THE BURDEN OF SMALL BUSINESS COMPLIANCE COSTS
PERCEPTION OR REALITY?

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MOTIVATION

• There is a perception (and some evidence) that compliance costs are high in New Zealand for small businesses

• Ministerial Panel (2001) + Government response

• Business New Zealand survey (KPMG 2003)

• Mean Annual Hours Spent on Compliance:
  0-5 employees = 271hrs per annum (313 mins per week)
  6-9 employees = 654 hrs per annum (755 mins per week)
  10-19 employees = 743 hrs per annum (856 mins per week)
DEFINITION OF COMPLIANCE COSTS

- Compliance cost = time taken, or money spent, complying with government regulations
  - Time taken to pay GST, PAYE or income tax is a compliance cost
  - Money paid to an accountant to do tax returns is a compliance cost
  - The amount of the tax paid is not
SURVEY DESIGN

• Random sample of 25 small businesses in Dunedin

• Five types of business
  • Cafes (5)
  • Motels (6)
  • Hair Dressers (5)
  • Garages (4)
  • Engineering Firms (5)

• Response rate = 36 percent

• Survey conducted in 2nd half of 2003
Table 1: Summary Statistics For Firms In Sample

<table>
<thead>
<tr>
<th></th>
<th>No of Workers</th>
<th>EFT Workers</th>
<th>Annual Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average</td>
<td>6.36</td>
<td>4.84</td>
<td>400,869</td>
</tr>
<tr>
<td>Median</td>
<td>6</td>
<td>4</td>
<td>350,000</td>
</tr>
<tr>
<td>St Dev</td>
<td>4.02</td>
<td>3.55</td>
<td>323,533</td>
</tr>
<tr>
<td>Maximum</td>
<td>20</td>
<td>19</td>
<td>1,500,000</td>
</tr>
<tr>
<td>Minimum</td>
<td>1</td>
<td>1</td>
<td>50,000</td>
</tr>
</tbody>
</table>
SURVEY DESIGN (Cont’d)

- Survey involved 3 stages
  - Structured preliminary interview (25 firms)
  - Diary of compliance costs, kept for 3 months (18 firms)
  - Follow up interview (13 firms)
SURVEY RESULTS

The Preliminary Interview

• “When you hear people talk about compliance costs, what do you understand them to mean?”

  • 16 firms had a good understanding
  • 9 had a vague understanding, or said they did not know.
SURVEY RESULTS (Cont’d)

• “To what extent are compliance costs an issue for you and your business? (Major, Minor, Not an Issue)"

  • Major = 8 firms
  • Minor = 11 firms
  • No issue at all = 4 firms
  • Unsure = 2 firms
SURVEY RESULTS (Cont’d)

• “Why is compliance a major issue?”
  
  • The time it takes (7 firms)
  
  • Inflexibility of government departments (2 firms)
  
  • Object to doing unpaid work for the government (1 firm)
  
  • Have to become familiar with health and safety policies of clients (1 firm)
SURVEY RESULTS (Cont’d)

• “Which compliance costs have you been faced with in the previous 12 months (24 firms)?”

• Do these costs provide either “some benefit at reasonable cost”, “some benefit but at excessive cost”, “no benefit” or “don’t know”?
  • 40 compliance costs (from our list) affected at least one firm, plus 12 others listed under miscellaneous

  • 16 costs affected at least 10 firms

• Most firms thought most costs conferred little or no benefit to the firm
SURVEY RESULTS (Cont’d)

Compliance Diary

• 18 firms kept records for 13 weeks:
  • 4 motels
  • 4 cafes
  • 3 hairdressers
  • 3 engineering firms
  • 4 garages
Table 4: Time (Minutes) Spent on Compliance Per Week

<table>
<thead>
<tr>
<th>Firm Type</th>
<th>Average</th>
<th>Maximum</th>
<th>Minimum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motels</td>
<td>74.25</td>
<td>120</td>
<td>22</td>
</tr>
<tr>
<td>Cafes</td>
<td>56.75</td>
<td>110</td>
<td>6</td>
</tr>
<tr>
<td>Hair Dressers</td>
<td>86</td>
<td>159</td>
<td>46</td>
</tr>
<tr>
<td>Engineering</td>
<td>80</td>
<td>110</td>
<td>21</td>
</tr>
<tr>
<td>Garages</td>
<td>35</td>
<td>53</td>
<td>10</td>
</tr>
<tr>
<td>TOTAL</td>
<td>64.55</td>
<td>159</td>
<td>6</td>
</tr>
</tbody>
</table>
Table 5: Time (Minutes) Spent Per Employee Per Week

<table>
<thead>
<tr>
<th>Firm Type</th>
<th>Average</th>
<th>Maximum</th>
<th>Minimum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Motels</td>
<td>10.96</td>
<td>15</td>
<td>5.62</td>
</tr>
<tr>
<td>Cafes</td>
<td>6.79</td>
<td>15.71</td>
<td>0.75</td>
</tr>
<tr>
<td>Hair Dressers</td>
<td>16.89</td>
<td>17.67</td>
<td>15.33</td>
</tr>
<tr>
<td>Engineering</td>
<td>12.67</td>
<td>27.25</td>
<td>5.25</td>
</tr>
<tr>
<td>Garages</td>
<td>8.43</td>
<td>10.6</td>
<td>3.33</td>
</tr>
<tr>
<td>TOTAL</td>
<td>10.74</td>
<td>27.25</td>
<td>0.75</td>
</tr>
</tbody>
</table>
Table 6: Time (Minutes) Spent Disaggregated by Major or Minor

<table>
<thead>
<tr>
<th>Major/Minor</th>
<th>Average</th>
<th>Maximum</th>
<th>Minimum</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major</td>
<td>93</td>
<td>120</td>
<td>44</td>
</tr>
<tr>
<td>Minor</td>
<td>39.2</td>
<td>110</td>
<td>6</td>
</tr>
</tbody>
</table>
SURVEY RESULTS (Cont’d)

Compliance Diary (Dollars Spent)

• Calculated using information from the diary

• PLUS information (from the follow up interview) on the amount paid to an accountant during 2003 (13 firms)

  • Assumed that all money paid to an accountant represents a compliance cost
Table 7: $ Amount Spent on Compliance Per Week

<table>
<thead>
<tr>
<th></th>
<th>Average</th>
<th>Maximum</th>
<th>Minimum</th>
</tr>
</thead>
<tbody>
<tr>
<td>All costs</td>
<td>110.19</td>
<td>464.05</td>
<td>13.46</td>
</tr>
<tr>
<td>Excluding Accountant</td>
<td>47.26</td>
<td>215</td>
<td>0</td>
</tr>
</tbody>
</table>
SURVEY RESULTS (Cont’d)

Follow up Interview

• 13 firms took part in the follow up interview
  • 5 major
  • 7 minor
  • 1 no answer

• “Do you want to change your mind?”
  • 10 firms = no
  • 2 firms (originally minor) = more than minor
SURVEY RESULTS (Cont’d)

• Why compliance costs are minor (2 firms, both motels)
  • Computers made compliance easier (1 firm)
  • Filling in forms fills in down time (1 firm)
SURVEY RESULTS (Cont’d)

• Why compliance costs are major (5 firms)
  • Compliance is higher at certain times of the year (2 firms)

  • Spend several small periods of time a week on compliance (2 firms)

  • It is always in the back of your mind (1 firm)

  • Deliberately kept number of employees low to minimise compliance (1 firm)

• Health and safety regulations make it unprofitable to work for some clients (1 firm)
SURVEY RESULTS (Cont’d)

• “Do you deal with compliance in a solid block of time, or several smaller periods of time?”

  • 8 firms = several smaller periods
  • 3 firms = solid block
  • 1 firm = varies
CONCLUSIONS

• Under _ of the firms in the sample thought compliance was a major issue (but for those thinking it was major, this tended to be a strongly held view)

• BUT, no firm spent more than 2.5 hours a week on compliance

• AND, on average firms spend only 1/5 of the time on compliance as in the Business NZ survey

• HOWEVER, average total cost of compliance is > 1% of turnover (similar to Business NZ)
CONCLUSIONS (Cont’d)

Possible Explanations

• Sample bias and/or sample differences

• Different methodologies (recall v diary)

• Compliance is a nuisance and/or stressful, but does it take up a lot of time?

• Some firms have kept compliance low by not expanding
POLICY IMPLICATIONS

• Many firms see compliance as a major problem

• BUT, results suggest compliance does not take a lot of time

• SO, policies designed to reduce the amount of time spent on compliance may not deal with the problem