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Small business and tax compliance costs: A cross-country study of managerial benefits and tax concessions

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Abstract

Concern about the size and the regressive nature of taxation compliance costs for small businesses has prompted many governments to introduce special tax concessions and regimes for that sector of the economy. This article reports on exploratory research conducted in four countries (Australia, Canada, South Africa and the United Kingdom) in 2010-11 utilising broadly similar survey instruments, designed to collect and collate data about the levels of compliance costs experienced by small businesses; to identify the extent (if any) to which compliance with tax obligations may have given rise to managerial benefits; and to evaluate the use and usefulness for the small business sector of special tax regimes designed to mitigate the burden of tax compliance. In spite of some data limitations it finds remarkably similar outcomes in all four countries: tax compliance costs remain high and regressive, and do not appear to be diminishing over time; many small businesses are aware of the managerial benefits, in terms of better decision making and management of financial information that derives from tax compliance, though few are able to place a value on those benefits; and legislated small business tax concessions do not appear to be making any difference to the burden of tax compliance in the three countries that were considered in relation to that issue.

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1. INTRODUCTION AND MOTIVATION

Taxation has a significant impact upon many sectors of the economy, and in particular upon the small business sector, considered vital for the well-being of the economy (Weichenrieder 2007, p. 4). As noted by Freedman (2003, p. 13), “[s]mall businesses are associated with entrepreneurship, economic growth and job creation”. It is therefore not surprising that governments around the world are very conscious of the heavy burden that taxation systems can impose upon the small business sector (Grainger 2008).

That taxation burden typically consists of three elements (Evans 2008, p. 447). In the first place there are the taxes themselves, whether they are taxes on the profits, the products or the employees. Secondly, there are the efficiency costs (variously referred to as deadweight losses or excess burden), involving tax-induced market distortions. And finally there are the operating costs of the tax system: the costs to the government (ultimately borne by taxpayers) of administering and collecting the taxes (usually referred to as administrative costs), and the costs expended by taxpayers in complying (or sometimes not complying – Kamleitner, Korunka and Kirchler 2012) with their tax obligations (usually referred to as compliance costs). The focus of this article is upon the latter – tax compliance costs, the so-called ‘hidden’ costs of taxation (Sandford 1995a).

Tax compliance costs are those costs “incurred by taxpayers, or third parties such as businesses, in meeting the requirements laid upon them in complying with a given structure and level of tax” (Sandford, Godwin, and Hardwick 1989, p. 10). Such costs are significant for small business taxpayers in all Organisation for Economic Cooperation and Development (OECD) tax jurisdictions (Weichenrieder 2007, p. 4). There is an extensive literature in the area (much of it summarised in Evans, 2008; and in Vaillancourt and Clemens 2008), and previous research has shown that tax compliance costs are high for this sector in absolute terms and relative to the size of the business, whether measured by reference to turnover, income, number of employees or any other proxy. The research also shows that those compliance costs do not appear to be diminishing over time (Lignier and Evans 2012; Lignier, Evans and Tran-Nam 2014). Whilst money and time spent on compliance are the items most frequently measured, small business owners may also experience anxiety and psychological costs in meeting their tax obligations (Woellner, Coleman, McKerchar, Walpole and Zetler 2001).

In response to this concern about tax compliance costs, governments have often endeavoured to implement tax policies in the form of concessions that produce favourable outcomes for the small business sector (Pope 2008, p. 14). Such special tax concessions for small business fall mainly into two categories: positive concessions that provide a lower rate of taxation, an exemption or an accelerated deduction; and relieving concessions that excuse the taxpayer from requirements otherwise imposed (Payne 2003, p. 87). While the first category of provisions can be expected to have some impact on the burden of tax compliance, it is the second category that is expected to have the more significant impact on the compliance costs

of small businesses. Such relieving provisions include registration thresholds,⁷ simplified accounting rules⁸ and time related concessions.⁹

The rationale for enacting special small business tax regimes has been challenged in the literature (Freedman 2009, p. 18), mainly on the ground that these regimes may not meet their goal of correcting a market failure and achieving economic efficiency. Slemrod (2004, p. 69) also contends that special tax treatment may not be warranted as greater non-compliance and tax evasion in the small business sector compared to employees could actually offset their regressive compliance burden (Ahmed and Braithwaite, 2005; Kamleitner et al. 2012; Rawlings 2012). More importantly, attempts to reduce compliance costs may result in the creation of additional complexities. This is not only because of the proliferation of thresholds, but also because of the introduction of anti-avoidance or integrity provisions which often accompany concessional regimes (Freedman 2006, p. 59). Moreover, an adverse consequence of the introduction of ‘simplification’ schemes could be the increased need for small businesses to get professional advice before using the reliefs (Freedman 2009, p. 22).

This article collates and compares the outcomes of empirical research into the tax compliance costs of the small business sector which was conducted in 2010 and 2011 in Australia (Lignier and Evans 2012), Canada (Ebrahimi and Vaillancourt 2011), South Africa (Smulders, Stiglingh, Franzsen and Fletcher 2012) and the UK (Hansford and Hasseldine 2012). The study, exploratory in nature, was motivated by the recognition by researchers in each of the countries involved¹⁰ that very little evidence of a truly comparative nature had yet emerged in the extensive compliance costs literature. Although, as that literature attests, tax compliance costs have been measured extensively in different countries, different methodologies have been used and therefore comparisons have been difficult and have had to be treated with caution. As noted by Chittenden, Kauser and Poutziouris (2003, p. 108), “[t]he extent to which

⁷ For instance, in the year ended 30 June 2011 (the relevant period for this study), the Goods and Services Tax (GST) A\$75,000 (US\$76,196) annual turnover threshold in Australia; the South African Value Added Tax (VAT) registration threshold of R1 million (US\$141,377); and the United Kingdom (UK) VAT registration threshold (as at 30 June 2011) of £73,000 (US\$116,057). Note, by way of contrast, that in Canada the relatively low GST registration threshold of C\$30,000 (US\$29,970) (which has not been increased since 1991) may not provide anything like the same level of relief as in the other three countries.

Also note that the currency amounts in this article are, where relevant for comparative purposes, translated into a US dollar value at the average conversion rates for the year from 1 July 2010 to 30 June 2011. The conversion rates were obtained from the Australian Taxation Office website, accessed in July 2012, at <http://www.ato.gov.au/taxprofessionals/content.aspx?doc=/content/00284996.htm>.

⁸ For example, cash accounting regimes for GST in Australia; the “Quick Method” for GST in Canada; the use of a payments basis for VAT by certain sole proprietors in South Africa; and cash accounting for VAT in the UK.

⁹ For example, those related to the timing of submission of GST/VAT returns in Australia, Canada, South Africa and the UK.

¹⁰ At the outset of the project, Ireland and New Zealand were also involved. Funding for the Irish study failed to materialise with the result that Ireland withdrew from the project in early 2011. The involvement of the New Zealand researchers was disrupted by the Christchurch earthquake in February 2011. The New Zealand researchers were subsequently able to undertake a survey in late 2012/early 2013, in relation to the 2012 fiscal year. Given that the results of the New Zealand research relate to a later fiscal year than the research reported for the four countries in the broader project, it was decided that it would be inappropriate to include the New Zealand findings in this article. The findings are, however, separately reported in Gupta and Sawyer (2014).

it is possible to compare research methodologies and results...by business size and country is limited because of the lack of consistency in the empirical data”.

Conceptual and methodological issues were considered prior to the implementation of the research strategy and these are set out in Section 2 of the article. A standard research methodology was adopted across the four countries and a broadly common survey instrument was used in order to establish small business tax compliance costs and associated benefits, including an evaluation of the effectiveness of regimes designed to ‘simplify’ tax compliance obligations or counteract the regressive nature of compliance costs for small businesses. It was considered that this approach would address previously expressed concerns about international comparative studies and so “enlighten rather than mislead” (Sandford 1995b, pp. 405-406). The following sections, entitled ‘Composition of tax compliance costs’ (Section 3), ‘Managerial benefits’ (Section 4) and ‘Small business tax concessions’ (Section 5) consider the principal outcomes of the research project and the final section of the article provides the conclusions of the project.

The results from the four countries are remarkably consistent, despite some local differences and in spite of some limitations in the quality of the data collected. But although the results are consistent, they are also not particularly encouraging. They suggest that the burden of tax compliance costs continues to be large for the small business sector, in both absolute and relative terms. More depressingly, it appears to be the case that the problem is not getting any better, and that there has not been much success, thus far, in getting the settings right so far as tax policy for the small business sector is concerned.

2. CONCEPTUAL AND METHODOLOGICAL ISSUES

This section outlines several conceptual and methodological issues that arose in relation to this study. These included: how a small business was to be defined; how the sample population was to be determined; the taxes that were to be covered; the identification and measurement approach of costs and benefits that was to be adopted; and a variety of other methodological issues.

2.1 Definition of small businesses

There is no universally accepted definition of small business. Moreover, the definition of a small business for the purpose of tax concessions may vary even within the same jurisdiction between taxes. Hence it was decided to adopt a flexible, country specific, approach to how a small business was to be determined.

One criterion commonly used in all four countries is the number of employees. For the purposes of this study the maximum number of employees for a business to be defined as ‘small’ was taken to be 50, although in Canada the actual number varied between provinces. Responses from businesses with more than 50 employees were generally excluded from detailed analysis in the study.

Another criterion that was used in this study was turnover. Given the extensive use of different turnover thresholds in each of the four countries, it was decided to build in to the conduct of the research significant minimum and maximum turnover thresholds

employed in each of the countries for tax purposes. By using compulsory GST/VAT registration thresholds in each country we excluded tiny ‘hobby’ firms. As of June 2010, for GST/VAT purposes, minimum threshold turnover levels requiring compulsory registration were, in local currency (with equivalent US\$ in brackets): Australia A\$75,000 (US\$76,196); Canada C\$30,000 (US\$29,970); South Africa R1,000,000 (US\$141,377); and UK £70,000 (US\$111,288). Canada thus has the lowest threshold, with South Africa the highest. In addition, South Africa introduced a ‘micro’ business regime in 2009 designed to reduce administrative burden for businesses with a turnover up to the VAT threshold.¹¹

A maximum annual turnover in local currency (and US\$) for a business to be classified as ‘small’, taking into account the relevant type of entity and applicable legislation, was also adopted in the research. For Australia this was the small business eligible entity limit of A\$2,000,000 (US\$2,031,901); for Canada it was the quarterly filing regime threshold of C\$6,000,000 (US\$5,994,006); for South Africa it was the small business corporation limit of R14,000,000 (US\$1,979,274); and for the UK it was the cash accounting scheme threshold of £1,350,000 (US\$2,146,264).

These criteria are summarised in Table 1, expressed solely in US\$.

Table 1. Summary of criteria used for small business definition and classification: All countries (expressed in US\$)

	Australia	Canada	South Africa	UK
No. of employees	50 or less	50 or less	50 or less	50 or less
US\$				
Max. turnover	2,031,901	5,994,006	1,979,274	2,146,264
Min. turnover	76,196	29,970	141,377	111,288

2.2 Determination of the sample population

Having determined that the sample populations of interest to the project were firms that had no more than 50 employees and having also determined that the survey instruments would be tailored to meet respective turnover thresholds relevant to small businesses within each country, it had then to be established which types of business (by reference to industry sector and by reference to the form in which the business was conducted) should be examined.

Given the breadth of small business activity across all industry sectors, it was determined that all sectors would be in scope for the study. Previous research (for example, Sandford et al. 1989; Evans, Ritchie, Tran-Nam and Walpole 1996; Chittenden, Kauser and Poutziouris 2005) suggests that compliance costs are not significantly affected by the industry sector in which the small business is operating. As a result, no attempts were made to ensure that all industry sectors were proportionately represented.

¹¹ A summary of the major tax concessions available to small businesses in each of the four countries in the period of the study is contained in Appendix A.

All appropriate forms of entity used to conduct business activities were considered in each of the four countries. It was expected that the corporate form of business would be the norm in all countries, together with partnerships and sole proprietorships. In Australia trusts were also included, as these are widely used by small businesses. Limited Liability Partnerships (LLPs) were also surveyed in Canada and the UK.

Hence the studies in the four countries endeavoured to cover a broad range of small businesses across all sectors of the economy, trading through all relevant types of business vehicle, although there were no formal attempts to ensure a stratified and representative sample. Moreover, no checks were ultimately made for non-response bias once completed surveys were received in three of the four countries.¹²

2.3 Tax coverage

The study measured the compliance costs associated with tax obligations, principally at the national level, to which small businesses are routinely exposed, as shown in Table 2. This covered GST/VAT obligations, personal income tax for self-employed individuals and partnerships, corporate tax for companies and payroll related taxes and levies.

Table 2. Tax obligations of small businesses in each jurisdiction (2010–11)

	GST/VAT	Income Tax	Payroll related taxes
Australia	GST (Federal) Rate: 10% (or GST free or input taxed) Quarterly reporting (instalment regime available)	Sole traders, partnerships & trusts: Progressive rates 15% to 45% Quarterly instalments if tax > A\$8,000 Companies: Rate : 30% Quarterly instalments if tax > A\$8,000)	PAYG withholding: Reported quarterly or monthly if liability > A\$25,000 p.a.
Canada	GST (Federal) : Rate 5% Quarterly reporting PST (provincial)*: Average rate 7% (no PST in some provinces) Reporting : varies	Sole traders, partnerships, LLPs: Federal: progressive rates 15% to 29% Province: progressive varies (collected federally) Quarterly instalments Companies: Federal: 11% (on the first C\$400,000) Province: progressive rates (collected federally)† Quarterly instalments where tax > C\$3,000	Federal: Income tax Pension plan Employment Insurance Reported quarterly (monthly if remittance > C\$3,000) Provincial: Various payroll tax and contributions e.g. health premium in Ontario,

¹² A 'wave analysis' was conducted in South Africa, which concluded that there was no evident response bias (Smulders et al., 2012). Non-response bias has not generally been identified as a significant issue in previous compliance costs research, although some studies have undertaken extensive testing to establish the extent, if any, to which it exists (e.g. Evans et al., 1996).

South Africa	VAT Rate: 14% (or zero rated or exempt) Reporting every two months (quarterly reporting if taxable supplies do not exceed R1.5m)	Sole traders, partnerships: Progressive rates 18% to 40% Bi-annual instalments Companies: Rate : 28% Bi-annual instalments	PAYE: Reported monthly
UK	VAT Rate 17.5% (or zero rated or exempt) to 4 January 2011; 20% (or zero rated or exempt) from 4 January 2011. Quarterly reporting (Flat rate scheme if turnover under £150,000)	Sole traders, partnerships, LLPs: 40% above £36,600 2 payments (account) Companies: (Rates change on 1 April with those for period 1 April 2011 to 30 June 2011 given in brackets) Rate on profits £0–£300,000: 21% (20%) £300,001–£1,500,000: 21–28% (20–26%) Over £1,500,000: 28% (26%) Single annual payment	PAYE & NIC: Reported quarterly, (monthly if liability > £1,500 p.m.)

* Three provinces (New Brunswick, Nova Scotia and Newfoundland) have combined the Provincial Sales Tax (PST) and the GST into a single tax called Harmonized Sales Tax (HST); British Columbia and Ontario moved to HST in July 2010 but British Columbia subsequently withdrew from the arrangement (in August 2011). Alberta, The Northwest Territory, Yukon and Nunavut do not impose any PST.

† Two provinces (Quebec and Alberta) collected the provincial company tax directly.

2.4 Identifying and measuring tax compliance costs

The term ‘tax compliance costs’ used in this study follows and builds on the work undertaken in previous studies (Sandford et al. 1989; Evans et al. 1996). Inevitably different methodologies have been used by different authors when measuring tax compliance costs (Sandford 1995a; Evans 2003). While there is some controversy as to which method provides the most accurate measure (Turner, Smith and Gurd 1998), two components of tax compliance costs are generally identified as being critical to the measurement of tax compliance costs: internal costs and external costs.

For the purposes of the surveys in each of the countries, internal compliance costs were distinguished from external compliance costs, even though there is no categorical listing of what elements of compliance costs are deemed ‘internal’ and which ‘external’. For small companies the work outsourced to external advisers may be more basic than for larger companies. The very nature of small businesses are such that they are all very different with differing needs requiring different levels of support at various stages in their development. An example of this is, of course, payroll costs. A large organisation with hundreds of employees will usually deal with all payroll costs in-house, as that is the cheapest and most efficient way to handle them. The number, and potentially the complexity, of the payroll functions in a large organisation will be such that investment in full time employees to manage the payroll will be justified. For small businesses the payroll function may be cheaper to operate through an external payroll bureau as the time required to keep up-to-date and maintain the accuracy of the payroll function may not be justified. Previous studies (Sandford et al.

1989, p. 95; Godwin 2001, p. 12) have shown that the payroll costs per employee are highly regressive and, in practice, small organisations tend not to have the time or expertise to administer the (often complex) system effectively. This example shows that payroll costs will be an 'external' compliance cost for many small businesses, whereas for larger businesses they will often be an 'internal' compliance cost.

The above goes some way to explain the complexity of identifying different types of compliance costs for a range of types of small businesses across international boundaries. The four-country study undertaken in Australia, Canada, South Africa and the UK encountered several operational issues in exactly defining internal and external compliance costs and within these categories the different time scales and costings for each event. For the analysis that follows the distinctions for internal compliance costs are those incurred within the limitations of the firm and external costs are those outsourced and paid for from commercial organisations set up to provide those services. The dividing line for 'pro bono' work carried out by friends and relatives gives added complexity to dividing costs for small firms, as in practice small businesses do need to 'call in' favours from those actively interested in the small organisation, although not directly employed by the small business.

Typically, then, internal costs are the costs of labour/time consumed in completion of tax activities. For example, the time taken by a business person to acquire appropriate knowledge to deal with tax obligations such as Pay As You Earn (PAYE) or GST/VAT; or the time taken in compiling receipts and recording data in order to be able to complete a tax return. Tax related activities can include such activities as: recording information; dealing with the tax authorities; dealing with tax advisers; learning about tax laws; and tax planning activities (Colmar Brunton 2005).

External costs are the costs of expertise purchased to assist with completion of tax activities (typically, the fees paid to professional tax advisers). Such external service providers may be used simply to undertake tax compliance activities, for example, the preparation and submission of returns and reports; alternatively they may provide tax planning services. The former is usually accepted as being an activity that has to be undertaken, while tax planning or mitigation is often seen as a voluntary or discretionary service. But typically the literature makes no distinction between the two, accepting that practically the costs are indivisible and that both are components of the external costs of tax compliance (Evans 2008, p. 452).

The assessment of tax compliance costs requires the identification and estimation of such internal and external costs incurred while carrying on various tax related activities. Together these costs comprise the *gross* costs of tax compliance. These 'gross' costs of compliance incurred by business taxpayers may be partly offset by tax compliance benefits (Sandford et al. 1989, pp. 13-14; Tran-Nam, Evans, Walpole and Ritchie 2000, pp. 237-238), which include cash flow benefits, tax deductibility benefits and managerial benefits. While the first two types of benefits have been incorporated in previous studies (Allers 1994; Evans et al. 1996), managerial benefits have generally been ignored. Managerial benefits are derived by the taxpayers, in particular small business taxpayers, where the more stringent record keeping requirements imposed by tax compliance result in the production of managerial accounting information available for decision making and other business purposes (Sandford et al. 1989, p. 89; Lignier 2006, p. 416).

It was decided that this study would primarily focus on managerial benefits rather than on the two other types of tax compliance benefits for three reasons. First, cash flow benefits to small firms are likely to be close to zero (given the levels of withheld tax involved and exceptionally low interest rates at present). Second, current rules for deducting tax compliance costs in tax returns are unlikely to be changed. Third, and most importantly, small firms tend to lack specialist skills in the area of employment law, financial management and tax, which, coupled with competing demands on owner-managers' time, means that studying managerial benefits accruing from the tax system is especially relevant and a contribution to the existing literature.

2.5 Survey administration

The method of administration chosen for this study was an 'electronic survey', where potential respondents were contacted by email and referred to a survey web page. The main advantage offered by electronic surveys is that they are a much quicker and much cheaper way to access a large sample over a wide geographical area (Kaplowitz, Hadlock and Levine 2004, p. 94). As such this methodology is particularly well adapted to international research targeting widely dispersed populations of potential respondents.

The other significant advantages of using the internet to administer the survey include cost savings associated with eliminating the printing and mailing of the survey instrument as well as time and cost savings of receiving the survey data in electronic format (Kaplowitz et al. 2004). The main disadvantage is that internet coverage is not universal and that in populations with access to the internet, the response rate is lower than with other survey methods (Kaplowitz et al. 2004). Another possible problem associated with internet survey is the possibility that emails may be treated as junk email or spam by potential respondents (Kaplowitz et al. 2004, p. 95).

Data were collected using separate questionnaires for each country, which did however follow a common structure. So while the questionnaires were adapted for different types of taxes and terminology, e.g. GST or VAT, the questionnaires did ask respondents for identical measures (e.g. number of hours spent on particular compliance activities) that allowed for the comparative analyses made later in this article. The 'original' common questionnaire was drafted by the authors of this article based on prior research. It was widely exposed to other academics, practitioners and revenue agencies (Her Majesty's Revenue and Customs, the South African Revenue Service (SARS)) and input was received from the World Bank. A pilot exercise was also conducted in Australia and South Africa.

In terms of the 'harmonised' questionnaire, one important exception was made in respect of the UK. At the time the questionnaires were being developed and administered in 2010/2011, the UK Government had instituted a review of tax reliefs and allowances, under the auspices of the newly-formed Office of Tax Simplification (OTS). Given that it was unknown exactly what the OTS would recommend, or how

the UK Government would respond, a decision was made to remove the section on small business tax concessions (SBTCs) from the UK questionnaire.¹³

In terms of sample population, South Africa was the only country where co-operation from the revenue agency (SARS) allowed an entire population of small businesses to be surveyed. In the other three countries either a commercial database was used (Australia and Canada) or a partner was sought to send out the email invitations (UK).

Set out below are pertinent details in relation to each country:

- Australia: an email invitation (with one email reminder and partial telephone follow up) was sent to 3,500 small businesses on a commercial database. The email contained a link to LimeSurvey, an open source survey application and the yield was 159 usable responses (4.5% response rate).
- Canada: a bilingual (English and French) survey was used. Email invitations were sent to 2,449 firms across Canada, followed by two email reminders and 250 phone calls. Of 55 questionnaires ultimately received, only 33 of them contained enough information to be able to be used in the survey (1.35% response rate). Moreover, five questionnaires were eliminated as they had more than 50 employees; also, three more firms were excluded as a result of inaccurate and contradictory information provided by the respondents. This left only 25 usable responses.
- South Africa: email invitations were sent to 88,057 small businesses with 5,865 usable responses (6.7% response rate).
- UK: emails were sent to 4,420 accountants working in a small business with a link to an open source survey application, with 40 usable responses. One of the chief differences between the UK and the other three countries was that instead of going direct to small businesses, because the researchers were able to negotiate assistance direct from the Association of Chartered Certified Accountants (ACCA), a decision was made to use their database for the email invitations. However, in the end, the response rate was a disappointing 0.9%.

Overall, therefore, there was a very low and somewhat disappointing response rate in two of the countries (Canada: 1.35%; and the UK: 0.9%). In Australia the response rate of 4.5%, whilst higher, was still not as good as was anticipated. The response rate in South Africa was the most impressive at 6.7%, reflecting direct revenue authority (SARS) assistance and a very large potential population of respondents. For the other countries, without revenue authority support, a sizeable research grant and more extensive use of research assistants, it was not possible to put additional resources into contacting respondents directly and encouraging greater participation.

¹³ The OTS identified 1,042 reliefs, and looked at 155 in detail, recommending in their final report of March 2011 that 54 remain unchanged, 37 be looked at in yet more detail, and 47 be abolished on the basis that they were either time expired, there was no ongoing policy rationale, the value was negligible, or the benefit was outweighed by the administrative burden (Office of Tax Simplification 2011). Interestingly, the OTS decided to not review VAT reliefs, prompted by a Green Paper announcing a review of VAT published by the European Commission at about the same time (European Commission 2010).

3. COMPOSITION OF TAX COMPLIANCE COSTS

The general trends across the internationally collected data are interesting to consider and the following sections identify the more significant of these trends.

3.1 Internal tax compliance costs

The questionnaires in each of the four countries asked respondents to assess how much time they spent dealing with particular types or categories of tax. Their responses, with values translated to US\$, are summarised in Table 3.

Table 3. Allocation of internal compliance costs to each tax (expressed in US\$)

	Australia (US\$)	Canada (US\$)	South Africa (US\$)	UK (US\$)
GST/VAT	12,141 58.2%	6,600 16.2%	2,872 38.0%	9,638 41.3%
Income Tax	4,570 21.8%	24,333 59.6%	2,237 29.7%	6,935 29.7%
PAYG/PAYE	3,183 15.3%	7,280 17.8%	2,337 31.0%	5,795 24.9%
CGT	236 1.1%	N/A	76 1.0%	957 4.1%
Other *	749 3.6%	2,620 6.4%	20 0.3%	N/A
All taxes	20,879 100%	40,833 100%	7,542 100%	23,325 100%

* comprises FBT in Australia, QST/PST in Canada, and Customs & Excise in South Africa

The broad indication given by these results confirms the outcomes given in previous studies. For three of the four countries, VAT/GST takes up by far the largest share of the internal costs of tax compliance: 58.2% in Australia; 38% in South Africa; and 41.3% in the UK. The ratios of the other principal taxes or taxing mechanisms in relation to VAT/GST compliance costs are broadly in line. Canada stands out from the others with relatively high levels of income tax internal compliance costs. The low level of responses for that country suggests the figures for Canada should be viewed as indicative only.

Respondents were also asked to report internal time spent on specific tax activities. The different options were taken from the list adopted in a survey of New Zealand small businesses (Colmar Brunton 2005) which had been developed from the taxonomy of tax activities used by Evans et al. (1996). As shown in Table 4, the main categories of tax-related tasks offered to respondents were: recording information needed for tax; calculating tax; completing tax returns and paying taxes; dealing with the tax office; tax planning and tax advice; dealing with the tax adviser; and learning about tax law.

Table 4 has taken the actual responses for each country and established the percentage of time for each task in order to enable outline comparisons to be made. The

responses from the four studies were broadly in line, with recording information by far the most significant item, accounting for more time than most other activities put together. The UK and Australian respondents spent two thirds of their time on this activity, whilst in Canada and South Africa small business respondents spent roughly half of their internal tax compliance time on this record keeping function.

Table 4. Percentage of time spent on various internal compliance tasks for all taxes

	Australia %	Canada %	South Africa %	UK %
Recording information needed for tax	66	45	52	66
Calculating tax, completing tax returns and paying taxes	15	21	17	11
Dealing with the tax office	1	5	9	4
Tax planning and advice	4	6	5	4
Dealing with external advisers	8	10	8	7
Learning about tax	5	12	9	8
Other activities	1	1	0	0
Total	100	100	100	100

Following the methodology adopted in Evans et al. (1996, p. 15), a separate question invited survey respondents to report annual hours spent on specific core accounting activities. This question was designed to alert respondents to the fact that there are business accounting functions which are not related to taxation – thereby hopefully enabling them to more precisely disentangle tax compliance costs from other costs of compliance. These core accounting functions therefore included tasks that are an integral part of the business operations: processing customer invoices and payments; monitoring customer payments; paying bills; calculating and paying wages; checking bank balances and monitoring trading stocks. Two activities were added for this survey: investment planning unrelated to tax; and budgeting and control.

The outcomes from the surveys in each of the four countries are reported in Table 5, where again the actual responses for each country have been converted into percentages of time taken for each task, in order to enable international comparisons to be made.

Table 5. Percentage of time spent on various internal non tax-related compliance activities

	Australia %	Canada %	South Africa %	UK %
Processing invoices/cash	47	31	44	24
Following up debtors	8	4	12	10
Paying bills	12	28	11	10
Calculating/paying wages	14	10	7	5
Cash/bank reconciliation	6	8	13	4
Stocktaking/stock control	4	2	5	10
Non-tax investment planning	0	2	2	7
Budgeting and control	0	4	6	12
Other activities	9	11	0	18
Total	100	100	100	100

It is interesting to note that, across the four countries studied, the responses for this question did not follow a similar pattern. This possibly suggests that the range of other non-tax activities required in the four countries, and the level of involvement in these activities, ranges more widely throughout the various respondent groups. This aspect is considered further in the following section of this article (Managerial benefits), where the disentanglement of tax and accounting costs, together with the potential benefits of tax compliance, are explored.

3.2 External tax compliance costs

Each country study required respondents to identify the amount they spent on the external provision of services required in order to comply with their obligations under the various regulations within the four countries studied. These were split into external costs relating to tax services, non-tax services and payroll services. All respondents identified some costs in each category and Table 6 provides full details. In order to provide comparisons between the results from the four studies the local currencies were converted to US dollars based on the average exchange rates for the year ended 30 June 2011 in Table 6.

The results suggest that external compliance costs are high in absolute terms for small businesses in all four countries, and that the tax element of such costs is a significant burden. South African small businesses experience the lowest average external compliance costs, whilst the UK's figures appear particularly high, mainly as a result of relatively high non-tax related external compliance costs.

Table 6. External compliance costs (expressed in US\$)

	Australia (US\$)	Canada (US\$)	South Africa (US\$)	UK (US\$)
Tax related	12,458	6,006	3,445	8,719
Payroll	1,303	3,447	1,310	4,456
Total external tax compliance costs	13,761	9,453	4,755	13,175
Non-tax related	4,633	6,779	3,999	19,081
Total external compliance costs	18,394	16,232	8,754	32,256

3.3 Total tax compliance costs

Table 7 combines the internal and external tax compliance costs as reported in the four countries, again converted to a standard currency (US\$). The results (ranging from mean tax compliance costs of US\$12,2970 in South Africa to US\$50,286 in Canada), suggest that tax compliance costs are a significant cost to small businesses in all four countries. The lower absolute costs in South Africa are not surprising, given the developmental nature of the economy and the significant number of micro-enterprises. The higher absolute costs in Canada appear at first blush to be more surprising, particularly when compared to Australia and the UK which have total tax compliance costs only 60 or 70 per cent as high as Canada. It is possible, however, that the low number of responses in Canada may have given rise to anomalous results for that country, and no great significance is attached to the figure that emerges.

Table 7. Total tax compliance costs

	Australia (US\$)	Canada (US\$)	South Africa (US\$)	UK (US\$)
Internal tax compliance costs	20,879	40,833	7,542	23,325
External tax compliance costs	13,761	9,453	4,755	13,175
Total tax compliance costs	34,640	50,286	12,297	36,500

In line with previous research (e.g. Evans et al. 1996), internal costs are generally much higher than external costs and comprise between 61% (South Africa) and 81% (Canada) of total tax compliance costs. Internal tax compliance costs in Australia and the UK are respectively 68% and 64% of total tax compliance costs.

Given the relative clustering of Australia, South Africa and the UK (where internal tax compliance costs are in the range of 61% to 68% of total tax compliance costs), one interesting question might be why Canadian tax compliance costs (where 81% of total tax compliance costs are constituted by internal compliance costs) is out of line. Again, it is difficult to provide any meaningful answer to this question given the low

response rate in the Canadian survey (though the non-generalizability of the data as a result of the low number of responses may, in fact, partially answer the question).

The four studies all find regressive compliance costs with size, with relatively smaller businesses bearing disproportionately higher costs of compliance. Traditional patterns of regressivity, and the economies of scale that arise as business size increases, were very evident in all four countries (Lignier and Evans 2012; Ebrahimi and Vaillancourt 2011; Smulders et al. 2012; Hansford and Hasseldine 2012).

4. MANAGERIAL BENEFITS

4.1 Identification and evaluation of managerial benefits and the tax/accounting overlap

Benefits of tax compliance including ‘managerial’ benefits were first identified in the 1980s by Sandford et al. (1981). It was argued that compliance with the tax system would force business owners to introduce more efficient financial information systems (Sandford et al. 1989, p. 13), which would in turn result in improved decision making (a managerial benefit) particularly for small businesses (Tran-Nam 2001, p. 55).

While the concept is somewhat intuitive, the identification and evaluation of managerial benefits may be problematic. The identification problem is largely linked to an accounting/tax overlap: many accounting and record keeping functions within the businesses are performed for the joint purpose of preparing managerial information and meeting tax compliance requirements (Tran-Nam 2001, p. 55). The so-called disentanglement dilemma of how to allocate common costs between the two functions has been amply discussed in the literature, including in work by Johnston (1963), Allers (1994) and Sandford (1995a). Sandford advocated the use of an incidental approach to resolve this problem: the costs of core accounting functions, that would have been incurred regardless of taxation, should be excluded from tax compliance costs; on the other hand, any incremental costs of the accounting function generated by tax compliance should be included (Sandford 1995a, p. 396).

The other dimension of the overlap problem relates to the perception that taxpayers have of compliance costs. At one extreme, taxpayers may regard all the costs involved in keeping records and preparing accounts as tax compliance costs because taxation is the only reason they recognise for performing these activities. In this situation, any use of the information for a purpose other than tax compliance should be regarded as an offset to compliance costs in the form of a managerial benefit. At the other extreme, tax record keeping may be described as no more than a by-product of an ordinary accounting function (Tran-Nam 2001, p. 57).

The evaluation of managerial benefits is even more contentious than their identification. Sandford, Godwin, Hardwick and Butterworth (1981, p. 91) proposed to measure these benefits on the basis of a subjective value assigned by taxpayers. However, Lignier (2009a, p. 117) argued that subjective valuations should be calibrated against a benchmark, and proposed to assess managerial benefits on the basis of the perceived value of the accounting information actually used by taxpayers in their managerial decisions. A proxy of that value could be derived by asking taxpayers how much they would pay for accounting information about their business

in the hypothetical situation where no tax compliance obligations were imposed on the business.

To date, specific studies on managerial benefits have only been undertaken in the UK and in Australia, and in the case of the UK the National Audit Office (1994, p. 20) study focused on VAT only. It appeared therefore that a comparative research project involving different countries would broaden and strengthen the existing knowledge on the topic. The current study had two broad aims in this respect.

First, in an attempt to analyse the tax/accounting overlap, it sought to investigate the main reasons for keeping accounting records and to identify separately costs relating to core accounting activities and tax record keeping costs. Second, it aimed to collect and analyse data about managerial benefit perception among small business taxpayers. Apart from the collection of further empirical evidence on managerial benefits, the researchers' intent was to find out whether different legislative and compliance regimes had a significant impact on such managerial benefits.

The findings about the tax/accounting overlap are first discussed, then managerial benefit perception by taxpayers. The section concludes with some general remarks about the significance of managerial benefits in small businesses and the need for further research in this area.

4.2 Analysis and comparison of the tax/accounting overlap

An important source of managerial benefits comes from the necessity for small business taxpayers to have a complete record keeping system where all the business transactions are carefully recorded. This necessity is further reinforced with the introduction of transaction based taxes such as GST and VAT that compel the taxpayer to have an accurate and up-to-date record of transactions throughout the financial year (Lignier 2009a, p. 120). For most small businesses, this will translate into setting up an accounting system (generally computerised) with the dual purpose of fulfilling tax-imposed record keeping obligations and performing core accounting functions.

Although, the tax/accounting overlap cannot be directly assessed with objective measures, a number of qualitative and quantitative indicators can help to disentangle the two functions. Based on prior research by Tran-Nam (2001) and Lignier (2008), the qualitative indicators selected for this project were the predominant reason for keeping records and the uses of financial information, and the quantitative indicators were the reported number of hours spent on core accounting activities and tax record keeping. Data relating to these qualitative and quantitative indicators are summarised in Table 8.

Table 8. Tax compliance/accounting indicators: Inter-country comparison

	Australia	Canada	South Africa	UK
Reason for keeping records:				
-Mainly accounting:	42%	30%	43%	67%
-Mainly or only tax:	17%	35%	25%	10%
-Equally for both:	39%	35%	31%	23%
Use of financial information:				
-Tax use only:	6%	9%	4%	0%
-Internal man' ment:	83%	70%	83%	85%
-External reporting:	55%	61%	72%	68%
Annual time spent on core accounting activities (mean)	1,766 hours	1,786 hours	1,117 hours	3,527 hours
Annual time spent on record keeping for tax (mean)	323 hours	217 hours	132 hours	289 hours

The dual purpose of the record keeping system is reflected in the tax/accounting overlap indicators reported in the surveys for the four countries (Table 8). While there seem to be a variety of opinions as to the *predominant* reason for keeping records, less than 10 per cent of taxpayers in each of the four jurisdictions indicated that they were using the information for tax purposes only. On the other hand, a vast majority of small business taxpayers (between 70 and 85 per cent) used accounting information for internal management and a significant majority used it for external reporting.

Self-reported internal time data suggest that small businesses in all four countries spent far more time on core accounting functions¹⁴ than on record keeping for tax compliance purposes. The ratio between the number of annual of hours spent on accounting and the number of hours spent on tax record keeping varies significantly across the four countries, but is always high (ranging from 5:1 in Australia; through 8:1 in Canada and South Africa; to 12:1 in the UK). This would suggest that tax compliance record keeping activities were seen as incidental to the main accounting function rather than the production of accounting information being a by-product of tax compliance.

Although the questionnaire clearly emphasised the distinction between 'core accounting activities' and tax record keeping, it is possible that some double counting occurred as it is not always obvious where the line between the two functions is drawn in practice. For example, recording sales transactions would normally be seen as part of processing customer invoices (a core accounting function), but it may also be seen by some business taxpayers as a tax compliance activity to work out the amount of GST/VAT collected on sales.

Another question is whether businesses would have spent *as much* time on core accounting activities if there were no tax compliance obligations. Lignier (2008, p.

¹⁴ The core accounting functions included: processing customer invoices and cash payments; following up debtors; paying bills; calculating and paying wages; checking bank records; stock control; investment planning; and budgeting and control.

362) investigated this issue and found that the presence of tax obligations had a significant effect on the sophistication of the accounting system and on the frequency and variety of accounting reports prepared.¹⁵ It follows from this outcome that even where accounting time and tax compliance time can be identified separately, the disentanglement is not complete inasmuch as the number of hours spent performing core accounting functions may be dependent on the requirement to prepare tax reports. In other words, taxpayers may be spending more hours during the year performing the same accounting tasks than they would normally have, only because the same records are also used for tax purposes.

4.3 Managerial benefit perception

Perception is an important dimension of the concept of managerial benefit. The reality of managerial benefits can be elusive as it is dependent on how the accounting information generated by tax compliance activities is valued by business owner-managers and used in business decisions. Hence, the actual realisation of managerial benefits by the firm will be closely related to the perception that owner-managers have about the usefulness of the information generated by record keeping activities (Lignier 2009b, p. 394).

Perception about managerial benefits can be analysed at different levels. Firstly, the idea that benefits might be derived from tax compliance, an activity first and foremost assumed to generate costs, may not always be obvious to taxpayers. Sandford et al. (1981, p. 94), for example, found that 40 per cent of small business taxpayers in the UK saw no benefit in complying with VAT. In contrast, a high proportion of respondents in the current study agreed that tax compliance had some benefits for their business with the exception of Canada (Table 9). A variety of benefits were perceived by small business taxpayers, but a managerial benefit in the form of a better knowledge of financial affairs was the most commonly identified. The proportion of respondents who believed their business derived a managerial benefit was generally above 50 per cent with the exception of Canada. This result confirms earlier findings in Australia (Evans et al. 1996, p. 132; CPA Australia 2003, p. 17), New Zealand (Sandford and Hasseldine 1992, pp. 96–97) and the UK (National Audit Office 1994, p. 20).

¹⁵ Lignier's study compared accounting activities in small businesses in mainland Australia with businesses resident in Norfolk Island, a jurisdiction that was virtually tax-free at the time of the survey.

Table 9. Managerial benefit perception: comparison between countries

	Australia	Canada	South Africa	UK
Overall benefits of tax compliance	Very High	Low	Very High	High
Managerial benefits of tax compliance (better knowledge of financial affairs)	Average-High	Low	High	Average-Low
Benefits of tax record keeping: improves quality and accuracy of records	High	Average	Very High	Average
Value in relationship with external accountant/tax adviser	Average-Low	Average-Low	Low	Average
Would still pay for external accounting services even if there was no tax compliance	47%	68%	39%	38%

A better knowledge of the firm's financial affairs is assumed to result from an improvement in the quality and the accuracy of financial records. Findings across the four jurisdictions confirm this assumption: high levels of managerial benefit perception were generally associated with a strong recognition that tax record keeping improved the quality of the records. However, not all small business taxpayers who saw an improvement in the record keeping perceived that they derived a managerial benefit for their business: for instance, 76 per cent of South African respondents agreed that their records were improved because of tax compliance but only 69 per cent said that it improved financial knowledge about their business (Smulders et al. 2012). A similar pattern can be observed in the three other jurisdictions. In other words, some business taxpayers did not believe that better record keeping translated into an actual benefit, possibly because they saw record keeping as fundamentally a tax compliance activity rather than the preparation of managerial information.

In terms of valuing the relationship with their external accountant/tax adviser, other than the UK, less than half of the respondents saw value in the relationship with their accountant. Notwithstanding this result, in each country over one-third of all respondents indicated they would still pay for external accounting services even if there was no tax compliance (Table 9).

5. SMALL BUSINESS TAX CONCESSIONS

Many governments have made endeavours to reduce the tax compliance burden faced by small businesses by introducing various strategies and measures (tax concessions) to achieve a reduction in the tax compliance burden for small businesses (OECD 2008, p. 8; SARS 2011, pp. 30–32). The nature of such small business tax concessions (SBTCs), as mentioned earlier, can be divided into two broad categories: *positive concessions* that provide a lower rate of taxation, an exemption or an accelerated deduction; and *relieving concessions* that excuse the taxpayer from requirements

otherwise imposed (Payne 2003, p. 87). When comparing the nature of the SBTCs in each of the four countries,¹⁶ it was apparent they all use a combination of positive and relieving SBTCs which, overall, are quite similar in nature.

In view of these similarities, it was believed that there would be value in researching the extent to which the SBTCs achieved their objective of reducing the tax compliance burden in the four countries under review. In order to achieve this, the take up (eligibility) and use of the SBTCs by small businesses in each country were initially considered. The small businesses' perceptions of the SBTCs' usefulness and level of complexity were subsequently considered. Unfortunately, for the reasons mentioned earlier, the UK survey did not incorporate the SBTC questions and cannot therefore be incorporated in the further analysis of the SBTCs. Notwithstanding this, comparison between the remaining three countries still provides sufficient meaningful information about the role of SBTCs.

Table 10. Perceptions of eligibility for, and actual use of, SBTCs

	Australia	Canada	South Africa
Thought they were eligible	14%	35%	12%
Thought they were not eligible	58%	39%	47%
Unsure	27%	26%	41%
Actual use of SBTCs by eligible entities	80%	100%	68%

Table 10 summarises the views of respondents about their eligibility and use of the SBTCs. Very few respondents in all three countries (between 12% and 35%) thought they were eligible to use SBTCs. Awareness of the SBTCs appears to be a problem, particularly in South Africa. However a large percentage of those eligible businesses actually used the SBTCs, indicating a good adoption of the SBTCs once the businesses became aware of their eligibility for them. Eligibility for, and to a lesser extent awareness of, the SBTCs are clearly perceived as stumbling blocks to the successful adoption and use of the SBTCs in all three countries.

To obtain further insight into the SBTCs, the respondents' perceptions of the usefulness/complexity¹⁷ of each of the SBTCs in their specific country was investigated. It was found that in Australia, the simplified capital allowance regime was perceived to be the most useful of the SBTCs, whereas in Canada it was the less frequent tax payments concession and in South Africa it was the less frequent submission of VAT returns. From a complexity perspective, the Australian respondents perceived the simplified capital allowance regime to be the most complex (despite it being regarded as the most useful SBTC); the Canadians found it to be the GST measures and the South African's perceived it to be the Small Business Corporation tax regime. The respondents' attitudes from all three countries (but specifically Australia and South Africa) revealed a similar lack of knowledge and level of non-commitment to the usefulness/complexity of the SBTCs in each particular

¹⁶ Refer to Appendix A for a summary of the main SBTCs in each country.

¹⁷ Complexity not only increases the likelihood that taxpayers (specifically small businesses) will evade tax, but also increases tax compliance costs (Roth, Scholz and Witte 1989).

country. This in itself indicates that more research is needed into the awareness and effectiveness of these SBTCs.

To obtain a broad understanding of the effectiveness of the SBTCs, the external service provider's role in the SBTCs and their (the respondent's) general attitude towards the SBTCs, the respondents were requested to indicate their level of agreement or disagreement with five statements dealing with these issues. The findings to these attitudinal questions are presented in Table 11.

The high level of uncertainty (measured by reference to the 'Unsure/Not Applicable/Not Relevant' responses) displayed by the owner-managers of small businesses is striking, particularly so far as Australia and South Africa are concerned. (As noted earlier, far less reliance is placed upon the Canadian data given the low number of observations.)

Table 11. Perceptions of SBTCs in general

SBTCs saved my business some tax dollars/rands	Australia %	Canada %	South Africa %
Agree/Strongly Agree	13	48	15
Disagree/Strongly Disagree	18	26	13
Unsure/Not Applicable/Not Relevant	79	26	72
SBTCs are so complex that it is hardly worth the effort			
Agree/Strongly Agree	33	48	29
Disagree/Strongly Disagree	11	26	12
Unsure/Not Applicable/Not Relevant	66	26	59
I was well advised by my accountant regarding the benefits of SBTCs for my business			
Agree/Strongly Agree	27	65	25
Disagree/Strongly Disagree	12	4	15
Unsure/Not Applicable/Not Relevant	62	30	60
Accountants have a self interest in pushing the use of SBTCs			
Agree/Strongly Agree	8	26	8
Disagree/Strongly Disagree	23	26	22
Unsure/Not Applicable/Not Relevant	79	48	70
SBTCs are a waste of time; would be better off with lower taxes and a simpler tax regime instead			
Agree/Strongly Agree	41	44	41
Disagree/Strongly Disagree	6	17	10
Unsure/Not Applicable/Not Relevant	53	39	49

It is also noticeable that in all three countries SBTCs are perceived to be so complex that they are hardly worth the effort. The rate of agreement with this statement is double or treble the rate of disagreement. External service providers (specifically in Canada) play an important role in assisting small businesses with the SBTCs — perhaps because of their complexity. With the exception of those in Canada, small businesses appear to be unsure of the benefits offered by the SBTCs. For the most part, the perception of small businesses in all three countries is that the SBTCs are a waste of time and that they would be better off with a lower tax rate and a simpler tax system. A possible reason for this perception could be as a result of the fact that a large proportion of the respondents were not eligible for the SBTCs and found them to be complex.

Achieving similar results with regard to the eligibility, usefulness, complexity and effectiveness of SBTCs across three jurisdictions is an indication that perhaps more consideration should be given to them by policy makers across the globe. This attention is critical so as to ensure that the SBTCs conclusively achieve one of their major objectives — the reduction of the tax compliance burden faced by small businesses.

6. CONCLUSIONS

This comparative study had three broad objectives: to identify, measure and compare the compliance burden for the small business sector in the four countries; to establish the extent, if any, to which there were off-setting managerial benefits arising as a result of compliance with tax obligations; and to investigate whether various small business concessional regimes are achieving one of their stated objectives of relieving some of the effects of the compliance burden.

Unfortunately, difficulties with the administration of the survey in two of the four countries (Canada and the UK, largely as a result of funding and resource constraints), has meant that only general indicative comparisons can be made across all four countries and this is a limitation of this study. The higher level of responses in the other two countries (particularly in South Africa) does, however, provide some level of comfort in the findings from these countries.

The outcomes of the research, reasonably consistent across all four countries, confirm earlier research findings that compliance costs for the small business sector continue to be high in both absolute and relative terms. Even within the sector they are very regressive, and transactional taxes such as the GST/VAT continue to be the cause of the highest compliance costs. Tax compliance costs which are internal to the business are by far the biggest element of total tax compliance costs, usually comprising in excess of 60% of all costs. Within those internal costs of tax compliance, most business time was spent in recording information needed for tax, constituting in excess of half of the time spent by businesses in complying with tax obligations in Australia, South Africa and the UK, and very nearly half the time in Canada.

It was not possible to conduct inter-temporal comparisons across all four countries to establish whether the total tax compliance burden was increasing or diminishing over time. Studies from particular countries (for example, Lignier and Evans 2012 in

relation to Australia) do suggest, however, that the burden is not diminishing over time, again consistent with previous research.

By and large, small business taxpayers surveyed for this study perceived that they were deriving benefits from tax compliance activities in the form of better financial information that helps them to manage their businesses. The two main sources for these benefits seemed to be the enhanced quality and accuracy of record keeping and access to better knowledge of financial affairs. The generally consistent results suggest that the realisation of managerial benefits was not dependent on the specific nature of tax compliance obligations. However, even though managerial benefits were perceived by a majority of taxpayers in all four countries, their importance might vary. Further research is required in each country to attempt to measure the extent of these benefits.

There was less reliable data relating to the usefulness of the various concessional regimes introduced for small businesses in the four countries to mitigate the impact of regressive compliance costs. As noted previously, such data was not available for one of the four countries (the UK) and in two of the others (Australia and Canada) there were insufficient observations to be able to draw reliable conclusions. Based upon the evidence that is available, it does appear that the SBTCs may not be as effective as one would have hoped and is therefore an area that requires specific revenue authority/treasury attention. Judging from the overall responses, small businesses may not be too sure of the benefits offered by the SBTCs. This does not bode well for the government or the small business sector, as time and effort have been invested into these concessions and they do not, from the small businesses perspective, appear to be achieving at least one of their objectives — reducing the tax compliance burden for small businesses. Valuable time and resources are being spent on administering these concessions and if they are not meeting their intended purpose, these resources are being wasted to the detriment of the economy as a whole.

Further and more detailed research into the efficacy of special regimes for the small business sector is just one of the areas for future research that is highlighted by the current study. The more formal measurement of managerial benefits that derive from tax compliance is yet another area. Above all, there is a continued need for the tax compliance costs encountered by this critical sector of the economy to continue to be measured and monitored — across countries and over time — so that a light can continue to be shone upon these ‘hidden’ costs of taxation. In that way meaningful international comparisons can be made, “not to identify differences in compliance costs between countries, but to confirm the broad findings”, as Sandford most notably suggested (1995b, p. 407).

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8. APPENDIX A: SUMMARY OF THE SMALL BUSINESS TAX CONCESSIONS (SBTCs) IN AUSTRALIA, CANADA, SOUTH AFRICA AND THE UK 2010-2011

The broad nature (without delving into the qualifying requirements) of the major SBTCs (per country) are summarised below. Note that the schedule is not intended to be comprehensive and that some of these concessions have changed since the period of the study.

Australian SBTCs

GST concessions

Three GST concessions are available to small businesses:

- GST accounting: a business need not register for GST if its GST turnover is less than A\$75,000. In addition, an entity taxpayer with turnover of less than A\$2 million per year can elect to account for and pay GST on a cash basis thereby accounting for GST when payments are made and sales are received;
- GST instalments: GST is payable by a business (turnover of less than A\$2 million per year) by means of quarterly instalments calculated by the ATO which saves the business time in working out the amount due to the ATO; and
- GST annual private apportionment: the ability to annually claim full GST credits for private purchases included in business purchases with only a single adjustment for this at end of the income year.

Simplified capital allowances (depreciation)

A small business can pool together most of its assets (into two pools: assets with a useful life less than 25 years which is depreciated at 30%; and a useful life greater than 25 years which is depreciated at 5%) and claim one deduction for the whole pool instead of for each individual asset as is the case normally. An outright deduction for assets costing greater than A\$1,000 is also available. A deduction at either 15% or 2.5% in the first year (regardless of when they were acquired during that year) is also permitted on most newly acquired assets.

CGT concessions

Four CGT concessions are available to small business entities. These concessions are:

- the CGT 15 year exemption – exemption from CGT when a business asset (continuously held for at least 15 years) is sold on retirement;
- the CGT 50% active asset reduction – a 50% reduction of the capital gain made on the sale of a business (‘active’) asset;
- the CGT retirement exemption – an exemption concession on the sale of a business asset, subject to a lifetime limit of \$500, 000; and
- the CGT rollover – deferral of a capital gain made on the sale of a small business asset to a later income year when a ‘replacement’ asset is acquired or an improvement is made to an existing asset.

Entrepreneurs Tax Offset (ETO)

Under the ETO provisions, eligible business taxpayers could obtain a reduction of up to 25% of their tax liability. Only taxpayers with an aggregated turnover of \$50,000 were eligible for the full concession. The ETO has subsequently been abolished.

Canadian SBTCs

GST/HST concessions

Two GST concessions are available for small businesses:

- GST accounting: a small supplier (essentially a business with total taxable revenues before expenses of C\$30,000 or less annually) need not register for GST. In addition a business with annual taxable supplies of not more than C\$200,000 can use the simpler Quick Method of accounting to calculate its GST; and
- GST instalments: GST is paid by means of annual as opposed to monthly or quarterly instalments calculated by the revenue authority if the annual taxable supplies of the business are C\$1,500,000 or less.

Simplified capital allowance rules

Computers and computer related equipment can be written-off entirely in a single year, as long as the purchase was made from January 27, 2009 to February 2011.

CGT concessions

Various forms of CGT relief are provided to entities operating Canadian small businesses:

- a lifetime capital gains exemption of C\$750,000 is available to investors on the capital gain made from the sale of qualified small business shares;
- allowable business investment loss: a capital loss made on the disposal of a share in a small business corporation or a debt due to a taxpayer from a small business corporation can be deducted from the taxpayer's other sources of income;
- small business rollover: a deferral of a capital gain made on the sale of a small business asset to a later income year when it is reinvested in other small business corporations; and
- capital gain reserve: a capital gain made on the transfer of small business corporation shares to a taxpayer's child is deferred over 10 years instead of over 5 years.

Reduced corporate income tax and the small business deduction (SBD)

Canadian-controlled private corporations that claim the SBD (which reduces the tax for which a company is liable) have lower tax rates than other corporations in Canada and generally have to make less tax payments (annually rather than monthly or quarterly) than larger businesses.

South African SBTCs

VAT concessions

Two broad VAT concessions are available for small businesses:

- **VAT accounting:** a business does not need to register for VAT, and is thus relieved of the administrative burden on this tax, if its taxable turnover is R1million or less. In addition, accounting for VAT on the payments basis allows business (sole proprietors with estimated annual taxable turnover of not more than R2.5 million) to account for VAT when amounts are received or payments are made instead of when an invoice is issued or received. The Small Retailers VAT Package (abolished from 1 March 2010) provided an alternative method for qualifying small retail businesses to determine the value of the total taxable supplies.
- **VAT instalments:** small businesses with a turnover of R1.5 million or less can submit and pay their VAT due every four months instead of every second month.

Special capital allowances and reduced corporate income tax rates

Small businesses corporations (businesses with *inter alia* gross income of R14 million or less) receive immediate write off of manufacturing assets and an accelerated write off for other assets in comparison to other entities and pay tax at a lower rate than other similar entities.

CGT concession

Relief is available in the form of an exclusion of R900,000 from a capital gain made by individuals who dispose of active business assets when they attain the age of 55 years, or where the disposal is in consequence of ill-health, other infirmity, superannuation or death.

Turnover Tax System

This system allows micro businesses (businesses with qualifying income of R1 million or less) to be subject to a low rate of tax on turnover without having to keep a record of their expenses and deductions.

UK SBTCs

VAT concessions

Two broad VAT concessions are available for small businesses:

- **VAT accounting:** a business does not need to register for VAT, and is thus relieved of the administrative burden on this tax, if its taxable turnover is £77,000 or less. In addition, various VAT accounting schemes are available to UK small businesses. Examples are the flat rate scheme, the cash accounting scheme, the annual accounting scheme and retail schemes. Under the flat rate scheme, a business (with estimated annual taxable turnover of not more than £150,000 and business income of not more than £191,500) no longer has to keep record of the VAT it charges/pays per transaction, but

can calculate the VAT due by means of a percentage of the total VAT inclusive turnover. In terms of the cash accounting scheme (for businesses with an estimated turnover of £1.35 million or less), VAT only needs to be accounted for when amounts are received or payments are made. The annual accounting scheme (applicable to businesses with an estimated annual turnover of £1.35 million or less in the next tax year) requires submission of VAT returns only once at the end of the year as opposed to every quarter under the standard VAT system. Retail schemes allow the business to work out the value of its total VAT taxable sales for a period instead of for each and every retail sale it makes; and

- VAT instalments: in terms of the annual accounting scheme, VAT is paid by means of nine monthly or three quarterly interim payments as opposed to quarterly instalments.

CGT concessions

These UK concessions are available to all businesses and not specifically small businesses. Examples of these concessions are:

- Entrepreneur relief: this allows individuals and some trustees to claim relief on qualifying gains made on the disposal of all or part of a business, assets of a business after it has stopped trading or shares in a company; and
- Business asset roll-over relief: when a taxpayer disposes of a certain type of business asset, and replaces it with another asset that will be used in the business, the taxpayer can 'roll-over' or postpone the payment of any capital gains tax that would normally be due at that stage.

Reduced corporate income tax rates

Small businesses (those with profits not exceeding £300,000) pay tax at a lower rate than other corporations.