AN INTERNATIONAL PERSPECTIVE ON SMALL BUSINESS IMPLEMENTATION COSTS OF A NEW TAX AND MANAGERIAL BENEFITS DERIVED

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ABSTRACT
This paper highlights an international perspective on the economic significance of small businesses and the regulatory compliance requirements they face. Importantly, it discusses small business implementation costs of a new tax, particularly, the year 2000 Australian Goods and Services Tax (GST). A survey of 868 small businesses in Western Australia confirmed that small businesses claimed the burden of preparing for the implementation of the GST to be an onerous task, with high gross costs incurred, estimated at $7,888 per small business and $566.7 million for the whole Australian economy. However, despite their high GST start-up compliance costs, three years after the implementation of the GST, some small businesses reported managerial benefits derived from better record-keeping and the use of technology. The conclusion sums up the key issues discussed, suggesting some lessons to be learnt and experiences to be shared with South African small businesses and others internationally. Policy implications and the limitation of the study are also discussed.

Key words: Small business, entrepreneurship, compliance costs, Goods and Services Tax, Value-added Tax, managerial benefits

1. INTRODUCTION

Globalisation has resulted in governments’ recognition of the importance of small businesses in the competitive markets in which they operate. Moreover, governments must formulate regulations to implement policy objectives, including those that affect small businesses.

1 Other countries, for example, South Africa and Botswana, term it Value-added Tax (VAT) and this is synonymous with the Goods and Services Tax. GST and VAT are used interchangeably throughout this paper.
Internationally, small businesses are acknowledged for their involvement in entrepreneurship, economic growth and employment creation. Consequently, small businesses are universally recognised as engines of world economies. In Africa, small businesses play a pivotal role in stimulating development as well as alleviating poverty, particularly in countries where the private sector is underdeveloped. Moreover, evidence suggests that many developing countries could improve their annual growth rates by as much as 1.4 per cent if they created a world-class regulatory environment for business small business projects [SBP] (2004).

Australian small businesses account for around 37 per cent of Australia’s economic production and employ around 3.7 million people (Australian Bureau of Statistics [ABS], 2000-04). However, similar to other international small and medium-sized enterprises (SMEs), their concern for compliance with government regulations, which has a heavy impact on their operations, is not a new phenomenon. The small business community bears a disproportionate burden of compliance costs relative to its size. The smaller the business size, the higher the compliance cost percentage is. This situation is also experienced by small, micro and medium enterprises (SMMEs) in South Africa and other parts of the African continent.

Recent evidence in South Africa has confirmed that regulation, particularly tax compliance, is an issue for SMMEs. Consequently, the National Treasury (NT) of South Africa and the South African Revenue Service (SARS) requested the Foreign Investment Advisory Service, which is a multi-donor facility of the World Bank Group, to measure the tax compliance burden for SMMEs (Coolidge, Ilic & Kusiko, 2009). In Australia, among these government regulations are Occupational Health and Safety, workers’ compensation, local council planning and so forth, but taxation is at the top of the list in terms of its significant impact on small business compliance requirements. Although the author of this paper fully acknowledges the compliance cost of these government regulations for small businesses, the paper’s focus is on tax compliance, in particular the costs that Australian small businesses incurred in complying with the year 2000 implementation of the GST.

The Australian government, after much political debate, finally introduced the GST, which became part of the government’s major tax reform policies, on 1 July 2000. This debate raised concerns on the economic impact of the GST on around 1.2 million Australian small businesses, which included their start-up tax compliance costs and recurrent (continuing) compliance costs. The GST is a broad-based indirect tax of 10 per cent and is levied on most supplies of goods and services consumed in Australia, with most food, health and education services zero-rated (GST free).

Compliance costs, as defined by Sandford, Godwin and Hardwick (1989), are costs incurred by taxpayers or third parties, such as businesses, in meeting the requirement laid upon them to comply with a given tax structure, over and above payment of the tax itself. For business taxation, these costs include professional fees, time costs of internal staff and acquisition cost of equipment such as computer hardware and software. Thus the GST start-up compliance costs, termed “commencement costs” by Sandford et al. (1989:16) are those costs incurred by businesses in preparing to comply with the GST legislation. These costs arise with the introduction of a new tax or a major change in a tax. Costs that arise after the implementation of a new tax are called recurrent compliance costs because of their nature as “continuing costs” incurred by small business taxpayers in meeting their tax obligations.
While this paper makes reference to some compliance cost studies in Africa, particularly in South Africa, it does not attempt in any way to undertake a comparative study. It simply confirms that small businesses’ regulatory compliance problems occur world-wide and the South African SMMEs may learn from their Australian counterparts how to alleviate these problems. As mentioned earlier, this paper largely focuses on start-up compliance costs of the GST for Australian small businesses. While it is recognised that the year 2000 Australian GST start-up costs are now mostly ‘sunk costs’ and may never be recovered, there are wider policy implications for future Australian tax policy and reform affecting small business. Internationally, research on GST start-up compliance cost should contribute to a much better understanding of the level and incidence of GST start-up compliance costs on small business, for countries yet to introduce their own GST (such as the USA, among Organisation for Economic Co-operation and Development countries and many emerging countries), or a similar consumption tax.

Interestingly, recent debate on the introduction of VAT in the USA indicates that it is unlikely that it will be implemented soon (ITR, 2009a). Nancy Pelosi, “the most powerful member of the US House of Representatives”, argues that the USA should consider VAT to deal with its budget deficit as well as in the context of possible tax reform for increasing fairness and simplification. On the contrary, the Deputy Assistant Secretary for International Tax Affairs, Stephen Shay, noted that while VAT is successful elsewhere in the world and an important source of revenue for other countries, the USA has chosen not to implement it. Considering VAT would be a long-term project in terms of finding a design that would accommodate the intersection with US states sales taxes (ITR, 2009b). Thus despite this controversy, the timing of the introduction of VAT in the USA is important for a study on start-up compliance costs.

Notably, other countries which have established similar consumption taxes, including South Africa and Botswana, never estimated start-up compliance costs of VAT or any tax. This could be due to the timing of such taxes, as start-up compliance costs can only be estimated when a tax is still new. Even the pioneer of compliance costs research, Professor Cedric Sandford (Sandford et al., 1989), did not estimate start-up compliance costs, although he fully discusses their nature, particularly their distinction from recurrent compliance costs (Sandford et al., 1989:16). Sandford probably did not estimate start-up costs because at the time he undertook such studies, the UK VAT was already established.

This paper is organised as follows: Following the introduction, section two discusses conceptual issues and reviews the literature. Section three briefly defines the Australian small business. Sections four and five discuss the research methodology for this study and the profile of respondents respectively. Section six provides key results and data analysis. The final part, section seven, concludes the paper with policy implications and the limitations of the study.

2. CONCEPTUAL ISSUES AND LITERATURE REVIEW

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2 A PhD candidate and a lecturer at the University of Botswana, Tshepiso Makara-Majinda, under the supervision of Professor Jeff Pope, is currently investigating administrative and compliance costs of VAT for SMMEs in Botswana, with Curtin University, Australia. This is a recurrent compliance cost study, not start-up compliance cost research, as VAT in Botswana, having been implemented in July 2002, is now well established.
2.1. The Theoretical Framework of Compliance Costs

A theoretical framework and methodologies of tax compliance, developed by Professor Cedric Sandford of the UK, are well established. Professor Sandford conducted studies on compliance costs of VAT in the UK (Sandford et al., 1989). His framework divides compliance costs into gross and net compliance costs. Gross compliance costs are total resource costs before offsetting benefits and net compliance costs take into account offsetting benefits. These offsetting benefits are the tax deductibility of the various costs incurred and the value of any cash flow benefits (CFB) arising from taxpayers. CFB, for example, arise from the lawful delay in payment of the GST to the tax authorities, and in a delay in remitting GST collected by taxpayers on behalf of the government.

Managerial benefits derived from improved record-keeping as a result of the compliance with tax regulations are import offset, but very difficult to quantify, hence usually omitted in the calculation of net compliance costs. As noted by Tran-Nam (2001:55) one of the problems in quantifying managerial benefits arises from the accounting-taxation overlap issues in tax compliance costs. Thus, as it is difficult to distinguish between accounting and tax compliance costs, the same problem is encountered in differentiating between accounting-induced benefits and tax-induced managerial benefits.

A distinction between economic and psychological costs of compliance is also important. Economic costs may be estimated and are inclusive of both monetary and time costs in dealing with the requirements of tax authorities. Psychological costs are non-monetary costs and are almost immeasurable. These costs include the stress and anxiety of small business owners and their staff arising from complying with taxation regulations. Although psychological costs are recognised by many compliance costs studies, they are normally excluded from compliance cost calculations because they are difficult to estimate. This author is not aware of any compliance costs research to date that has included psychological costs in the estimation of compliance costs, despite the effort of Woellner, Coleman, McKerchar, Walpole and Zetler (2000) to develop a measurement method.

2.2 Literature Review on Recurrent Compliance Costs

Studies have been conducted both in Australia and other international countries on small businesses’ recurrent compliance costs of taxation. As mentioned above, research on the compliance costs of VAT undertaken in the UK (Sandford et al., 1989). For small businesses, the Australian GST compliance costs estimates follow the framework of previous overseas studies of GST, which predominantly focused on recurrent costs, for example the UK GST (Sandford et al., 1989) and New Zealand’s GST (Sandford & Hasseldine, 1992). However, while Sandford (1995:405) points out the importance of making international comparisons of GST compliance cost estimates, he also advises researchers to be cautious about the use of figures, as they “would be more likely to mislead than enlighten” (Sandford 1995:405). This is due to differences such as taxation cultures, systems and processes of different countries, for example, taxation structure and tax population, GST rate(s), quality of data arising from different research methodologies, newness of the GST (inclusion of temporary or ‘learning costs’); degree of computer usage and quality of the tax administration, e.g. GST return form design.
Sandford and Hasseldine (1992) also investigated compliance costs of New Zealand’s GST. These authors estimated the total compliance of New Zealand’s GST at NZ$453 million, or 7.3 per cent of the GST net revenue. Furthermore, the study found that nearly 60 per cent of the compliance costs of the GST fell on businesses with under $250 000 turnover (Sandford and Hasseldine 1992:78). The regressivity of GST compliance costs was confirmed as falling with exceptional severity on small firms (Sandford & Hasseldine, 1992:1-2). The mean net compliance costs, that is, after taking into account offsets, was estimated at NZ$141 million. Even after considering the cash flow benefits for both smaller and larger businesses, the level of compliance costs for smaller businesses still remained higher than for larger businesses. Thus for small businesses, cash flow benefit and other deductibility benefits are likely to be overshadowed by the excessive compliance costs they incur.

The ATAX, the University of New South Wales (Evans, Ritchie, Tran-Nam & Walpole, 1997) study, funded by the ATO, later investigated compliance costs of Australian taxes. This research disclosed the magnitude of tax compliance costs experienced by small businesses. The study confirmed that small business bears a highly significant proportion of business social compliance costs at 89 per cent, in particular, internal time costs at 90.7 per cent (Evans et al., 1997:78). This situation is revealed by almost all compliance costs studies. Thus the problem of limited resources that the small business sector has, relative to large businesses, explains this regressivity.

Another study that focussed on the small business cost of tax compliance was undertaken between November 1991 and November 1992 (Wallschutzky & Gibson, 1993511). This study, which was jointly funded by the ATO and the Department of Industry, Trade and Commerce (the Commonwealth department responsible for small businesses), was conducted because of the concern of ATO about taxpayers compliance costs issues. Another reason for this research was to address tax compliance requirements for small businesses as identified by the Beddall Report (1990). The only compliance costs studies undertaken in Australia at that time were the five studies by Pope, which overall estimated compliance costs as relatively high (Pope, 1995).

A recent study by Abdul-Jabbar and Pope (2008) surveyed 175 SMEs to estimate the income tax compliance costs and to measure possible non-compliance behaviour for SMEs in Malaysia. Although this study does not relate to VAT, it provides recent findings on tax compliance costs, which are useful in SMEs’ tax policy decisions. The result confirmed that average compliance costs per SME company were R9 295 million. Around half the average compliance costs were internal time spent and around two-fifths were direct monetary costs paid to external advisors solely on tax activities. The internal time cost categories of staff within the business were manager/accountant, accounting staff, administrative staff and other staff. Additional compliance costs (non-staff) accounted for seven per cent (Abdul-Jabbar & Pope 2008:11). The non-compliance side of the study showed that SME companies were compliant in terms of reporting behaviour rather than the correctness of their deductions. Abdul-Jabbar and Pope’s study also confirmed that noncompliance through overstatement of deductions probably needed further attention in the Malaysian SME context (Abdul-Jabbar & Pope 2008:17).

It must be noted that although these studies discussed the managerial benefits derived by small businesses from tax compliance extensively, they did not investigated them with the aim of considering them as offsets. However, these studies recognised the existence of managerial benefits. Again, the magnitude of managerial benefits depends on how small
businesses value managerial information, as small businesses seem to value managerial benefits information less than large businesses (Tran-Nam, 2001). This could be, as mentioned earlier, due to their high compliance costs, which may, in turn, overshadow these benefits. Again, small businesses may under-value the managerial benefits as a lobby for a change in government tax policy.

Studies that have investigated managerial benefits (Sandford, 1981; National Audit Office, 1994), suggest that the value of managerial benefits can be quite considerable, possibly around a minimum of 7 per cent of gross compliance costs to a maximum of 13 per cent. Sandford and Hasseldine (1992) also found the New Zealand smaller businesses to have enjoyed substantial managerial benefits from improved accounting as a result of tax compliance. These studies used Sandford’s (1981) framework in relying on owner-managers of the businesses to report if they derived any benefits from tax compliance and assign a value to those benefits. In addition, Sandford asked owner-managers if they realised any savings on accounting fees as a result of tax compliance (Sandford, 1981:94).

Recently, an Australian study (Lignier, 2008, 2009a) extensively investigated managerial benefits of tax compliance in isolation from tax compliance costs. Lignier found that small businesses derived managerial benefits of improved knowledge of their financial affairs, in particular increased complex accounting information systems. Lignier (2009b:128-130) suggests a mixed measurement approach that includes an “objective” value of managerial benefits and “subjective” value of managerial benefits. The former is based on an “economic gains” approach, valuing incremental cash flows resulting from improved business performance. This, from a tax perspective, includes improved accounting resulting from tax compliance regarding record-keeping activities. The latter requires the owner-manager of the business to assign a value to accounting information he/she uses to run the business. This includes savings realised as a result of tax compliance (Sandford (1981:94). Lignier recommends further research to obtain a reliable measurement of managerial benefits (Lignier, 2009b, p150).

2.3 African Compliance Costs Studies

There is a dearth of literature on tax compliance costs in Africa, in particular the compliance costs of VAT, despite the growing number of African countries that had established this consumption tax since 1986 (see Table 1). It must be noted that some of these countries have since changed their VAT rates from the time of VAT implementation. This change has the potential of increasing SMEs’ compliance costs in the short term, in particular start-up costs, as businesses also have to change their internal reporting systems. An earlier compliance cost study, undertaken by Shekidele (2001), is valuable, although not related to VAT. Shekidele’s study was on the compliance costs of excise duties in Tanzania. International Tax Dialogue (ITD, 2005) provides a summary of VATs of the world. Up until 2004, there were 136 countries that had implemented VAT, of which around 19 were African countries (see Table 1). Among these countries, the author of this paper is aware of South Africa, Mauritius and Ethiopia being the only countries that have so far conducted research on the recurrent compliance costs of VAT. The Mauritian research investigated both start-up and recurrent compliance costs of VAT in the hotel industry and the extent of start-up costs compared to recurrent costs. The results of this study are discussed in the section on start-up compliance costs below.
Table 1: VAT implemented in some African countries – 1986-2004

<table>
<thead>
<tr>
<th>Country</th>
<th>Date VAT Introduced</th>
<th>Standard Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethiopia</td>
<td>2003</td>
<td>15</td>
</tr>
<tr>
<td>Niger</td>
<td>January, 1986</td>
<td>19</td>
</tr>
<tr>
<td>Morocco</td>
<td>April, 1986</td>
<td>20</td>
</tr>
<tr>
<td>Malawi</td>
<td>May, 1989</td>
<td>17.5</td>
</tr>
<tr>
<td>Kenya</td>
<td>January, 1990</td>
<td>16</td>
</tr>
<tr>
<td>Mali</td>
<td>January, 1991</td>
<td>18</td>
</tr>
<tr>
<td>South Africa*</td>
<td>September, 1991</td>
<td>14</td>
</tr>
<tr>
<td>Algeria</td>
<td>April, 1992</td>
<td>17</td>
</tr>
<tr>
<td>Nigeria</td>
<td>January, 1994</td>
<td>5</td>
</tr>
<tr>
<td>Madagascar</td>
<td>September, 1994</td>
<td>20</td>
</tr>
<tr>
<td>Mauritania</td>
<td>January, 1995</td>
<td>14</td>
</tr>
<tr>
<td>Zambia</td>
<td>July, 1995</td>
<td>17.5</td>
</tr>
<tr>
<td>Mauritius</td>
<td>September, 1998</td>
<td>15</td>
</tr>
<tr>
<td>Mozambique</td>
<td>July, 1999</td>
<td>17</td>
</tr>
<tr>
<td>Namibia</td>
<td>November, 2000</td>
<td>15</td>
</tr>
<tr>
<td>Central African Republic</td>
<td>January, 2001</td>
<td>18</td>
</tr>
<tr>
<td>Botswana</td>
<td>July, 2002</td>
<td>10</td>
</tr>
<tr>
<td>Lesotho</td>
<td>July, 2003</td>
<td>14</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>January, 2004</td>
<td>15</td>
</tr>
</tbody>
</table>

Source: VAT of the World (ITD, 2005, pp4-6)

Owing to regulatory costs relating to small businesses and taxation, the South African Minister of Finance, Trevor Manuel, made a call for the assistance of small businesses, both at policy and administration level (Smulders & Stiglingh, 2008). A number of studies estimating the compliance cost of regulation in South Africa were consequently undertaken. This includes the SBP (2004) study, which provides useful information on regulatory compliance costs in South Africa. Among the regulations investigated, the compliance cost for tax was the highest, at R27 298 (inclusive of professional fees) per business (SBP, 2004:10), although overall, tax was not investigated in depth. SBP (2004), however, does not separate the cost of VAT from other taxes and SMMEs from large business. However, when asked to name the three regulations found to be most time-consuming, costly and troublesome, VAT was the highest, cited in 19 per cent of responses (SBP 2004, p19).

Chamberlain and Smith (2006) cite the Upstart Business Strategies (2004) study, which investigated VAT and Regional Service Council levies. The results confirm that on average, SMMEs spent R6 027 on VAT recordkeeping and tax returns completion. Overall, SMME VAT compliance costs were in the range of R6 000 and R8 000 per annum (Chamberlain & Smith 2006).

An academic study by Smulders and Stiglingh (2008) elicited information from 429 tax professionals to estimate SMMEs’ tax compliance costs in South Africa. Of the four taxes investigated, VAT was the highest in terms of average time taken to prepare, complete and
submit the returns, at 18.77 hours per annum (Smulders & Stiglingh, 2008:361). On average, the total annual compliance costs for all taxes investigated were R7 030, with VAT being the highest, at R2 975 (Smulders & Stiglingh 2008:361).

The most recent South African research investigated the patterns and practices of tax compliance outsourcing that South African SMMEs follow (Coolidge et al., 2009). Telephone interviews were conducted nationally with 998 SMMEs registered with SARS to solicit information on these outsourcing issues. The results suggested tax practitioners to be an important resource for SMMEs. Fifty-seven (57) per cent of respondents reported at least some outsourcing of tax compliance work and some SMMEs said they had in-house staff that had tax expertise (Coolidge et al., 2009:25).

Dr. Wollela Yesegat (former University of New South Wales PhD candidate) investigated both administrative and compliance costs of VAT in Ethiopia, surveying 193 taxpayers and 29 tax practitioners, chosen at random. Yesegat estimated mean compliance costs for the 2005/06 fiscal year at ETB 8 963 per taxpayer (PhD thesis, p123). The Ethiopian Customs Authority’s costs of administering VAT were estimated at around ETB 30 million. These costs represented 0.66 to 0.8 per cent of VAT revenues and 0.24 to 0.3 per cent of total tax revenues and 0.04 to 0.045 per cent of GDP.

Prior to the full report of Yesegat’s study, Yesegat (2008) discussed VAT problems in Ethiopia, identifying the main problems influencing the fairness and revenue derivation from tax. Yesegat reported gaps and problems in taxpayers’ identification and registration, VAT filing and payment, VAT refunds, VAT audits, penalties and VAT invoicing. All these problems were a result of limited tax administration resources, such as under-staffing. Education awareness for taxpayers was not particularly strong. The issue of trust between taxpayers and administrators was evident. Notably, this particular problem is not new, as it is well documented in the tax compliance and tax evasion literature. Trust between taxpayers and the authority has the potential for decreasing voluntary compliance, hence increasing both administrative and business compliance costs.

2.4 Literature Review on Start-up Compliance Costs

This research is one of the first comprehensive academic studies on Australian GST start-up compliance costs. International literature on tax start-up costs to date is limited. This author is aware of only five major studies, conducted prior to 1st July 2000 (two Canadian, one British, one Mauritanian and one Australian), on start-up costs. Although these studies (except the Mauritian and Canadian investigations) are not related to GST, their contribution to the literature is of particular importance, since they give a clear indication of the relationship between start-up costs and recurrent costs.

The most relevant study is that of the Canadian Federation of Independent Business (CFIB, 1991), which surveyed its members and estimated small business GST start-up costs. The CFIB (1991) study was widely criticised for bias and overestimation. The CFIB (1991) undertook a survey of its members in the first year of the GST’s operation in Canada and received 25 362 responses. The CFIB (1991) estimated start-up costs of C$3 billion, representing 45 per cent recurrent costs of C$6.6 billion, which was around 30 per cent of tax revenue at that time.
Another Canadian study investigated start-up costs of Canadian research and development tax incentives (Gunz, Macnaughton & Wensley, 1995). This study elicited information on the costs of learning about designing systems, for the tax credit programme, when the respondents first started using it. However, owing to the continual claiming of tax credits by respondents (since before 1986 when the federal government made major changes in the SR & ED programme), it was difficult for all of them to provide information on when they started using the tax credit programme. Furthermore, since the survey was conducted after the introduction of the tax credit programme, most of the respondents did not have access to information about start-up costs in an earlier year.

Despite this problem, Gunz, Macnaughton and Wensley (1996:15) reported that 33 respondents provided start-up information and found that the average start-up cost of 33 firms in a start-up year was $3,550. This comprised 84 per cent of recurrent compliance costs, yet only represented 0.4 per cent of the total research and development tax credits claimed. A further interpretation of this study was that a firm has a “double year” of compliance costs in its start-up year, one year of start-up costs and an almost equal amount of recurrent costs. Furthermore, 77 per cent of the start-up costs were spent on learning about the research and development tax credit programme and staff training, while 23 per cent was the cost of setting up new forms and systems.

Gunz et al. (1996) further found that the regressivity of start-up costs on smaller firms was not of the same extent as recurrent costs. This study also reported that the percentage of start-up costs spent on external consultants was about twice as high as for recurrent compliance costs. Approximately half of the start-up costs represented costs relating to external advisers, while one quarter of recurrent costs was external advisers’ costs. This confirms that start-up costs are higher than recurrent costs because businesses may have gone to consultants to get them started. At a later stage, businesses did not require assistance from these consultants once the firms had become familiar with the programme.

In Britain, HM Customs and Excise estimated start-up (set-up) costs for the GST component of the impact of the Single European Market on 130,000 large businesses (National Audit Office, 1994). HM Customs estimated the 1992 start-up costs for the GST component of this change at 72 per cent and recurrent costs for 1993 at £6.3 million and £8.8 million respectively. Businesses incurred these costs on providing additional information on VAT returns, providing lists of sales in other member states, obtaining VAT registration numbers of customers in other member states, registering for VAT and dealing with additional control visits from customs officers (National Audit Office, 1994:25).

Pillai (2000) also estimated both VAT start-up and recurrent compliance costs in the Mauritian hotel industry. The estimated measurable compliance costs in 1998/99 for hotels in Mauritius was Rs14.3 million, comprising start-up costs of Rs9.8 million and recurrent costs of Rs4.5 million. Start-up tax compliance costs of VAT were 68.8 per cent of the total compliance costs, while the recurrent costs accounted for 31.4 per cent. Thus start-up costs were more than twice as high as recurrent costs, representing around 223 per cent of recurrent compliance costs. Part of the start-up costs were equipment costs and training costs, estimated at 28.3 per cent and 18.1 per cent respectively.

An Australian study (Claire & Connor, 1998) estimated the start-up costs of the Superannuation Surcharge Tax (SST). Pope, Fernandez and Le (2003:50) argue that the Clare and Connor study did not review the survey methodology and estimation analysis. As
such, Pope et al. (2003) relied on Clare’s standing and research reputation in the superannuation industry when accepting the validity of the estimates. Clare and Connor estimated SST for the first year of funds surveyed at $141 million, or 30 per cent of first-year SST revenue of $470 million. Start-up tax compliance costs of the SST mainly comprised staff salaries, system development fees, legal and actuarial advice, accounting and reporting requirements and member communications. Included in the staff salaries were payments to administration staff and staff required to implement the new systems and arrangements (Pope et al., 2003: p51). All these studies confirmed the regressivity of compliance, which means that compliance costs have a heavy impact on the smallest businesses.

3. DEFINING SMALL BUSINESS

The literature reveals general lack of agreement on the definition of a small business. Because of their diversity, an attempt to employ a single definition invariably creates inaccurate comparisons. Consequently, various parties adopt different definitions based on criteria appropriate to their purposes. The Australian ABS) defines small businesses in non-manufacturing industries as those with fewer than twenty 20 employees, and in manufacturing those employing fewer than 100 (Bell Report, 1996:13). By contrast, the ATO measured small business by turnover, that is, $10 million or less (ATO 2002:100; Evans & Ryan 1999:7). Later on, the ATO (2003:12), classified businesses with an annual turnover of less than $2 million as micro-businesses. Businesses with an annual turnover of between $2 million and $100 million were classified as small to medium enterprises (ATO 2003, p18; ABT, 2007:27-28).

The reason for the ATO to move away from the $10 million turnover definition was a result of the introduction of the New Tax System (NTS), to facilitate small businesses’ access to various concessions. For example, under the NTS, in order to enter the Simplified Tax System (STS)3, a small business taxpayer’s annual turnover must be less than $1 million and their end of the year value of depreciable assets must be less than $3 million. A In addition, for GST purposes, at the time this study was conducted businesses with an annual turnover of not more than $50 000 could register (the registration threshold has now increased to $75 000); those with $1 million annual turnover could use the cash basis of accounting4, and so on (Coleman & Evans 2003:150). It must be noted that since this research captured data up until 30 June 2000, a $10 million or less definition has been adopted mainly for ease of reference in cross-checking this study’s results with the ATO data for the year 2000.

4. RESEARCH METHODOLOGY AND DATA COLLECTION

The two methods applied in this study are large-scale survey and in-depth structured face-to-face interviews. This was in accordance with the objectives of this research – to obtain reliable and representative information on small business GST start-up compliance costs

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3 An STS, effective from the 2007-08 financial year, no longer operates and has been replaced by the small business entity provisions. The changes give small businesses greater choice and flexibility by streamlining the eligibility criteria for various concessions. For example, a small business taxpayer with an annual turnover of less than $2 million may now be eligible for the choice to account for GST on a cash basis and the choice to pay GST in instalments.

4 Allows small businesses to account for the GST only when they receive cash and the annual turnover threshold for small businesses to elect to use this method has now been increased to $2 million.
and the managerial benefits derived from its implementation. These methodologies are commonly used in compliance costs research. To investigate managerial benefits, in-depth structured face-to-face interviews were conducted with the same small business owners who completed the questionnaire used for start-up compliance costs.

Large-scale questionnaire surveys were used, as they have been proved to be cost-effective in terms of taking up less of the researcher’s time than case studies and are more representative and reliable. Moreover, to facilitate an effective estimation of aggregate small business GST start-up costs, it is important to have a larger sample size across small business turnover range and industry classification. This is because in the area of compliance costs, these are considered the potential determinants of compliance costs. However, certainly there are many shortcomings of using survey data in this kind of research and this has been acknowledged by previous compliance costs studies (see Sandford 1995:378; Sandford et al., 1989:52). Among these shortcomings is the fact that the closed questions in the survey questionnaire would not facilitate the required depth of answers from respondents.

This survey involved a population of 4,000 small business registered for GST in Western Australia. A pilot study was first carried out to test the validity of the survey instrument. The main source of data was a sample selected from a pool of small businesses registered for GST throughout Western Australia. This was undertaken indirectly through a bought-in small business listing derived from the Yellow Pages Electronic Telephone Directory because “confidentiality reasons” made the Australian Taxation Office reluctant to provide a stratified sample. A stratified sample allows the researcher to “stratify the population in such a way that the population within a stratum is homogeneous with respect to the characteristic on the basis of which it is being stratified” (Kumar 1996: p158). Thus for this research stratification based on the turnover range was significant. Moreover, owing to the heterogeneity of the population, a larger sample was essential. The final questionnaire was mailed to 4,000 GST-registered GST taxpayers in Western Australia. The researcher was confident that a larger sample would make the study more representative in terms of drawing an acceptable sample that varies across business activities/industries.

A synthesis of reports and information from other published sources, such as government (in particular the ATO), business and professional bodies was used. Estimates from the main survey were analysed with the aid of the Statistical Package for the Social Sciences (SPSS). This was grossed up for the whole population, after scrutinising returns for validity and removing outliers that were caused by respondents giving extreme valuations of costs and hours.

In 2003, which was three years after the implementation of the GST, the extent of managerial benefits for small business was investigated using qualitative research (structured face-to-face interviews). This was a result of the claim from the Australian government (RIS, 1998:5) and 34 per cent of small business respondents surveyed (Rametse Pope, 2002:434), that in the long run, small businesses would enjoy GST managerial benefits. As this was based on expectations, to obtain factual responses the researcher investigated this claim further by interviewing 13 small businesses.

The survey questionnaire for small business GST start-up compliance costs had requested respondents to indicate their willingness to participate further in this research and 37 per cent responded positively. The researcher contacted these small business respondents but could only interview 13 participants. While most small business owners claimed they could not
find time for the interview, some declined to participate because they were suspicious of the researcher’s association with the “tax man” as well as competitors. A further difficulty was that while some of the business owners could not respond to the researcher’s telephone calls, some had moved premises or ceased operating. Those who claimed that they could not find time said that they were kept busy managing their businesses.

Although structured face-to-face interviews with small businesses were a painstaking process, the researcher was able to obtain inside information on the impact of the Australian tax reforms. Moreover, it was important to obtain information on managerial benefits from the same survey taxpayer respondents over the entire life of the research. Although the researcher acknowledged that it would be difficult to quantify managerial benefits with a very low number of participants, the intention of this was to test if, for further research, managerial benefits could be adequately quantified. The managerial benefits instruments followed Sandford’s (1981) model discussed above.

V. RESPONDENTS’ PROFILE

The overall response rate from the mail questionnaire survey was 27 per cent. The vast majority of respondent small businesses (46 per cent) represented a company, followed by partnerships (26 per cent), and sole traders (19 per cent), non-profit organisations (5 per cent), trusts (1 per cent) and the public sector (0.9 per cent). Respondents were also sorted according to industry classification. The most frequently stated business was retail trade (19 per cent) followed by construction (11 per cent), manufacturing (8 per cent), property and business services and health and community services (7 per cent) (Rametse & Pope, 2002).

For managerial benefits, small businesses interviewed were two sole traders, five partnerships, five companies and one trust. Most participants fell in the annual turnover range of $50 000 - $499 000 (7), followed by $1 million - $10 million (5) and $500 000 - $999 999. As show in Table 2 below, no small businesses from the primary production, mining, communication, education and cultural and recreational services participated. Other industry is represented by two businesses from the services sector (Rametse, 2009).

<table>
<thead>
<tr>
<th>Year 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main Business Activity</td>
</tr>
<tr>
<td>------------------------</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
6. RESULTS AND ANALYSIS

The main finding of this study was that overall, small businesses incurred high costs in preparation for complying with the GST requirements (Rametse & Pope, 2002). The mean GST start-up compliance costs per small business and aggregate gross GST start-up compliance costs (with time costs) for the year 2000 for Australian small businesses were estimated at $7 888 and $5 677 million respectively (Rametse, 2007:2). The analysis of the results in this paper is limited to costs per small business. Respondents reported that on average they incurred GST start-up costs (excluding their time costs) of $5 006. Other costs were an average of 131 hours per firm in seeking professional accounting and information technology advice to introduce new systems and procedures. The 131 hours (time spent) valued in dollars, at an opportunity cost of $22 per hour, amounted to $2 882, or 38 per cent of total start-up costs of $7 888 (see Table 3).

Small business respondents reported that their gross mean GST start-up costs, that is, before considering any offsets, were $7 888. This estimate comprises the cost of equipment at $3 141, particularly computers and software, and other costs such as professional accounting and IT consultancy fees, training course fees, stationery and phone calls, amounting to $1 865 and also (opportunity) time costs of $2 882 (see Table 3).

Table 3: Estimated small business mean gross GST start-up compliance costs

<table>
<thead>
<tr>
<th>YEAR 2000</th>
<th>Hours</th>
<th>Cost $</th>
<th>Number of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Participants</th>
<th>0</th>
<th>0</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Production</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Mining</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1</td>
<td>7.7</td>
</tr>
<tr>
<td>Construction</td>
<td>1</td>
<td>7.7</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>1</td>
<td>7.7</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>2</td>
<td>15.4</td>
</tr>
<tr>
<td>Hospitality</td>
<td>1</td>
<td>7.7</td>
</tr>
<tr>
<td>Transport and Storage</td>
<td>1</td>
<td>7.7</td>
</tr>
<tr>
<td>Communications</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Finance and Insurance</td>
<td>1</td>
<td>7.7</td>
</tr>
<tr>
<td>Property and Business Services</td>
<td>2</td>
<td>15.4</td>
</tr>
<tr>
<td>Education</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Health and Community Services</td>
<td>1</td>
<td>7.7</td>
</tr>
<tr>
<td>Cultural and Recreational Services</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>15.4</td>
</tr>
<tr>
<td>Total</td>
<td>13</td>
<td>100</td>
</tr>
</tbody>
</table>
The questionnaire requested respondents to estimate the three aspects of internal time costs. These included owners and staff time, time on record-keeping and time spent in complying with the Australian Consumers Competition (ACCC) regulations. Small business owners and their staff reported that on average, they spent 58 hours, that is, $1 276 in monetary terms, in preparing for GST. Additional time spent on record-keeping was 35 hours, amounting to $770. Furthermore, an average of 38 hours, or $836 in monetary terms, was spent in complying with ACCC regulations.

Respondents were requested to provide the approximate amount their businesses spent on external advisers and other outside services. These external services, for this study, included fees for accountants/tax agents, financial consultants, lawyers and others. The mean total other cost of $1 865 (Table 3 above) is predominantly inclusive of the mean external time cost spent in preparing for GST, which is $1 634.

The cost of external advisers and other outside services represents 21 per cent of the mean gross start-up compliance costs of the GST for small businesses. In fact in this study 85 per cent of respondents ranked accountants among the top three sources of advice for the GST (Rametse & Pope, 2002). Of course when the GST was introduced, small business owners did not have knowledge of the technicality of the legislation and the only option was to engage external professional advisers to assist in implementing the GST and to provide regular ongoing accounting services.

The evidence has revealed that advisers’ fees are in fact greater than the costs of in-house staff (Hasseldine & Hansford 2002:382). Generally, small businesses employ few people and these employees may not have the required expertise. Consequently, this leaves small business owners with the option of outsourcing expert services, hence paying high fees. The situation in South Africa is similar, where three-quarters of SMMEs that outsource claimed that they do it because they lack specialised skills relating to tax among their staff.

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The government empowered the ACCC, as part of its tax reform programme, to monitor prices for a period of 35 months from the date of GST implementation. This price monitoring was mainly against GST profiteering by businesses and it included enormous fines of up to $10 million for businesses and $500 000 and jail sentences for individuals such as business owners, directors and others who were found guilty.
Conversely, those who do not outsource (80 per cent), have employees with sufficient tax skills (Coolidge et al 2009, p25).

An interesting factor revealed by small business accountants interviewed in the managerial benefits investigation was that their small business clients were not confident enough to handle pre-GST implementation issues. Furthermore, some businesses still made errors in their Business Activity Statements (BAS)\(^6\) and their accountants, upon accounts reconciliation, rectified these. These issues have since been confirmed by a survey conducted by CPA Australia (2003:4-18).

The Certified Practising Accountant (CPA) Australia survey showed that over the past two years of the NTS implementation, “CPA accountants have seen an increase in the number of small business clients using their services for BAS returns (50 per cent) and annual tax returns (54 per cent)” (CPA Australia, 2003:5). However, theoretically, with the phasing in of the learning curve effect, these clients should be able to handle most of these issues with minimal assistance from their accountants, in particular the preparation of the BAS. This clearly confirms that the high percentage of small business owners outsourcing professional advice relating to the implementation of the GST is indeed a measure of the complexity of GST. This explains the reason for the vast number of pre-GST implementation hours spent by small businesses.

The Western Australian study also confirmed that the use of accountants for GST advice lowered small businesses’ GST start-up compliance costs. For example, small businesses that ranked accountants as the most important source of advice (top three) incurred around 50 per cent lower GST start-up compliance costs ($8,050) compared to those who ranked them in the middle of the scale ($16 893).

Another analysis is the impact of the GST start-up compliance costs on the size of business. Nearly all recurrent compliance cost studies have analysed their costs as a percentage of turnover. These studies have confirmed that compliance costs are regressive because of the fixed costs nature and economies of scale. This relationship is experienced in this study. Thus the results of this survey show, not surprisingly, that start-up costs of the GST, in absolute terms, increase with the size of the firm, since larger firms generally collect more tax and require more resources for the collection of tax.

Conversely, start-up compliance costs expressed as a percentage of turnover show considerable economies of scale. As the size of the business increases, GST start-up compliance costs decrease as a percentage of turnover. This suggests that GST start-up costs are regressive, confirming that the smallest businesses bear a very high relative burden in implementing the GST. GST start-up compliance costs are regressive because of the fixed costs nature and economies of scale. Thus in complying with GST legislative requirements, small businesses invariably need a certain minimum level of expenditure irrespective of the costs incurred to prepare for the GST.

Mean gross GST start-up compliance costs as a percentage of turnover (including time costs), for businesses with less than $50 000 turnover were around 16 per cent (of annual taxable turnover). Businesses in the range of $50 000 - $99 999 turnover incurred GST start-up costs of 5 per cent, followed by 1.8 per cent for those in the turnover range of $100 000 - $499,999

\(^6\) A single tax compliance statement used to report and pay a number of tax obligations.
and 0.48 per cent for those within the turnover band of $500 000 - $999 999. Businesses within the $1 000 000 - $10 000 000 turnover range incurred GST start-up costs of 0.32 per cent (see Table 4). Thus the very small (or micro) businesses bear a very high relative burden in implementing GST.

Table 4: Mean gross GST start-up compliance costs as percentage of turnover (including time)

<table>
<thead>
<tr>
<th>Year 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Size (Taxable Turnover per annum)</td>
</tr>
<tr>
<td>Less than $50 000</td>
</tr>
<tr>
<td>$50 000 - $99,999</td>
</tr>
<tr>
<td>$100 000 - $499 999</td>
</tr>
<tr>
<td>$500,000 - $999 999</td>
</tr>
<tr>
<td>$1 000 000 - $10 000 000</td>
</tr>
</tbody>
</table>

The size of the firm was applied in the analysis of computer and software costs for GST purposes. As shown in Table 5, businesses within the lower turnover band incurred lower costs of both computer and software acquisition. For example, businesses within the turnover range of less than $50 000 spent $2 226 as compared to those within the turnover range of $1 million - $10 million, which incurred the highest computer costs of $9 198. However, as percentage of turnover, the smallest business (less than $50 000) reported the highest cost of computer hardware (8 per cent) as well as the highest software costs (2 per cent). Businesses in the highest turnover band ($1 million - $10 million) reported both the lowest cost of computer hardware and software at 0.17 per cent and 0.03 per cent respectively.

Table 5: Mean computer and software costs for GST purposes by turnover

<table>
<thead>
<tr>
<th>Year 2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Size (Taxable Turnover per annum)</td>
</tr>
<tr>
<td>Less than $50 000</td>
</tr>
<tr>
<td>$50 000 - $99,999</td>
</tr>
<tr>
<td>$100 000 - $499 999</td>
</tr>
<tr>
<td>$500,000 - $999 999</td>
</tr>
<tr>
<td>$1 000 000 - $10 000 000</td>
</tr>
<tr>
<td>Business Size (Taxable Turnover per annum)</td>
</tr>
<tr>
<td>-------------------------------------------</td>
</tr>
<tr>
<td>Less than $50 000</td>
</tr>
<tr>
<td>$50 000 - $99 999</td>
</tr>
<tr>
<td>$100 000 - $499 999</td>
</tr>
<tr>
<td>$500,000 - $999 999</td>
</tr>
<tr>
<td>$1 000,000 - $10 000 000</td>
</tr>
</tbody>
</table>

The distribution of both computer and software costs incurred for GST purposes by size of the firm (turnover) shows that businesses with less than $50 000 turnover reported higher cost of new software acquisition (2 per cent), and lower cost of software upgrading (1.4 per cent). This suggests that prior to the implementation of the GST, many of the smallest businesses did not have computers, compared to larger businesses that already had computers. Businesses that had computers only had to upgrade their software rather than buy new software.

The results of the managerial interviews with 13 small business participants confirmed that small businesses derived managerial benefits from the acquisition of computers for GST work. Small business participants were requested to state if they had computers before the introduction of the GST and if they acquired computers or associated software for GST compliance. They were also asked to elaborate on whether or not the acquisition of these computers and/or software for GST purposes benefited their overall business activities. The area of this benefit was expected to be in tax planning or e-commerce (Website). The researcher requested them to estimate the monetary value of this benefit.

The results confirmed that although the cost of buying computers and software for GST compliance was high, this later benefited small businesses. Thus after around three years of GST implementation, some businesses recognised the benefit of acquiring computers for GST compliance. One small business participant even believed that the benefit offset half of the total costs the business incurred for GST compliance. This seems to have benefited businesses that did not have computers prior to GST implementation and these businesses were the smallest businesses of between $50 000 and $499 999 annual turnover thresholds.

Businesses that had computers and only had to upgrade software, such as MYOB\(^7\) for GST compliance, stated that only the accounting side of their business operations improved. However, a majority of these businesses could not value this benefit. Of the 13 small businesses interviewed, only three were able to state an average value of $3 027 per annum, which almost offsets the $3 141 start-up equipment costs for GST compliance in 2000. Again, a small business accountant derived this benefit from better communication with clients. Small businesses were requested to state whether or not they recognised any improvement in their record-keeping activities since the introduction of the GST. In addition, they were asked to describe any benefit that they recognised.

The results suggested that better record-keeping imposed by the GST on small businesses resulted in the smallest businesses (annual turnover threshold of $50 000 - $499 999).

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\(^7\) MYOB is computerised accounting software which is normally used by SMEs.
recognising improvement in record-keeping. This record-keeping was in support of the GST collected and input tax credit. Other record-keeping improvement related to keeping track of outstanding debtors and creditors. This was evident for those small businesses that used the accrual method of accounting, since in most cases those that used the cash method of accounting did not have debtors.

Most small businesses with an annual turnover threshold of $100 000 to $10 000,000 claimed that they did not recognise any improvement in record-keeping because their records had always been kept better. Thus the GST did not force them to keep their records properly. Some small businesses that used the accrual method of accounting experienced difficulty in meeting quarterly payments to the ATO, as they had to submit the GST collected irrespective of cash received from debtors.

7. CONCLUDING REMARKS

To sum up, this paper discussed the main finding that overall, small businesses incurred high mean gross GST start-up compliance costs in the year 2000, estimated at $7 888 per small business. These costs comprised equipment costs of $3 141, time costs of $2 882 (131 hours) and other costs, such as professional fees and stationery costs of $1 865. Time costs were mainly internal (staff) costs of $1 276, record-keeping of $770 and ACCC compliance amounting to $836 per small business. The high costs were attributable to various factors, such as the complexity of the GST system; hence small businesses had to outsource external professional advice.

In addition, it is apparent that the small business compliance cost burden has a serious impact on the smallest businesses. An issue of importance is that although in the short term small business start-up compliance costs were high, these businesses derived managerial benefits from the use of computers and better record-keeping. Despite this, it is still imperative that although the GST start-up compliance costs are a historical issue, policy implications are eminent. Moreover, Chittenden and Sloan (2007) discuss policy perspectives for small firms and recognise the work of Andreoni, Erard and Feinstein (1997) in suggesting that an effective tax system requires both fiscal policies and to some extent wider government policies to earn and sustain the respect of taxpayers, particularly the small business community (Chittenden & Sloan 2007:44).

South Africa and other countries should learn from this research when they introduce a new tax or carry out a revision of their major taxes. Importantly, governments should recognise the significance of start-up tax compliance costs for small businesses when they introduce a new tax. This research is the only comprehensive academic study so far on GST start-up compliance or any tax in Australia and support from government was expected. However, the ATO was unsupportive in making relevant information available to the researcher, such as stratified data on small businesses. If governments are not supportive, the credibility of the study may be questionable.

In their taxation impact statement, called the Regulation Impact Statement\(^8\) (RIS) (1998), the Australian government failed to provide a break-down of expected GST start-up compliance

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\(^8\) The RIS focuses on how the new tax law would influence the taxpayer compliance costs as far as operating costs are concerned.
costs by size of the firm and as such, it was difficult for small businesses to ascertain the extent of the costs they should expect to incur. In future the RIS must provide the expected start-up compliance costs of a new tax and its potential managerial benefits, by size of the firm, for example, small, medium and large. This will allow small businesses to prepare better for a new tax.

This study estimated GST start-up compliance costs per firm by annual turnover (size of the firm) and overall for Australian small businesses. As discussed above, although the Australian GST start-up compliance costs are mostly sunk costs, their estimation is important, as they can provide a basis for estimates of compliance costs of other taxes. These estimates will be useful for future taxes. Government should not use the RIS only to justify the introduction of a new tax/regulation, but should also provide an assessment of its suitability.

Again, minimising start-up tax compliance costs requires governments to address the issue of the complexity of the tax system by designing a simple tax system. This particular point has long been emphasised by leading taxation scholars, such as Sandford et al. (1989). In fact, lessons and experience from many countries suggest that for any tax reform system, simplicity is a precondition. Sandford et al. (1989:213) recommend a simple tax structure for regular compliance costs, such as a single rate, minimum borderlines, high threshold, minimum of special exemptions, beliefs and provisions. Although Sandford et al. discuss the simplicity of a tax structure from a regular compliance costs viewpoint, this is also applicable to start-up compliance costs.

The legislation is also complex for South African small businesses, as noted by Payne, Arendse, Karlinsky and Killian (2005). These authors suggest a holistic approach to address tax and other regulatory burdens aimed at encouraging entrepreneurial star up and growth, as well as job creation activities. However, Chamberlain and Smith (2006) caution that a reduction in the tax compliance burden will not unlock the SMME market in the short term, but is important for long-term SMMEs, development. More likely, reducing the tax compliance burden will drive SMMEs development and growth. This is because drivers for growth are the result of improvements in general economic conditions, demand conditions and initiatives to empower individuals in venture creation (Chamberlain & Smith, 2006).

Another start-up compliance cost minimisation strategy would be a comprehensive GST or new tax education program for small businesses. A task for governments would be to employ professionals, independent from their taxation offices, with relevant experience and knowledge of the GST/new tax to head the education campaign for small businesses. Otherwise, if most of the education campaign is run by the government office, small business may not participate fully, as they tend to be suspicious of the employees of the taxation office. The issue of “trust” is well documented by tax compliance and tax evasion research. Eberl (2003) notes that if the citizens trust their government, compliance will be voluntary rather than enforced. Moreover, Tyler (2006) asserts that people comply willingly if they are treated in a respectful and fair manner by the authorities. Thus, it is important for governments to recognise these issues and treat small business taxpayers with respect and devise tax policies that would positively influence their compliance activities.

An important policy question is at what size small businesses should register for the GST. The registration threshold is important, as a higher registration threshold will keep many small businesses out of the GST system, hence lowering both administrative and compliance
costs for the whole economy. Although this may be an effective policy strategy, it could weaken the taxation office’s data collection and its efforts to reduce the cash or shadow economy. UK studies have confirmed that some micro-businesses have intentionally forgone growth in order to keep their turnover below the GST registration limit (Poutziouris, Chittenden & Michaelas, 1999:9). This situation, without proper government policy responses, can act as a barrier to economic growth and employment, affecting the overall economy negatively.

It is acknowledged that the low number of participants for the managerial benefits study is a major limitation in terms of generalising the monetary value of the benefits derived to the small business population. However, the richness of the qualitative data provides valuable information for small businesses’ policy decisions. Further research is important on a larger scale to investigate the monetary extent of small business managerial benefits. Another aspect of further investigation is that when a new tax is introduced or a major tax is revised, a study should be carried out into the correlation between a country’s start-up compliance costs and start-up administrative costs for small businesses. Thus an estimation of the operating start-up compliance cost of a new or revised tax is recommended.

REFERENCES


9 The shadow economy entails income not reported to the taxation authorities. The income is derived from the production of legal goods and services by unregistered businesses that may not even pay tax.


