, but hasn't registered it – is unaware of any other compliance obligations.			Other compliance issues – primarily related to registration. Needed to be a member of the industry body, have Australian First Aid and pay Public Liability insurance. There were problems with recognition of her overseas qualifications.	
8	Services (real estate)		Is required to lodge annual statement with Department of Fair Trading re trust account, with audit report. If unsatisfactory/qualified, may have to answer further questions. He believes that the activities of the DFT are funded through compliance activity rather than licence fees. "This isn't really an extra burden as it is based on stuff you should be doing anyway". It enforces good practice as you might not do it if you didn't have to report. Also mentioned a		He is concerned for the personal security of staff. He installed cc cameras for their safety and was annoyed when one employee complained that they hadn't been given notice.	Insurance – professional indemnity is paid by business, but each staff member is required to maintain CPD for policy to be valid. If employee allows CPD to lapse, the liability is on the employer – not a major burden, but is aware of it. May pay for employee to attend courses.	

Code	Industry	Federal	State	Local	OH&S	Other	Further comments on regulation
9	Services (barrister)	Have to pay fee to have the accountant use his address as the registered address of the company.	Professional Standards Act; Legal Profession Act 2004. Need to be a registered user of liability information and use it on letterhead and when disclosing fees to clients. If you don't disclose, then you are in breach of the Act and can't sue for fees. Also need a practising certificate each year (since 1987) and are required to provide an affidavit as to standing.		Not a high priority, but no problems.	Must have professional insurance and undertake PD.	
10	Retail (fashion)	Unaware of any ASIC requirements.	No state tax issues.	They do a good job.	Not a concern.		
11	Construction (builder)	"We're unaware of company regulations that apply, we just pay the cheques when advised by the accountant. We're supposed to have a company meeting, but the accountant just signs off on it. We don't want to know".			Need to have points to get cards. Husband relies on friends in the industry to keep him up to date with the requirements.		
12	NFP (community group)		Co-Operatives Act 1992(NSW) - fairly tight legislation and we have to comply with rigidly. No payroll tax or land tax. There are stock levies to be paid to OSR. General Manager is also responsible for keeping chemicals and requires accreditation.	Unaware of any issues.			IFRS has been challenging - what is the earning potential of the organisation? Need to give more accurate information to members and this requires directors to make estimates - it just has to be done.
13	Food (meat wholesaler)	Have to pay RIRDC levies. Takes 3 seconds to handle - deduct from payments to	NSW Safe Foods - need to register refrigerated van and coolstore.	None.	Probably in breach - rely on family members to volunteer		

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		farmers.	AQU5 and HALMA accreditation important, need to maintain standards - pay a freight forwarder to handle this.		their services.		
14	Manufacturing (picture framer)		Not really an issue.	None.	Not a concern.		
15	Manufacturing (upholsterer)		Pays land tax, but not regarded as a compliance issue.	None.	No employees, not a concern.		
16	Retail (petrol station)		Do have a range of vehicles for hire but unaware of any state tax regulations in relation to the hire of goods. Dept of Fair Trading - we have to organise to have the pumps checked (to comply with weights and measures requirements).	Environmental compliance issues - we have to keep track of underground fuel. Local council (check on inter-ceptor) easy to work with. If they find something wrong they usually give you time to fix it. It's good to comply with them then you go down on their hit list.	"Place is probably not unsafe, but probably not up to scratch. Am mindful of safety issues, but wouldn't know what the regulations are and would be afraid to ask. The OHS rules are there for big business, they can more readily afford to comply. Think we are supposed to have a Work & Safety committee, but not sure given our size".		
17	Agriculture (winery)	Whole range of compliance requirements - label integrity audit programs; industry levies; Levies Revenue Service; and an annual tax paid on exports per L and per T to DPIE Canberra.	Various obligations, but not onerous as such. Making sure RSA is up to date, having correct signage, be aware of changes to relevant legislation.	Issues with development plans in local area and impact on business - both chemicals and water.	Not a concern.	Require a shrinkage and wastage account. Must have good stock records.	For a business this size there is every incentive NOT to export. Wines need to be analysed and certified, then more paperwork and payment. If there are not many enquiries (for the same wine) then it becomes too expensive.
18	Food (café and take away)		Registration of business name costs \$110pa. Premises are rented so no land tax payable.	Health regulations are important. Council inspectors turn up without warning, make		Tables on the footpath also have to be noted for the purposes of public liability	

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Code	Industry	Federal	State	Local	OH&S	Other	Further comments on regulation
19	Retail (greengrocer/grocer)		Motor vehicle used for market has to be licensed and insured. No need to register forklift if not driven off premises.	<p>Council inspects the premises every 6 months and sends a bill (\$50) for the privilege. No advertising boards allowed outside the premises. Businesses in the shopping centre have been fined for their signs. Council checks that the coolroom is clean and hygienic and that there is no rubbish lying around outside.</p>		<p>In order to shop at Flemington Markets the business has to pay \$200/Q. The business has insurance against fire, window breakage and public liability.</p>	
20	Service (property maintenance)		Pays \$80 to register the business name for 3 years at a time.	<p>Has to ensure that he stays within Council noise limits and cannot commence work before 7am or after 5pm. Thinks it is OK to work on Saturdays, but is unsure of the rules.</p>		<p>He has had to apply (over the internet) for a water use permit on account of the drought water restrictions. The permit was free and the transaction took about 30 min in total. He has to pay registration and insurance on the Ute used in the business. He pays about \$500 pa to secure \$5m Public Liability Insurance which he requires in order to run the business. His corporate clients will not hire him unless he has the certificate – he does not think Dept of Fair Trading or Council</p>	

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Code	Industry	Federal	State	Local	OH&S	Other	Further comments on regulation
21	Service (post office)		<p>Every 3 years they pay \$160 for registration of the business name.</p>	<p>The business has the occasional run-ins with the local Municipal Council. When the foot path paving outside the PO doors got cracked and protruded it was dangerous it took a few phone calls to get it fixed – and only then after they warned that if a customer fell over the customer would probably sue Council! On another occasion Australia Post provided a free “sandwich board” advertisement to be placed outside the PO. The business owner enquired of the Council whether it was OK to display it outside the PO. They were told that a \$500 development application would be required! So they keep the board inside the premises. 3 years ago there used to be 3 parking spaces outside the PO. Vandals removed the parking sign. When Council replaced it they shortened the parking area by one car space (because of proximity to a “blind” rise in the</p>		<p>require him to have it in his business.</p> <p>Not imposed by regulation – but she mentioned that Australia Post audit the Licensed PO every 18 months or so. This is easily done because of the good Australia Post computer system. Each audit takes about 2 hrs of the wife’s time while the auditors are in. The PO business carries Public Liability insurance and Australia Post requires to see the certificate of currency every year. This insurance costs \$1700 or so a year.</p>	

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Code	Industry	Federal	State	Local	OH&S	Other	Further comments on regulation
22	NFP (professional body)		By law the annual financial statements must be approved by the AGM and lodged with the Registry of Co-Operatives and Associations. Public Officer's details are recorded on Registry. Must be an AGM and rules about notice and proxies are observed.	road). After 3 or 4 letters to Council the loss of the one parking has not been resolved. (They were told 'informally' that the simplest thing to do would be for them to move the sign when no one is looking.)		Although not compelled by law (since June 2004) - Assoc still maintains public liability insurance (cost \$450 pa)	
23	Transport (taxi)		Need to have an ID renewed with RTA every 2 years for driver's permit. Requires medical check up and accreditation which costs \$260pa. Green slip is expensive at \$4.5Kpa. Also require (not sure why) another third party insurance.			This business also has fully comprehensive vehicle insurance.	
24	Services (swim school)			She imposes safety requirements on clients whose children will be learning to swim in the home pool – safety fenced, chlorinated, rules about number of children per class – but safety is really thrown		The school is Ausiswim registered (and you cannot be a teacher without being registered) and use the Royal Life Saving program. She has a personal instructor's licence registration which she has to keep	There is compliance in screening instructors under Child Protection legislation - they have to sign a prohibited person's declaration and there is a screening process which is not mandatory but which she requires

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				over to the client because she has no control – it is a mobile service happening in the clients' pools.		up (fees, points required per year).	all instructors to do anyway. Also public liability and professional indemnity insurance on a % of turnover. There is an annual premium and a payment required.
25	Construction (builder)			Council red tape is a difficulty – there are differences between councils in Sydney so you can hit different rules about skips, obstructions etc. There are huge inroads into non productive private time to keep up, with the rules and changes to them. His son looks at this and wonders whether he really wants to be a builder after all.	Major complaint - they impose an unmanageable burden. Rules are inflexible and the same regardless of size of business. WorkCover visit sites and they always find something to fine for - the perception is revenue raising). Their inspectors are inconsistent in what they expect, and the only incentive is enforcement, there is no help available. Many rules are ridiculous. Need to have minuted OHS site meeting every morning before work commences - but what if you have two sites? The HIA has told them that NSW is 18% more expensive than other states owing mainly to OHS requirements.	Are members of Housing Industry Assoc - this keeps them in touch with developments. Builder's licence requires that points be earned from HIA activities (courses can be expensive and there are opportunity costs). Business requires two licences - one for the company and one for the husband (\$400 ea pa).	The home owner warranty after the loss of HIH is now a big cost and has to be billed to customers. It is expensive \$2,000 or \$3,000 per \$300,000 job whereas it used to be \$200 or \$300 per job and easy to get.
26	Motor trades (repairer)		Requires annual registration and licence as a workshop. Business name registered with Dept of Fair Trading and	Council hassle them if they park cars to obstruct the footpath and rangers do check from time to time.		Insurer has made them put up signs to keep customers out of the workshop. There are safety compliance	

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Code	Industry	Federal	State	Local	OH&S	Other	Further comments on regulation
			it has to be registered as an RTA safety checking station to be able to issue pink slips.			requirements (a raised lintel to stop spills onto the street; 6 monthly checks on fire extinguishers) - as an insurance policy requirement. Believe that they cannot legally be in business without insurance. To be an authorised inspection station requires completion of training (1 day for an inspector; 2 days for owner of an inspection station). MTA requires licence to be kept up - membership is voluntary but the owner says it is good as it keeps them updated on changes in the industry - especially changes to regulations such as awards. There are environmental compliance issues - have to have a sump for waste and water from washed components to be filtered - this cost \$12K to install in 1992. There is an enviro bin for filter waste and for some components that are thrown away.	
27P	Agriculture (broad acre farming)	ABS has just sent 3 surveys that will take hours to complete.	RTA imposes huge compliance activities - many examples given relating to the movement of farm goods, equipment (with	The farms are subject to many Crown roads and other easements. Details of these have to be checked.		A compliance activity unrelated to government but a burden all the same is the need to give full	Environmental regulation is both onerous and unpredictable. Last week a Department of



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Code	Industry	Federal	State	Local	OH&S	Other	Further comments on regulation
			<p>and without tracks) and liquids (such as fuel). VG regularly issues valuations of land which must be responded to. Pest-icides must be stored and applied correctly and there are both scheduled and unscheduled audits of same. The farm also has water licences to pay – these have been rising steadily over the years. There are licence fees on several bores and pumps. These are expensive for example he had just had a \$1,000 bill for an annual licence on an unregulated stream pump. There is annual monitoring of coal titles on the farm.</p>	<p>(Usually roads that are close to livestock require installation of grids and fences, and the grids and fences must be maintained by the farmer whilst records of the location of the grids must be maintained by the farmer on the local shire council records for ease of inspection by the shire.) The farms are also on several Crown leases, these are being converted to freehold and this requires frequent checks on details. There is also expense involved in the conversions. Because there is stock on the lands on agistment - stock declarations are required of what stock is being run on what titles. Annually the farmer is required to complete a questionnaire which must be submitted when paying the rates. The questionnaire requires a listing of the sightings of pests (such as pigs, foxes, etc). There is also a noxious insect levy that must be paid very year as well as a</p>		<p>and complete disclosure to insurers. Thus if fuel tanks are moved on the farm so that they are side by side rather than far apart from one another – this is a change of risk that must be reported or the insurer may not pay out in the event of a fire. This has happened to neighbours.</p>	<p>Agriculture officer from Tamworth visited the farm while the farmer was away. He was photographing streams to ensure there were no barriers for the movement of fish. (The fish involved are feral carp so farmer is not sure why they bother!) This officer drove where he should not and caused areas of erosion. The reporting of this will take time and the officer's actions defeat the purpose of complying with conservation orders not to drive where the farmer should not. Any visit from such an official takes time – and many are unannounced. In recent months this farmer has had visits from 4 different authorities whose officers have given their views on the how the farmer should be controlling weeds. These have come from departments of the Rural Lands Protection Board, the Shire Council, the Department of Primary Industries and (not sure about the fourth –</p>

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Code	Industry	Federal	State	Local	OH&S	Other	Further comments on regulation
				noxious animal levy. Paid along with rates.			possibly either National Parks and Wildlife or Environmental Protection Authority the farmer said it was the Local Lands Authority).
28P	Manufacturing (electrical)	Business receives a government subsidy because of employment of disabled - require annual recognition of the grant to verify that the funds have been spent appropriately.			There is routine OH&S with a designated staff member giving this activity 2-4hrs/mth filling in forms and doing checks. Chemicals are locked away for OH&S compliance.		
29P	Agriculture (sheep, grain, cattle)		Annual stock returns to the Rural Lands Protection Board - this can take time as stock records have to be consulted. Annual noxious weed returns to Council - also dealing with their queries and inspections. He has a road through the farm so strictly speaking should register his 15 or so wheeled vehicles, but simply cannot afford to. He has been told he may have to fence the road - but there is an argument over where the road should be (a fence will also require extra dams for stock). A big complaint was the hoops that must be jumped through in order to take advantage of funding from Land-Care.		Required to have lockable chemical storage area for pesticides and a rolling 3 or 5 year (he couldn't recall) chemical accreditation certificate which required first 2, then 1 day training to be kept current. A current certificate is needed to be able to buy certain pesticides (eg those for use in grain silos). A chemical logbook must be kept. He needs half a dozen other licences and certificates too - e.g. chain saw operator (not compulsory course but recommended) front end loader operator's licence (compulsory). He has to do an OHS safety course from		

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Code	Industry	Federal	State	Local	OH&S	Other	Further comments on regulation
30P	Services (outsourcing consultant)	ASIC sends the company an annual bill for the use of the company name. There were concerns expressed about the potential to face a FOI request.	Greening Australia, Catchment Care - the funding is welcome but every project involves visits to and from the funder and the provision of lots of information.  At establishment there were costs incurred in acquiring business name, trade mark and logos (\$2K in fees and many hours of reading and form filling).		time to time. These courses are not all subsidised the way they used to be so you have to pay. They also take longer than necessary, a lot of wasted time learning nothing new.	Firewall security and security of data obtained from clients. The business essentially has to follow the requirements of the State Records Act (SA).	

**Table A-6: Compliance Costs**

BUSINESS Industry	Most costly compliance activity			Nature of cost	Comments
	1	2	3		
1 NFP (preschool)	Licensing requirements of DOCS	OH&S		Time, monetary	Tax does not rate highly. "BAS is not a drama now that the system has settled down". Wages and superannuation managed by payroll agency. Chairman has a pragmatic approach to DOCS requirements, finding it easier to comply than to resist and risk licence. Concern regarding OH&S is in relation to any personal liability that may be attached to Chairman and other committee members.
2 Services (PR)	Tax	SMSF requirements		Time, monetary	"The compliance stuff is not income generating. It is pointless having the person generating the income doing the books. It is dead time - billable hours needed to produce income".
3 Motor trades (mechanic)	GST	OH&S			
4 Food (bakery)	Workers Compensation (the cost)	BAS		Stress, time	Although BAS is the most time consuming compliance task, the one that is of most concern is workers compensation.
5 Services (hotel)	Licensing issues	Planning issues (esp fire and DAs)	Tax compliance and cashflow	Time	Often uses personal contacts to cut through to get appropriate decisions as needed. He is used to dealing with tax at different levels - it just happens. He does resent being an unpaid tax collector for the federal government. "It costs a lot of time and money, but it's not going to change". At the same time he understands that a consumer based tax is going to rely on businesses to collect and remit the tax and there will not be a change in the policy of a GST.
6 Construction (carpenter)	BAS			Time	BAS is simple - done by wife over one weekend using eRecord. Prefers to use actuals to ATO estimate as estimate always higher.
7 Services (personal trainer)				Stress	Lack of engagement with compliance requirements. "Paying tax sucks anyway - especially if you aren't earning bucketloads". She associates too much pain with the process and doesn't want to know.
8 Services (real estate)	Trust account and rent roll	General accounts, wages	BAS	Money	
9 Services (barrister)	GST	SMSF requirements	Income tax	Time, money	In terms of regulations, GST takes up the most time, incurs the most cost and is the most frustrating. Haven't got time to do it all yourself, more efficient to get it done by an accountant but it is costly. GST triggered major change in compliance activities. Both chambers clerk & barrister spending more time on tax compliance.

BUSINESS	Most costly compliance activity			Nature of cost	Comments
	1	2	3		
10 Retail (fashion)					Not sure about knowing about everything. May miss out on a few \$100 here and there and the government is probably well in front, but she doesn't care. She is not stressed. She has a lot of trust in her bookkeeper and accountant. Ignorance is bliss. She doesn't care what it costs. She is happy to be law-abiding - "it means I can have a life!"
11 Construction (builder)	BAS	Superannuation for staff (contractor or employee?)	SMSF- basically all left to the accountant to manage	Stress, time, money	The most significant cost is the worry, then it is doing it (the compliance activity), then paying the accountant. "At the back of my head all the time is that we are not doing things properly - tax is stressful. We're up against it, paying out all the time, being expected to do all these things. Tax compliance is not our top priority. It is like living on the edge, we feel like shutting up and just being wage earners". It worries the wife more so than the husband - "he's too busy with work".
12 NFP (community group)	Superannuation for staff (esp casuals)	GST reconciliations		Time	It's not stressful as such, and monetary concerns are not really an issue - the concern here is in being compliant.
13 Food (meat wholesaler)					Compliance activities are not regarded as a burden in this post-GST business.
14 Manufacturing (picture framer)	Workers Compensation (paying in advance)	Setting up wages book in Excel		Lack of confidence in accountant	Compliance activities are easy to manage, don't worry him at all. He has his systems well set up.
15 Manufacturing (upholsterer)	BAS			Stress, time, money	"We work long hours already and are not making huge amounts of money. We're switching to MYOB to have more control over our business".
16 Retail (petrol station)	BAS	Workers Compensation (having to pay)		Stress	"The psychological cost of tax compliance is a major issue - I've got a lot of other things to worry about".
17 Agriculture (winery)	BAS	Rate and number of changes (eg. WET rebates; State liquor supply subsidy)	Apportionment of business and private expenses	Stress, time	"I'm always worried. I get up in the morning and feel like someone has their hand in my pocket. It's been six years of hell and I'm relatively skilled. We don't object to paying tax, but we do object to the level of compliance - it stops me doing what I do. I spend a day a week buggarising around and I'm very efficient".

	BUSINESS Industry	Most costly compliance activity			Nature of cost	Comments
		1	2	3		
18	Food (café and take away)	BAS	Local council	Workers compensation & superannuation (having to pay)	Stress, time, money	Tax is not the most stressful compliance activity, but does take up the most time. Dealing with Council is the most stressful. Having to pay superannuation and workers' compensation is resented as a constraint against hiring – cost and complexity of processes involved.
19	Retail (greengrocer/grocer)	BAS			Time	Not stressful, get refunds.
20	Service (property maintenance)	Income tax			Stress	He hates doing the paperwork (tax and accounting), he always puts it off. He and his wife have fallen out over it and she won't do it for him anymore, although she works for a tax agent!
21	Service (post office)	BAS			Negligible	Australia Post provides so much for their licensed POs that the tax is really simple - straight out of the computer system.
22	NFP (professional body)				Negligible	Legal requirements regarding financial reporting for association were the most important compliance activity. Not registered for GST.
23	Transport (taxi)	Income tax	There was an awareness of & annoyance with the very broad definition of employee for workers' compensation		Negligible	Tax was not a big issue for this taxi driver. Competition driving down his workload and profit were a greater concern. There was a clear concern about all the non tax compliance activities required to be in business – checks and registrations and their impact on profitability. But also a complaint that motor vehicle safety in the industry was not as well enforced as it should be.
24	Services (swim school)	BAS	Superannuation for staff	Apportionment of business and private expenses	Time	BAS was the biggest compliance nuisance. The requirement to deal with so many superannuation funds under super choice rules was also seen as a high cost compliance activity. The timing of the workers' compensation return (1 January) was a concern given that it is both a busy time for the business and a busy time on the family front. The other noticeable concern was the 'fiddly' process of separating private use from business use of her car and phone, this she resented less than the workers' compensation aspect.

BUSINESS	Most costly compliance activity			Nature of cost	Comments
	1	2	3		
25	Construction (builder)	BAS	OH&S	Time, stress	Although OH&S ranked highly, the owners decided that the BAS and dealing with GST was the biggest nuisance of all. The couple especially the wife were highly stressed, they felt exposed all the time that they might have done something wrong or not paid something and feel it is a balancing act staying compliant. They were stressed by changes in regulation, by variations from one area of Sydney to the next in terms of council requirements. The wife also felt extremely burdened by record keeping and accounting activities.
26	Motor trades (repairer)				Owners find doing <u>any</u> accounting (let alone the tax aspects) somewhat challenging and are happier in the workshop. This business was unable to rank compliance activities, had little idea of the financial side of things and was totally reliant on their accountant and bookkeeper.
27P	Agriculture (broad acre farming)	Environmental compliance issues took up the most time		Time, stress	Psychological costs – were high relating to a mass of regulation taking away time that could be spent farming and being on the land. High handed officials invite themselves onto the land – all require time to meet and discuss.
28P	Manufacturing (electrical)	GST	BAS	Time	"Of all activities working out the GST takes the most of my time". (General Manager)
29P	Agriculture (sheep, grain, cattle)	BAS		Time	"The BAS takes the most time". He said none of his compliance really annoys him – you just have to get on and do things. But he said he did have issues with unreasonable and inflexible deadlines administered by the ATO. He had a bad experience early on with Superannuation – posted his superannuation return on time but because of a postal delay it arrived 3 days late. They sent it back levied a penalty and he got into trouble. He had to get his accountant to sort it out. He felt he had tried to do the right thing but there was a nitpicking approach to the deadline – no supplier being paid a few days late behaves like that – some flexibility is needed. He has been warned in the past that his GST returns are late – but he is trying to do the right thing when he is really busy and the rigidity on deadlines is annoying.
30P	Services (outsourcing consultant)	Capital allowances	Security of information requirements	Stress, time	This business was unable to rank compliance activities, had little idea of the financial side of things and was totally reliant on their accountant and bookkeeper.

**Table A-7: Incidental Costs and Benefits of Compliance Activities**

BUSINESS Industry	Incidental costs of tax compliance	Incidental benefits of tax compliance	Cashflow	Comments
1 NFP (preschool)				Tax does not rate highly in the Chairman's list of compliance activities. The approach taken is that compliance is there for the families and the sponsoring church, and that they will do what is best for the kids.
2 Services (PR)		BAS does force them to look at the books at least quarterly. While accounts payable/receivable are dealt with regularly, the quarterly BAS forces more detailed analysis.	BAS payment does not cause problems as the company is highly liquid and both directors are risk averse. Business has only operated post GST. Owner has noticed significant change in the business environment since the introduction of GST. Outgoings have increased substantially since GST. The quarterly BAS hits cash flow hard. They have gone from a \$5,000 overdraft rarely used, to \$15,000 overdraft within 12 months of GST. Plans to maintain a separate GST fund could not be sustained. GST is on a cash basis, so they do not have to deal with the payment of GST on unpaid accounts.	
3 Motor trades (mechanic)	Cashflow management has become more difficult with the introduction of GST.			Specialist software is well designed for this type of business. They use it to check turnover and margins at least once a week.
4 Food (bakery)				Bookkeeping requirements and reporting cycle largely dictated by the franchisor. Weekly and monthly reports help the owner's awareness of issues as they rise & she makes appropriate adjustments to the business. Generally franchisor ensures systems of work comply.



<b>BUSINESS</b>					
5	Services (hotel)			Can be a problem finding quarterly payments. Tries to maintain a separate tax account, putting away weekly estimate of tax - can be up to \$15Kpw for all taxes, can't always put it aside.	Accounting system largely driven by market requirements (eg bank). Reports used regularly to make management decisions - independent of GST.
6	Construction (carpenter)		Very little monitoring of the business. Is probably easier doing accounts quarterly rather than annually.		Compliance doesn't interfere with what he is doing. Doesn't have any pre-GST experience to compare to, but it was "probably easier then".
7	Services (personal trainer)				
8	Services (real estate)			Major problem is cash flow. Largely market related commissions down, has to work harder to survive - tax can be a worry. Needs a sale a week to pay the bills. He's the only one who really understands that the sales are necessary for him to be able to keep the employees on. Takes a lot of money out of the business as salary but has a large mortgage. His home is on the line.	Using relevant information to monitor business in weekly meetings.
9	Services (barrister)		BAS doesn't given any extra information that helps in running the practice. Does make the preparation of paperwork for income tax purposes easier. Business is no more profitable, but more efficient.	Cashflow can be difficult to manage in this industry, many barristers live on overdraft. Cashflow management is not an issue for him though receipts are spasmodic.	
10	Retail (fashion)		Unware of any incidental benefits that arise from tax compliance activities.	Pays all bills right away and then doesn't have to worry about them.	
11	Construction (builder)				
12	NFP (community)	"We reconcile monthly anyway"	"Accounting system is much		

<b>BUSINESS</b>						
	group)	so BAS is not really a problem".	better because of the GST reconciliations. It is time consuming, but the reporting is better".			
13	Food (meat wholesaler)		"Doing the BAS is so good - you can see where your money is going".	BAS lodged monthly because of positive cashflow it generates.		Cashflow is critical in this business so owner sees compliance activities as his business activities and not as an impost.
14	Manufacturing (picture framer)		"Every 3 months you get a really good snapshot of how you're going. Under the old system, end of year was a nightmare. Now I set aside a morning every quarter to keep everything up-to-date".			
15	Manufacturing (upholsterer)					
16	Retail (petrol station)	Resent the interference of BAS - it is imposing a burden for no tangible benefits. The percentage cost to small business is high.	"There are no incidental benefits, we were already OK. The business is based on good stock control which we already had in place".			
17	Agriculture (winery)		"There are none. I think we were already efficient. We had sales tax to contend with, so we did have good records and systems in place already. We used to the the WST accounting ourselves - it was very simple".			
18	Food (café and take away)					Compliance is a cost of doing business. (The male is a former banker so is accustomed to record keeping and is disciplined about it).
19	Retail (greengrocer/grocer)		Tax is done at the same time as other bookkeeping. A particular benefit of GST is that "we get credits - we never used to under			

<b>BUSINESS</b>					
				WST. GST is a good thing and it has really cleaned up the greengrocer business".	
20	Service (property maintenance)			Able to continue receiving Family Tax Benefit.	
21	Service (post office)			One benefit noted was that as a partnership they were able to put GST collections in their own bank account and they used this money (effectively held on trust until the end of the quarter to offset mortgage interest.)	
22	NFP (professional body)				
23	Transport (taxi)				No major benefits perceived but a strong sense of the need to comply honestly and completely and resentment of those who did not. (This owner/operator is an ex policeman.) Perception that the requirement of an ABN for all taxi drivers had cleaned up the taxi business a lot. More tax compliance, more reliable drivers – fewer 'fly by nights'.
24	Services (swim school)			It was recognised that the BAS processes had to be done at some time if not every quarter then every year so she was resigned to it. She saw it as shifting the compliance time.	
25	Construction (builder)				Tax was a high compliance cost, especially the tax flow aspect.
26	Motor trades (repairer)				

<b>BUSINESS</b>					
27 P	Agriculture (broad acre farming)				Tax is part of the accounting process although it involves lots of checking – more so than in the past because of audit activities of late.
28 P	Manufacturing (electrical)				The time taken in doing the BAS is an additional cost. From the perspective of the GM, there are no special compliance costs associated with being a manufacturer.
29 P	Agriculture (sheep, grain, cattle)				There is an overlap between the information need for BAS and the annual tax return. The information is also provided to a consultant as part of a farm benchmarking study - so the tax compliance activities do provide useful financial information for the farmer.
30 P	Services (outsourcing consultant)			BAS figures also used as part of a farm benchmarking study.  None apparent.	

**Table A-8: Interviews with Accountants**

	<b>Accountant 1</b>	<b>Accountant 2</b>	<b>Accountant 3</b>
<b>ISSUES</b>	Female, aged 30+, manager of branch office for a large regional practice	Male, 50+, sole practitioner, metro-based	Male, 30+, tax manager, metro-based
<b>Type of clients</b>	Business clients, many engaged in primary production.	High net worth individuals and small business - about 30 clients in the range.	Estimates that 80% of work is for clients within the small business category as defined for this study. Clients range across sectors, eg building, export, retail etc. Income tax returns – analysis of issues & preparation of returns, done in conjunction with final accounts, is the major part of the accountant’s work.
<b>Bookkeeping practices of clients</b>	We mostly do end of year work and consulting, rather than processing work. We don’t take on any clients who aren’t using software. Some use BANKLINK to code their entries from their bank statements. We’ll work with BANKLINK or packages like PHOENIX. A lot use a bookkeeper - they feel they have to, but really can’t afford it.	Small business clients – offers total service from bank rec. through to annual accounts. Uses BANKLINK software – downloads electronic file from bank. Coded automatically based on prior entries – sent to client for confirmation. Client confirms coding – takes minimal amount of time – “some actually enjoy doing it”. This is used as basis of BAS and annual accounts data.	Work done for clients ranges from full service – BAS preparation through to accounts & tax returns; to tax returns only. All clients maintain basic financial records.
<b>Accounting</b>	Most farming clients tend to use cash accounting.	Most clients using cash accounting. Will do extra reports for clients if requested, but hasn’t noticed any particular change in the way clients manage their business through management reports.	
<b>Software</b>	Where small businesses are keeping track of debtors and creditors they’re usually using MYOB.	“Software companies have clients by the short & curlies – required to pay for regular updates, and they stop servicing older versions forcing user to update software”. Some clients use MYOB - mixed results. “May have a good bookkeeper who knows what they are doing – they leave and it takes 6 to 9 months before you realise that the new staff member is making mistakes, then you have to fix it and that costs time & money.”	Almost all now use computer software – MYOB most popular then QUICKBOOKS. Only seen ATO tool in use once. % using computerised records has increased since ANTS. There are no particular issues related to currency of updates – software firms seem to be able to release updates for rates & tables within acceptable time frames. There are issues as to whether the software can record things in accordance with ATO requirements, particularly where requirements change.
<b>End of year</b>	We ask at the end of year if their logbook is up to date and that the business percentage is correct - we don’t actually check them, it’s up to the client.	BAS costs about \$350 – 650 Q but EOY fees are reduced as coding already done. Still a lot of compliance at EOY. Particularly – methods of claiming deductions, appropriate elections, etc.	Preparation of final accounts: companies require balance sheet for ASIC purposes, but generally balance sheet not completed for non-reporting entities.

	Accountant 1	Accountant 2	Accountant 3
<b>Simplified Tax System</b>	We also check at year end that they haven't fallen over the STS threshold.	STS – doesn't require much extra work - has developed worksheets/tools to help with decision & adjustments to see whether client qualifies but can't see why need to bundle concessions to a group of clients – eg prepayments: have a realistic \$ threshold, prepayment period, or list of eligible prepayments (eg insurances) and don't apply STS requirements. Complexities tend to arise from inconsistencies and differences between requirements and the way data needs to be presented. Policy needs to recognise that journals are valid method of doing business – cash payments not always necessary. Clients will grumble about not having their books ready yet – time doing books is time away from business. Tries to make it easier through various tools. Most clients don't have the capability to do their BAS – accountant will need to do a forensic audit after the event to sort out problems, and that will cost the client more.	Small Business Concessions – STS doesn't save any time in compliance. There may be some benefits in tax liability & cash flow – depending on industry, but some of the short cuts are contrary to good business record keeping – eg if an assets register is maintained, pooling has different requirements. Cash v Accruals – clients need to maintain debtor & creditor information. Has seen no claims yet for the entrepreneurs discount.
<b>BAS</b>	We do very few BAS (charge \$500/Q where we do) - we get clients to do their own. We do reconcile them at the end of the year (but don't usually look at the underlying paperwork). There are lots of mistakes but probably not big dollars.		BAS – BAS & GST would currently comprise about 15% of work. After introduction it would have comprised about 35% of workload.
<b>GST</b>	Clients need to calculate their own GST. They invariably make mistakes on hire purchase transactions. GST is the major compliance cost concern for small business. It's very time consuming. It's expensive to get the accountant to do the BAS. Most businesses do it themselves but don't understand what they're doing.		GST on luxury cars – inconsistency in limiting input credit available but charging GST on full trade-in price.
<b>Payroll tax</b>	Small businesses are usually unaware of any payroll tax obligation or requirements, we pick it up at year end for them. They have no idea whether fringe benefits are part of payroll tax. We set up a spreadsheet for them to try and help. It's too complex otherwise, there are too many other things for business to worry about and their expertise is not tax.	Payroll – some handled by the accountant, rest do it themselves. Accountant has provided a spreadsheet/working paper that helps the client to keep track of payroll/supn etc. Client needs to look up the relevant rates from the ATO website, but rest done via spreadsheet. Not many small business clients in payroll tax. Lack of uniformity between state (& NZ – beyond scope) jurisdictions. Definitions of wages are getting closer for employment based compliance, but sometimes it's not worth tracking the differences – easier to overcomply – play it safe.	Clients generally do their own payroll if less than 20 employees. Larger businesses are more likely to outsource payroll. Most small businesses are able to do standard pays without problems, but may need help with unusual transactions, such as leave payments. Regular queries arise in relation to superannuation entitlements where the pay is not a normal pay – eg in relation to leave entitlements, workers compensation. Payroll tax – about 1% of work. Issues relate to grouping and directors payments.

	<b>Accountant 1</b>	<b>Accountant 2</b>	<b>Accountant 3</b>
<b>FBT</b>	<p>Very few small business clients have FBT considerations - they mostly reimburse employees for expenses incurred rather than have the hassle of calculating FBT. Where there are 3rd party employees, because of the compliance costs, they usually don't offer any fringe benefits other than those that are exempt.</p> <p>Clients just don't keep the records. Not just the long term records, but records about bonus shares and dividend reinvestment plans. CGT is complicated to calculate (listing every cost) and for share transactions it is a nightmare. Taxpayers don't understand about deferred tax and capital gains. Accounting costs are high. The small business CGT concessions are good, but very time consuming to calculate.</p>	<p>FBT – issue re consistency of reporting year. Need to go into 2 ledgers to calculate FBT. Most FBT for small business clients is re benefits provided to the business proprietors as employees.</p>	<p>FBT – fairly well controlled as long as the client's records are adequate.</p>
<b>CGT</b>	<p>SGC - huge problems. Particularly where self-employed people want to make one annual payment (end of year rather than quarterly). Where the employees are not 3rd party, the business runs the risk of being audited. They just make the annual payment and have a shortfall for the rest of the year. It's not because of the cashflow, it's just extra paperwork and time. Businesses normally do the SGC themselves.</p>		<p>See comment on land tax.</p>
<b>Superannuation</b>	<p>More paperwork!</p>		<p>Superannuation funds: major issue is audit of funds, including inhouse assets &amp; sole purpose tests. They invested in software to help track and monitor investment portfolios, eg current valuation requirements.</p>
<b>ETPs</b>		<p>Tend to have trouble finding out award rates and entitlements, but usually pay award or over award. A lot of confusion re casual/permanent employees &amp; contractors. Particular issue re supn for contractors (eg locums for professional practice) – may be legally required but this will limit personal claims by contractor – they insist that no supn required. Employer in breach of law, but would not have services of contractor if they insisted on paying supn. Contractor negotiates fee based on no supn.</p>	<p>Workers compensation – definition of wages – eg superannuation. Specific Industry Regs - Building Industry regulations re leave and superannuation requirements; Fruit grower required to have refrigerated truck &amp; daily clean out; training requirements for licence renewals. Acknowledges that regs required for public safety, but need consistency. EBA/Awards/Unfair dismissal – genuine issues for small business.</p>
<b>Employees/contractors</b>	<p>A lot of small businesses are using contractors instead of employees. Micro and medium sized small businesses are still not clear about the distinction. It is probably their biggest problem at present. Not just for workers comp, but also for superannuation.</p>		

	<b>Accountant 1</b>	<b>Accountant 2</b>	<b>Accountant 3</b>
<b>Workers compensation</b>	A lot of workers comp audits are being conducted locally at present. They are a real time cost for business - and also the financial cost of having the accountant go out and help the business get ready.		OH&S & Workcover – can stop your business if offence committed by subcontractor or employee without your knowledge. Some requirements excessive/impractical – eg graffiti removalist is required to apply pollution controls; some clothing requirements.
<b>Structures</b>	We try to encourage clients to go for simple structures that everyone understands.		
<b>Land tax</b>		Land Tax – problem when they keep changing the rules – is fiddly. Also hard to find out whether client is registered for land tax. As thresholds & valuations change, no way to check whether client is in the database – may be more comprehensive after the year with no threshold.	Land tax – about 2% of work. More queries than payroll tax. Issues arise from differences between CGT rules & land tax rules – eg principal residence exemption, date of ownership transfer.
<b>Dealing with ATO</b>	Having an audit or query is time consuming and a real cost to client. We've had a CGT query where the BAS resulted in a refund (GST free sale of farmland). The questionnaire was really detailed and took time.	ATO should be consistent - if ABN is registered they should check that the contractor is a business that would not then place obligations on employer - sending mixed messages by saying that it is a business and then placing employment requirements on employer. There is the PSI anomaly - super contributions limited to 9% but if self employed as contractor, could contribute up to limits (with restricted deductions).	Has a particular interest in the cash economy – avoidance of both GST & income tax, but saves on reporting requirements as well. Gov't could be more proactive with technology to capture income of businesses at point of sale.
<b>ASIC</b>		ASIC – Has a staff member trained in doing the corporate secretarial work. Some issues with ASIC – seem to be doubling up on information – eg related entities. If not all managed by the same corporate secretary, there can be inconsistencies in reporting relevant changes, which can result in penalties. With the scale of penalties based on days late, often notification arrives too late to act on it.	A clerical staff member is employed primarily for preparation of ASIC returns, which are seen as administrative rather than technical in nature. Where there are specific technical issues the accountant will deal with them – about 5% of time.
<b>Cashflow</b>			Some small businesses are moving to monthly payments to keep the size of payments down. In particular, in March a company may be required to make a payment of income tax, + BAS (PAYG, GST etc). If a business gets behind with the BAS, there can be major cash flow issues when trying to catch up again.



	<b>Accountant 1</b>	<b>Accountant 2</b>	<b>Accountant 3</b>
<b>Incidental benefits</b>	<p>GST has been positive in that it has made people computerised and more aware of how their business is running.</p>		<p>Benefits arising from better record keeping: Most clients will now print financial reports more frequently to monitor cash flow, debtors, budgeting etc (he encourages weekly reports). They are also better able to manage staffing requirements and work flow.</p>
<b>Incidental costs</b>	<p>Bigger businesses seem to have better knowledge and are more able to manage their compliance costs and obligations.</p>	<p>Client often bamboozled by requirements/choices. Accountant needs to be able to steer the client but the client must be able to make the final choice. He tends to be over careful about the advice he is giving. He has lost clients to other accountants based on “dodgy” information – is confident that fees are competitive. He lost a pharmacist client to an “industry specialist” after steering through a GST audit with grouping issues – clearly feels that clients blamed the accountant for complexities. Relationship with clients is affected by compliance activities - either get into discussion with clients over whether something is necessary or reflected in fees.</p>	<p>Billing – they do have issues with clients over the size of their accounting bills, which relate directly to the complexity of compliance. About 80% of billable time is spent on compliance, to 20% business planning. Clients are often oblivious to changes in the law, relying on the accountant to keep up to date. This is reflected in the billing. The accountant will go to external advisors for specialist advice where necessary – eg legal expenses were recently found to come under the new black hole legislation.</p>