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Tax compliance costs for small and medium sized enterprises: the case of the UK

Ann Hansford and John Hasseldine[1]

Abstract

This paper presents a section of the findings from the UK arm of an international research project that is evaluating and comparing tax compliance costs affecting small and medium sized enterprises (SMEs) across four countries.

It has been argued that the regulatory requirements on businesses, particularly those on SMEs, are burdensome and can be a constraint on their growth and so success. There have been considerable developments in tax policy, which have impacted on compliance costs within the UK over the last 20 years, and these are reviewed in order to set the current findings into context. The literature review considers developments in the split between core compliance costs, total costs and the costs of activities that are required for ongoing business decisions unconnected with tax.

In accordance with researchers working in other countries taking part in the international study, a questionnaire was developed to investigate the amount of money and time spent on accounting and tax related activities, eg external services, payroll services, together with details of record keeping and accounting including an assessment of the benefits of keeping tax records. The Association of Chartered Certified Accountants (ACCA) agreed to be involved by circulating their members working within SMEs with an e-mail from their Head of Taxation, Chas Roy-Chowdhury, inviting them to complete the questionnaire and submit their responses online. These were then processed by an online survey website and this data formed the basis of the input for analysis using SPSS.

Initial findings suggest that 85% of SMEs paid for external services for tax related work with the amounts ranging from < £1,000 to over £40,000, excluding VAT. Rather less, 66% of SMEs, paid for non tax related services with the amounts paid ranging from £500 to £128,000. Only 32% of the firms our respondents worked in paid for payroll services, and this may be due to the fact that our sample were qualified members of ACCA and so able to manage an in-house payroll service.

The main time consuming activities are completing returns, calculating and paying tax with VAT consistently more time consuming than the other taxes in the survey, income tax / corporation tax, PAYE and capital gains tax. This is closely followed by keeping up to date on tax matters, such as learning about tax law, reading newsletters and bulletins and visiting the HMRC website.

In assessing the benefits of keeping records almost 50% agreed that having to comply with tax obligations helps improve the record keeping of the business. This compares to 27% who agreed that having to comply with tax obligations improves the knowledge of the profitability of the business and a similar percentage who agreed that complying with VAT obligations provides the business with up to date useful information. In conclusion we reflect on these results in the context of ongoing changes in tax policy in the UK.

[1] Ann Hansford is a Senior Lecturer at the University of Exeter Business School, U.K. and John Haaseldine is an Associate Professor at the University of New Hampshire, U.S.A. We thank an anonymous reviewer for his/her helpful comments as well as those from participants at the 10th International Tax Administration Conference in Sydney, April 2012.

1. INTRODUCTION

The U.K. has been a focus for compliance costs researchers, largely due to the pioneering work of Cedric Sandford. From his early work on VAT (Sandford, 1973) there has been interest in compliance costs, across businesses, government departments and academia. Almost forty years later there is still considerable debate on tax compliance costs especially as they affect smaller firms.

However, there are considerable challenges in the field of tax compliance costs (Evans et al. 2001). These include the challenges of definitional issues and research method. For instance, large scale questionnaire surveys with their inherent issues of time valuation and low response rates are just one way of focusing on the topic. Another theme is that compliance costs must be linked to policy and understanding the consequences, and not just the causes, of compliance costs is a continuing challenge.

The current paper is part of a larger continuing and evolving project (involving researchers from Australia, Canada and South Africa – see Evans et al. 2012). Our results in this paper are based on a survey sent to members of the Association of Chartered Certified Accountants (ACCA) and are of a preliminary nature. In particular we focus on the costs affecting SMEs.

2. UK COMPLIANCE COST - POLICIES AND ENVIRONMENT

In the UK, sections 382 and 465 of the Companies Act 2006 define a SME for the purpose of accounting requirements. A small company is one that has a turnover not exceeding £6.5 million, a balance sheet total not exceeding £3.26 million and not more than 50 employees. A medium-sized company has a turnover not exceeding £25.9 million, a balance sheet total not exceeding £12.9 million and not more than 250 employees.

In practice SMEs encompass an extensive range of organisations with widely varying compliance issues. It could be said that no two SMEs are alike and as a result they present extensive challenges for policy makers. Previous studies have found that compliance costs fall disproportionately on small firms (Sandford et al. 1989). In comparison large firms can sometimes barely notice tax compliance costs and for the very largest firms they can benefit from cash flow benefits in retaining taxes collected from employees (PAYE) and customers (VAT) and paying over the collected taxes to HM Revenue and Customs several days or weeks after collection (Sandford & Hasseldine, 1992). The increased compliance burden on small businesses and the benefits of economies of scale for large organisations have resulted in compliance costs being considered to be ‘regressive’ (Hansford et al. 2003).

The complexity within the firm grows as it extends its markets and product lines (Dodge & Robbins, 1992) and this in turn requires more time to be allocated to management and control. Compliance costs are increased, as formal systems need to be put into place. This is all within an organisation with limited resources to cover, what for some may be considered to be, these ‘dead’ costs.

A full literature review is considered unnecessary (See Evans, 2001 for full details), but there have been a number of studies specifically focusing on small firms. These include studies in Australia (Wallschutzky, 1995), Malaysia (Ariff and Pope, 2002), New Zealand (Ritchie, 2001), U.S. (Slemrod, 2004) as well as a multi-country study (OECD, 2001). None of the studies specifically focusing on SME tax compliance costs have been carried out in the UK, which we consider to be a gap in prior literature.

In the recent *Mirrlees Review* conducted by the Institute of Fiscal Studies, Crawford and Freedman (2010, pp. 1080-1083) review relevant compliance cost literature as it affects small firms. They suggest that the high VAT threshold in particular may cause problems for SMEs (especially with regard to expansion and efficiency).

While there can be a link between the level of compliance costs and actual tax compliance, this does not mean that policy should ignore the high burden placed on small businesses. For example, small businesses such as sole proprietors tend to exhibit the lowest voluntary compliance rates while also facing the highest compliance costs (Sandford et al. 1989; Slemrod, 2004). One reason is that they may have the opportunity to not comply, but additionally, such firms simply may not understand their tax obligations, especially those without access to expert professional advice.

Attempts by successive governments to make it easier for small businesses to develop and grow have had mixed outcomes. From a policy angle, the U.K. government has had a mantra of reducing compliance cost burdens with it featuring as a Public Service Agreement (PSA) target for HM Revenue and Customs (HMRC). The Department carried out an exercise with KPMG to measure compliance cost obligations using a Standard Cost Model (HMRC, 2005) resulting in various initiatives that are worth reviewing briefly at this stage.

Following publication of the KPMG research HMRC published a reflection on how changes were going to be implemented in order to address some of the issues raised (HMRC, 2006). The overarching targets were to reduce by at least 10% the administrative burden on business of dealing with HMRC forms and returns over a five year period and reduce the burden of dealing with audits and inspections by 10% over three years and 15% over 5 years. Practical manifestations of these include the requirement that businesses should have to provide information only once, have a single point of contact with HMRC and receive support, education and guidance at the time when they most need it. The KPMG research identified complexities and, what they term, the "irritation factor", which identified a number of obligations that impose the majority of administrative burdens on businesses dealing with the UK tax system; the most important one being the main tax returns. In addition there was an acknowledgement that "We know many of our customers want to comply but are unsure of what to do or where to find appropriate help" (HMRC, 2006, p. 21).

Compliance cost reviews (CCRs) introduced by HMRC had an overall aim of minimising the costs of complying with new and existing tax obligations. In order to achieve this improved training and guidance was introduced for those dealing with impact assessments, better support with quality assurance of each impact assessment and regular liaison with the Better Regulation Consultative Committee (HMRCa, 2010). The outcomes identified included the need to give more consideration to the effects of changes on all sizes of business, to address the lack of understanding of commercial practices and business models and impact assessments need to better identify data sources and more clearly explain the analysis they contain and underlying assumptions, including the impacts on tax agents (HMRCb, 2010).

The next section outlines the stages in our questionnaire design and method adopted in collecting data and we also acknowledge tradeoffs encountered and limitations in our method.

3. METHOD

At the start of this project, we considered how to contact respondents in SMEs. As professional accounting organisations consider this to be a relevant topic for their members, initial discussions took place with the ACCA Head of Taxation to enlist the Association's support for the research study and to allow the survey instrument to be distributed to their members. The database of members identifies those working within SMEs and all those members were sent an e-mail from the Head of Taxation inviting them to be involved in the study through the attached link to the online survey instrument. The benefit of this is that respondents would all, by definition, have a professional accounting qualification. All 4,420 ACCA members working in small (those with 50 or less employees) and 4,960 ACCA members working in medium sized businesses (those with 51-250 employees) were contacted. We were warned that the database had been proved not to be necessarily up to date with e-mail addresses or job descriptions and so we were aware that the response rate would be affected by the limitations of the accuracy of the database. However, the opportunity to gain insight into professional views on compliance costs for SMEs was considered to be worth the admitted limitations of the sampling frame. This also explains, to some extent, the disappointing response rates.

A questionnaire survey was considered an appropriate method given the previous tax compliance costs research studies. Oppenheim (1966) warns that: "A questionnaire is not just a list of questions or a form to be filled out. It is essentially a scientific instrument for measurement and for collection of particular kinds of data. Like all such instruments, it has to be specifically designed according to particular specifications and with specific aims in mind" (p. 2). In order to acknowledge these requirements, a study-specific questionnaire was designed for the purpose of this UK research. The basis of the questionnaire was the one used by Evans & Lignier (2012) and Smulders (2012) in their studies, which were also influenced by prior literature (Evans & Walpole, 1999).

In order to be confident that the questionnaire was appropriate for the task there had to be a departure from the strict positivist tradition. An approach where participants were able to discuss and delve into issues was considered to be most appropriate in order to establish a full and complete set of questions for the survey instrument to be used in this UK arm of the international study.

A small focus group of ACCA members, together with an IT specialist who could advise on generic questionnaire survey issues within ACCA, considered the first draft of the questionnaire. This was an important step as the ACCA were supporting the distribution of the questionnaire to their members and provided access to their database of ACCA qualified accountants working within SMEs. The overall benefits of focus groups have been discussed widely in the literature and the combined efforts of the group should produce a wider range of information, insight and ideas. There can be a “snowball” effect with one individual triggering off a chain of responses from the other participants. The group members find comfort in the fact that their feelings are not greatly different to that of their peers and they can expose an idea without having to defend or elaborate on it. Krueger (1988) found that focus groups enable individual responses to be more spontaneous and provide a more accurate picture of their position on a particular issue.

Amendments followed and further minor adjustments were made. As far as possible the questionnaire used for the UK study[2] was kept as similar as possible to those used by other researchers in the international study (Evans & Lignier (2012), Ebrahimi & Vallaincourt (2011) and Smulders (2012)). The main adjustments were made for the purposes of administering the instrument in the U.K., with adjustments to various questions (e.g. turnover) to reflect local demographic and definitional issues (i.e. definition of an SME) and we tailored the instrument to reflect the domestic U.K. tax environment. In particular we were interested to know whether the firm the respondent worked for was VAT registered and so a turnover band of 0 - £73,000 was included. Research has shown (Chittenden et al, 1999) that one of the key factors constraining small business growth is the VAT registration threshold. It has been suggested that businesses ‘manage’ their turnover for VAT purposes which creates an artificial barrier to growth within small businesses (Kauser et al, 2001).

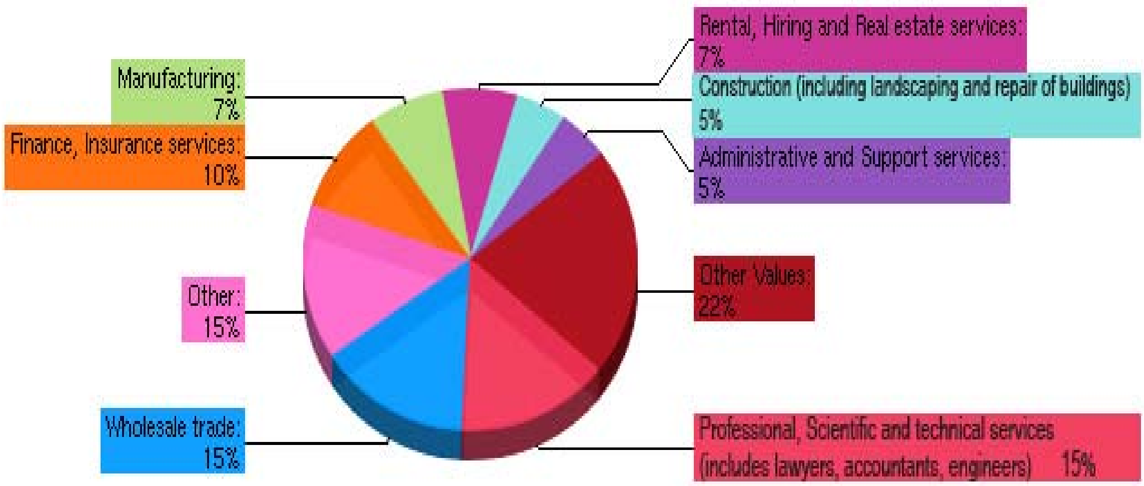
Other important turnover limits are based on the Companies Act definition of ‘Small’, the limit being £6,500,000 and for cash accounting for VAT the limit is £1,350,000. This is an allowance specific to the UK VAT system in that those eligible and actually electing for cash accounting treatment can reduce the amount of record keeping required and bad debt relief is more generous and timely. However, the method of asking respondents to estimate hours spent on certain activities, who performed these functions and the value of their time was unchanged from the instruments used by our overseas colleagues.

Research has shown (Storey, 1994) that for some individuals working in small businesses they are required to undertake a multitude of tasks and so reduces the amount of time available for each specific task (Reid & Jacobsen, 1988). By surveying ACCA members then we should be in a position to extract responses from those well-informed individuals who have a good basic understanding of tax compliance.

[2] Copy available from the authors.

The questionnaires were sent out in June 2011 to members of ACCA and so by definition all responses were filled out by a qualified accountant. Forty one ACCA members responded and of those over half (55%) had been admitted to membership over ten years ago, with a further 15% admitted 5-9 years ago and 12 respondents admitted in the past four years. They represented firms from a variety of sectors (see Figure 1). In terms of legal structure, 35 firms (85%) were private limited companies.

Figure 1: The sector of the respondents to the questionnaire



The number of years the firms have been trading ranged from over ten years for 24 firms (60%) to one firm that had been in business for less than a year.

In terms of size by turnover, two firms reported a turnover under £73,000 (the current UK VAT registration threshold) with two firms reporting turnover exceeding £25,900,000. The median firm had a turnover between £1,350,000 and £6,500,000, so being between the VAT cash accounting limit and upper turnover limit for a small company.

For the opinion driven questions (detailed in Section 4.2) respondents were asked how confident they were on a five point Likert scale in their estimates of their firm's compliance activities. After reviewing the dataset one outlier was dropped from the analysis due to a response of "Very Unconfident" to the question, How confident are you in your estimates? This response also included extremely high and seemingly disproportionate compliance costs.

In summary, the study involves collecting the views of UK based ACCA members on a range of issues relating to tax compliance costs. Standard questionnaire methodology has been applied in accordance with studies involving other countries in the wider international study, involving Australia, South Africa and Canada. Section 4 now sets out the findings from the analysis of the questionnaire responses.

4. RESULTS

This section reports the empirical results from our survey with tax compliance costs being covered in Section 4.1, while we outline respondents' views on record keeping in Section 4.2.

4.1 Tax Compliance Costs

4.1.1 External Compliance Costs

An important component of compliance costs are the professional fees paid to external advisers. These fees (excluding VAT that firms can claim back) were classified as tax-related, non tax-related (including general accounting services, managerial advice, and computerised accounting software assistance) and lastly, external payroll services.

Table 1 below reports means and standard deviations for these three categories, together with inter-quartile amounts and the mean amount per full time employee.

Table 1: External Compliance Costs

	Tax Related	**Non Tax-related**	**Payroll services**
N	34	25	13
Average total costs	£5,484	£12,002	£2,803
(standard deviation)	(8,047)	(25,165)	(2,301)
1st quartile	£1,000	£1,000	£500
median	£2,500	£5,000	£2,100
3rd quartile	£5,000	£11,000	£6,000
Average cost per employee	£281	£261	£624
(standard deviation)	(466)	(434)	(1,976)

Most firms (85%) paid for external tax-related services with a mean tax-related fee of £5,484 however this figure is skewed by a small number of very large fees, with the median fee being £2,500 and the third quartile figure being only £5,000. In addition to tax work, 25 out of 40 firms (62.5%) paid external advisers for non tax-related work.

Only about one-third of the firms in the sample employed an external adviser for payroll services with a mean / median fee of £2,803 / £2,100 respectively.

In terms of considering the role of the external adviser (Hite et al, 2003), when respondents were asked to imagine for a brief moment that the U.K. was tax free; and whether they would still pay for an external advisor for accounting and related services, 14 firms (38%) would still employ an advisor and 21 firms (57%) would refrain from doing so.

4.1.2 In-house Compliance Costs and Time

Apart from fees paid to external advisers, internal compliance activities can be significant in terms of the actual hours taken in that area and activity and the commercial value of that time. Our survey focused on four distinct areas: VAT, Income Tax and Corporate Tax, PAYE and Capital Gains Tax.

Table 2: In-house Compliance Costs and time spent allocated to different taxes

	VAT	Inc./Corp. Tax	PAYE	CGT	Total
Average Cost	£ 6,062	£ 4,362	£ 3,645	£ 602	£ 14,671
% in-house cost	41.3%	29.7%	24.9%	4.1%	100.0%
Average Hours	219	85	115	15	434
% in-house time	50.5%	19.6%	26.5%	3.4%	100.0%

The results show that VAT consumes, on average, over half of all in-house time spent on tax compliance and incur over 40% of the value of that time. In contrast Income Tax and Corporation Tax only incur roughly 20% of in-house time, but cost approximately 30% of the value of that time. This might be due to the, often, complex nature of direct tax in the U.K. PAYE consumes about one-quarter of firms' time and value, and lastly, CGT occupies a small percentage of firms' tax compliance time and value.

4.1.3 Breakdown of Time spent on In-house Compliance Activities

Across the four areas of taxation considered in this study, there are distinct activities that constitute tax compliance. In terms of the hours spent on different activities, our results show that two-thirds of respondents' time is spent on recording information needed for tax (i.e. 289/434 hours on average per Table 3).

The only other significant activity is completing the actual tax returns and making the computations. However, we would caution that while proportionately less time is spent on activities such as tax planning and tax advice, learning about taxation and dealing with advisors, these activities can be of crucial importance, to tax compliance strategies and not falling foul of the tax agency.

Table 3: Time spent on In-house Tax Compliance

Activity	Mean (Hours)	%
Recording information needed for tax	289	66.7
Calculating tax, completing return and paying	47	10.8
Dealing with tax office (phone, email, visits)	17	4.0
Tax planning and tax advice	16	3.9
Dealing with external advisers, providing info	29	6.8
Learning about tax laws, reading, web browsing	33	7.7
Other activities	3	.1
Total	434	100.0

4.1.4 Total Tax Compliance Costs

Total tax compliance costs are the sum of in-house and external costs of complying with taxes. The mean total costs of compliance were £21,362 (standard deviation £19,825) ranging from £1,375 to £76,950. However, these costs are skewed by several large observations and the table below reports these costs by quartile. As not all respondents answered each question, and some respondents use external advisers only (or in-house compliance activities only), the rows are not additive.

Table 4 shows variation in in-house, external and total compliance costs for the sample. The means reported in the final column (All Firms) show that all classes of compliance cost figures, in addition to the number of full time employees, are skewed by large observations. For this reason, we report quartile statistics. Note that relatively, more costs are incurred on internal activities relative to the fees paid to external advisers.

Table 4: Total Costs of Tax Compliance

	1st Quartile	**Median**	**3rd Quartile**	**All Firms**
Total Compliance Costs	£ 8,267	£ 13,070	£ 37,400	£ 21,362
In-house Compliance Costs	£ 2,800	£ 9,960	£ 22,431	£ 14,671
External Compliance Costs	£ 1,000	£ 2,500	£ 5,000	£ 5,485

[Note: Due to differences in numbers of available respondents per category (in-house / external compliance costs), columns are not additive]

In terms of the behaviour of compliance costs by size of firm, we use reported turnover to segment the firms into three categories. There are small firms with turnover less than £600,000; intermediate SMEs with turnover between £600,001 - £6,500,000 and large SMEs with turnover exceeding £6,500,000. Table 5 reports mean / median statistics with this data then scaled by number of employees.

Table 5: Mean / Median Compliance Cost Data Split by Firm Size

Turnover	**< £600,000**	**£600001-6.5m**	**> £6.5m**
N	12	16	12
Full time Employees	6/3	33/30	98/37
	£	£	£
Total Compliance Costs £	23687/10876	16657/13015	24908/13540
In-house Compliance Costs £	16278/6200	14063/11070	14938/9960
External Compliance Costs £	2683/500	3284/2,500	9970/5000
Total Costs / FT employees	8526/4410	698/448	768/361
In-house Costs/ FT employees	6687/2800	567/415	497/172
External Costs / FT employees	537/125	125/93	271/134

As larger observations skew the mean statistics upwards, our discussion draws upon the median statistics reported in the preceding table. First, the smallest size category reports lower median compliance costs (external, in-house, total) than the other two groups with higher turnover.

When compliance costs are scaled by the number of full time employees then the regressive nature of these costs becomes apparent, especially for in-house and total compliance costs. For example, for total compliance costs per full time employee, median costs decrease from £4,410 to £448 to £361 as turnover increases. A similar trend occurs for in-house costs per employee i.e. £2,800 to £415 to £172 as firm size category rises. The results in Table 5 thus again, like earlier studies, confirm the economies of scale associated with tax compliance costs in the U.K.

4.2 Record keeping and Accounting

Apart from measuring tax compliance costs, our aim is to study the amount of time spent on various in-house managerial accounting tasks, whether these tasks are viewed as important or unimportant, and finally whether the process of tax compliance is viewed beneficially, and how.

4.2.1 Breakdown of Time spent on in-house accounting activities not related to tax compliance, by type of activities, SME firms

Earlier, in Section 4.1.3 we reported the average hours spent for various tax compliance activities. The largest of these was recording information needed for tax (289 hours). This was followed by calculating tax, completing tax returns and paying taxes (47 hours), dealing with external advisers and providing them with information (29 hours) and learning about tax laws, reading newsletters, Revenue websites, bulletins etc. (33 hours).

We then asked how much time was spent on various accounting activities that are not related to tax compliance. The figures are reported in Table 6 below.

Table 6: Time spent on General Accounting Functions

Activity	**Hours**	**%**
Processing customer invoices/cash received	857	24.3
Following up debtors	334	9.5
Paying bills	338	9.6
Calculating and paying wages	179	5.1
Checking bank against cash records	135	3.8
Stocktaking and stock control	349	9.9
Investment planning unrelated to tax	267	7.6
Budgeting and control	417	11.8
Other	651	18.4
Total	3527	100.0

A comparison of the hours spent by firms on general accounting activities with the hours spent on tax compliance activities shows that general accounting activities (mean of 3,527 hours) exceeds time spent internally on tax compliance activities (mean of 434 hours). We now turn to the question of whether the process of tax compliance helps with these other activities.

4.2.2 Evaluation of various reasons for keeping accounting records

Our questionnaire asked respondents the type of accounting system used by their firm. Over 80% used off-the-shelf accounting software in-house with ten firms (24%) using customised software in-house. Four firms used a paper-based system.

The reasons given and level of importance for keeping accounting records are contained in Table 7 (note the rows report both percentages and cell counts).

Table 7: Importance of Record Keeping

Reason:	**Not important at all**	**Not very important**	**Unsure**	**Moderately important**	**Very important**	**Not applicable/Not relevant**	**Total**
Tax Calculation	0.0%	4.9%	0.0%	12.2%	82.9%	0.0%	100%
	0	2	0	5	34	0	41
Reporting to other Regulatory Bodies	4.9%	14.6%	0.0%	29.3%	48.8%	2.4%	100%
	2	6	0	12	20	1	41
Reporting to Owners	0.0%	7.3%	0.0%	12.2%	75.6%	4.9%	100%
	0	3	0	5	31	2	41
Reporting to Lenders or other External Stakeholders (eg. franchisers)	9.8%	9.8%	0.0%	34.1%	34.1%	12.2%	100%
	4	4	0	14	14	5	41
Internal Management	0.0%	9.8%	0.0%	17.0%	68.3%	4.9%	100%
	0	4	0	7	28	2	41

Table 7 shows that tax calculations and reporting to owners are the most important reasons followed by internal management and reporting to other regulatory bodies. Reporting to lenders and other external stakeholders was less important, which we expected based on the sample firms (i.e. SMEs).

In terms of the use of accounting records, results from our respondents show that one firm only used their accounting records for tax purposes solely; whereas most firms used their accounting records for other reasons as well. These include the monitoring of business profitability, cash flow and financial position, debtors collection, payments to creditors/lenders. However, fewer than one in five firms used their accounting records to monitor trading stock.

4.2.3 Benefits derived from having to keep tax records

While the prior sub-section outlined the purpose of keeping accounting records, we also asked respondents their level of agreement on the benefits that their business derives from having to keep tax records. The results (including percentages and cell counts) are shown in Table 8.

Table 8: Benefits of Keeping Tax Records

Benefit of Tax Compliance:	Strongly Disagree	Disagree	Unsure	Agree	Strongly Agree	Not Applicable/Not relevant	Total
Having to comply with tax obligations helps to improve the record keeping of the business	14.6% 6	29.3% 12	7.3% 3	36.6% 15	12.2% 5	0.0% 0	100% 41
Having to comply with tax obligations helps to maintain more accurate records	14.6% 6	24.4% 10	7.3% 3	41.5% 17	12.2% 5	0.0% 0	100% 41
Having to comply with tax obligations improves the knowledge of the financial/cash flow position of the business	29.3% 12	26.8% 11	17.1% 7	19.5% 8	7.3% 3	0.0% 0	100% 41
Having to comply with tax obligations improves the knowledge of the profitability of the business	22.0% 9	34.1% 14	17.1% 7	19.5% 8	7.3% 3	0.0% 0	100% 41
Having to comply with VAT obligations provides the business with up-to-date info	31.7% 13	36.5% 15	4.9% 2	22.0% 9	4.9% 2	0.0% 0	100% 41

Table 8 shows that for the first two statements, after removing the category of 'unsure', a majority of respondents agree that tax compliance obligations help with general record keeping and levels of accuracy. However, this agreement does not extend to tax compliance helping with knowledge of financial aspects of the business, and respondents disagree that VAT compliance provides their firm with up-to-date useful information.

Apart from the results shown in Table 8 our questionnaire probed the issue of record keeping further. Respondents listed the following as being a benefit to their business resulting from tax compliance: improved record keeping (73%), reduced risk of the firm being subject to a tax audit (58%) and having an accountant who is a good source of advice for the business (54%). Only a minority agreed that tax compliance gives a better knowledge of the firm's financial affairs (38%) and tax compliance provides extra cash until the tax is remitted to HMRC (35%) – i.e. the last two are not really seen as benefits.

As a summary question, when respondents were asked "Overall, would you agree that complying with tax obligations has some benefits for your business?" 25 firms (61%) answered "Yes", with 16 firms (39%) answering "No". Accordingly, there are mixed views on whether tax compliance has follow-on benefits for other non-tax areas in the firm such as general financial management.

5. CONCLUDING REMARKS

Our results from this preliminary study of current U.K tax compliance costs support the findings from previous work in relation to VAT compliance costs (Crawford & Freedman, 2010; Hansford et al. 2003). VAT compliance consumes a disproportionate amount of in house time, as set out in Table 2, with over 40% of costs and over 50% of time spent on VAT as compared to other taxes; income tax / corporation tax, PAYE and CGT.

The regressive nature of overall tax compliance costs has been discussed at length in the literature, and our findings, so far, support this for both total and in-house compliance costs when these costs are computed per full time employee, as shown in Table 5.

Our findings relate also to the role of the external adviser. While accountants in public practice provide much of their services to SMEs in relation to tax work, they also act as a general business adviser. For example, when respondents were asked to imagine for a brief moment that the UK was tax free; and whether they would still pay for an external advisor for accounting and related services, 14 firms (38%) would still employ an advisor and 21 firms (57%) would refrain from doing so. So even for small firms, external advisers can provide 'value-added' services. Consistent with prior research, it also seems likely that when taxes are considered, these advisers play an "enforcing" role in tax compliance (Hite et al. 2003).

The results would indicate that there is some way to go before it can be said that the aims of the Compliance Cost Review have been met. Table 3 shows that over three quarters of in-house costs relate to recording, calculating and returning information on tax returns. Table 7 shows that 95% of our respondents consider record keeping to enable the tax calculations to be computed are moderately or very important. On balance our respondents were just positive in assessing whether having to comply with tax obligations – ie actually incurring these compliance costs - helps to improve record keeping.

Previous research has shown that SMEs present issues for policy makers aiming to reduce red tape and burdens on these, often, fledgling businesses. There is an overlap of purposes for keeping business records and these purposes will change and evolve over the life of the SME as the business expands. An example from our study is given in Table 1 where external payroll costs, when assessed per full time employee (£624) appears out of line with tax related (£281) and non tax related (£261) costs. This perhaps reflects the stage of the businesses of our 13 respondents at the time of completing the questionnaire; their staff size is not big enough to perform this function in house. They cannot benefit from internal expertise and so have to engage expensive outside support.

As with all preliminary studies, it is important to establish the limitations of the work done so far before progressing further with this study. Our research methods involving ACCA members were helpful in addressing the challenges of a large scale questionnaire survey. Support with customising some of the questions and active support from the Head of Taxation was important. However, the response rate was disappointing and compliance costs must be linked to policy and understanding the consequences, and not just the causes, of compliance costs is a continuing challenge.

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