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### ***Forming the Productivity Commission***

*The Federal Government, as part of its broader microeconomic reform agenda, is merging the Bureau of Industry Economics, the Economic Planning Advisory Commission and the Industry Commission to form the Productivity Commission. The three agencies are now co-located in the Treasury portfolio and amalgamation has begun on an administrative basis.*

*While appropriate arrangements are being finalised, the work program of each of the agencies will continue. The relevant legislation will be introduced soon. This report has been produced by the Office of Regulation Review which is part of the Industry Commission.*

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## 1.0 Introduction

The efficiency of the taxation system is a microeconomic reform issue. If the costs of raising revenue are greater than they need be, unnecessary costs are imposed on commerce and industry and the welfare of taxpayers is affected.

In response to a rapid growth in the complexity of the tax system, a number of processes are underway within the Australian Taxation Office (ATO) to improve the efficiency of the tax system. These include a joint study of industry compliance costs conducted with the National Farmers Federation and Pharmacy Guild of Australia, the Tax Law Improvement Project (TLIP), and the requirement that Tax Impact Statements assessing compliance costs accompany changes to tax legislation. In addition, the new Government has announced a number of initiatives — including establishing a Small Business Deregulation Task Force — to reduce regulatory paper burden and compliance costs, including those costs generated by the tax system.

Various costs can be generated by the tax system:

- economic costs that arise because taxes distort firms' and consumers' behaviour;
- the costs of running the ATO; and
- the costs to firms and individuals in complying with the taxation system.

The last of these costs are sometimes referred to as the 'paper burden' or 'compliance costs' associated with taxation. They are commonly perceived as part of the wider regulatory burden which governments impose on business.<sup>1</sup> Accordingly, the Office of Regulation Review (ORR) has an interest in these issues.

This paper, therefore, explores a range of issues associated with compliance costs and the administration of the tax system. Section 2 presents qualitative indicators on compliance costs. Section 3, on quantitative indicators of compliance costs, examines the methodology for measuring compliance costs and the available data on the magnitude of compliance costs in Australia. Section 4 of the paper then briefly examines the Government's initiatives to reduce compliance costs. This is followed in Section 5 with a list of some of the areas of the tax system that have

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<sup>1</sup> Surveys of business consistently highlight several areas of concern about regulations. These include tax compliance costs, corporate law compliance costs, industrial relations, competition and trade practices law, environmental regulations, superannuation and occupational health and safety regulations.

been identified by business organisations as entailing high compliance costs and in need of reform.

The paper is intended to provide background to possible further work in this area and as a contribution to the public debate about taxation compliance costs. It focuses primarily on tax compliance costs and does not consider in detail the structure of the tax system, including the choice of taxation systems of the Commonwealth, States and Territories.

## 2.0 Qualitative indicators on compliance costs

The complexity inherent in the Australian taxation system is well known. However, there is a question as to the extent to which this translates into unnecessary costs for individual and corporate taxpayers and how satisfied groups are with requirements for complying with tax law.

The most recent qualitative data on taxpayer views of various aspects of the income tax legislation (corporate and personal) is contained in a survey by Wallschutzky (1995b). The survey will provide benchmarks to evaluate the success of the TLIP when it is completed.

The survey took the form of a mail questionnaire which was sent to tax agents, small businesses, large businesses, individuals who use tax agents and individuals who complete their own tax forms. Among the issues on which the survey sought views were the complexity of the content of tax laws, overall satisfaction with the system, fairness of income tax laws, and reasonableness of effort required to fulfil tax obligations. In most cases respondents were asked to rank their level of satisfaction on a ten point scale.

Table 1: Complexity of tax laws

<i>Type of respondent</i>	<i>Group average (max of 10 = extremely complex)</i>
Large business	9.5
Tax agents	8.3
Individuals (agent used)	8.1
Individuals (own assessment)	7.7
Small business	7.6

Source: Wallschutzky 1995b, p. 122.

As shown in Table 1, respondents found the content of income tax laws to be very complex. On the basis that a score of one was 'not at all complex' and a score of 10 was 'extremely complex', no group gave a score of less than 7.5.

Capital Gains and Fringe Benefits Tax were the most frequently cited areas where revisions should be made.

Respondents also displayed a general dissatisfaction with tax laws. Over half the respondents in each group are not satisfied. Using the same scale the responses for each group are shown in Table 2.

**Table 2: Overall satisfaction with the tax system**

<i>Type of respondent</i>	<i>Group average</i> (min of 1 = Not at all satisfied, max of 10 = extremely satisfied)
Individuals (agent used)	3.5
Large business	3.6
Individuals (own assessment)	4.0
Tax agents	4.0
Small business	4.4

Source: Wallschutzky 1995b, pp. 122-123.

On the issue of fairness, only a minority of respondents in each group said they perceived the income tax legislation to be fair and equitable. The percentages of respondents who considered the legislation to be either extremely or reasonably fair and equitable are shown in Table 3.

**Table 3: Fairness of tax system**

<i>Type of respondent</i>	<i>% of group perceiving tax legislation to be fair and equitable</i>
Tax agents	46
Small business	39
Large business	39
Individuals (agent used)	39
Individuals (own assessment)	34

Source: Wallschutzky 1995b, p. 124.

The question that most directly related to compliance costs was that relating to the reasonableness of effort required to fulfil tax obligations. Respondents were asked:

.... considering the amount of tax they were required to pay and the need to ensure that everybody paid their fair share according to the laws, to what extent did they think that the effort required to fulfil their tax obligations was reasonable (Wallschutzky 1995b, p. 125).

Responses to this question varied more by group than for other questions; and given the levels of dissatisfaction with the tax system expressed on other

questions, the level of satisfaction was relatively high. Percentages of those in each group who rated obligations as extremely or fairly reasonable are shown in Table 4.

The least satisfied groups were tax agents and large business where less than half of respondents thought the obligations were reasonable.

Overall a mixed picture of the income tax system emerges from the study. There appears to be a considerable level of general dissatisfaction with the tax system. However, this does not appear to translate as strongly as might be expected into a dissatisfaction with the general 'paper burden' that the tax system imposes.

Table 4: Reasonableness of effort to complete tax obligations

<i>Type of respondent</i>	<i>% of group indicating effort to complete tax obligations was reasonable</i>
Individuals (own assessment)	72
Individuals (agent used)	61
Small business	61
Tax agents	49
Large business	47

Source: Wallschutzky 1995b, p. 126.

### **3.0 Quantitative indicators of compliance costs**

This section examines the complex methodology for measuring compliance costs and presents the results of studies undertaken in Australia.

#### **3.1 Measurement of compliance costs**

##### *3.1.1 What are tax compliance costs?*

Sandford provides the definition of compliance costs which is generally accepted internationally. Compliance costs are:

... costs incurred by taxpayers or third parties, notably businesses, in meeting the requirements laid on them by a given tax structure (excluding the payment of the tax itself and any distortion costs arising from it). (cited in Pope, Fayle and Chen 1990a, p. 3)

Compliance costs therefore have two main components to taxpayers:

- the external financial costs of professional fees of tax-agents, accountants, lawyers, and other advisers in relation to the tax. Some of these costs are

incurred by taxpayers because of the requirements of the tax system and other costs are incurred voluntarily; and

- time costs of internal staff on: collecting and maintaining tax information; completing tax forms and necessary disclosures or in preparing information for professional advisers to enable them to do this; and dealing with the ATO (Pope et al 1990a, p. 3).

In the studies undertaken in Australia by Pope et al (the Pope studies), compliance costs include both the cost of satisfying ATO requirements and 'planning costs'. Planning costs arise primarily for company income tax and consist of a 'detailed examination of the implications of a transaction and the choice of a method which minimises tax'.<sup>2</sup> Therefore, these include avoidance costs, where resources are used to minimise tax liabilities.

Should policy makers worry about planning costs? Intuitively, such costs are likely to be a large component of total tax compliance costs, because taxpayers will be financially better-off where their planning costs are smaller than consequent reductions in their tax liabilities. More generally, it is important to note that planning costs are largely incurred voluntarily by taxpayers. This raises the broader question, should policy makers be concerned equally about tax compliance costs incurred to satisfy statutory requirements and those incurred voluntarily?

Some types of taxes — such as the fringe benefits tax — and their associated compliance costs, are incurred voluntarily when a business decides to pay their employees fringe benefits. In addition, compliance costs incurred voluntarily by individuals include engaging tax agents in order to maximise claims for work related expenses.

Sandford and Pope et al also refer to the concept of net compliance costs. This is defined as the gross compliance costs minus the value of any cash flow benefit or plus the value of any cash flow cost. Cash flow benefits are said to arise where a business is not required to remit tax payments until some time after it incurs the liability for the tax. It therefore enjoys the use of the funds (and any interest earned) until payment falls due. For example, any increase in compliance costs incurred by a business because it pays fringe benefits tax (FBT) can be offset — to some extent — by additional interest earnings made by differences in the timing of PAYE (fortnightly) and FBT (quarterly) remittances to the ATO.

These are private benefits, not benefits to society. Cash flow costs are where tax payments are made before the transaction giving rise to the payment is completed. These are private costs to the taxpayer rather than costs to society.

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<sup>2</sup> Sandford, quoted in Pope (1990) p. 6.

The only business tax with a cash flow cost is wholesale sales tax where payment of tax on goods sold is often made before payment is received for the goods.

While net compliance and cash flow costs and benefits are used to some degree internationally, to date gross compliance costs are generally the most accepted measure in Australia of the administrative burden imposed by taxation. It is gross costs that are reported in the rest of this paper.

*Distinguishing between tax compliance costs and other costs*

It is important to note that there are other important conceptual problems when measuring compliance costs. Information systems are required by managers and owners for a variety of purposes, including the payment of tax, knowledge of the financial position of a business or individual etc. Therefore, accounting systems need to be kept for a variety of purposes and these are fixed costs. Surveys of taxation compliance costs might include the costs of keeping accounting systems which would have to be kept anyway (ie. they are joint costs). Therefore, taxation compliance costs might be over or under estimated because of the difficulty in distinguishing between different sources of costs.

Where accounting systems are based on the tax system, they might not be efficient in providing information for other business and consumer protection purposes. Therefore, the overall efficiency of accounting systems in reporting the real financial disposition of businesses and individuals can be reduced, imposing costs on businesses and society. Such costs might not be captured by studies of compliance costs and thus, these studies might underestimate compliance costs.

Some studies of compliance costs might also provide underestimates because they do not include economic costs incurred by society, including other distortions in the behaviour of businesses and consumers, such as avoidance costs etc.

Such methodological problems mean that, in practice, taxpayers asked to provide information about compliance costs can have difficulty determining what are tax compliance costs. They can also have difficulty disentangling those costs from the business, accounting and tax activities that are a part of running a business. In addition, psychology and research literature show that responses to questions can be imprecise and influenced by a variety of factors. Therefore, questions in surveys of tax compliance costs might measure different things because a number of psychological and environmental factors can impact on responses. These factors can introduce biases that add to any statistical biases that might already be present in studies of tax compliance costs.

### *Changes in tax compliance costs over time*

Where compliance costs can be accurately identified by businesses, it is important to note that such costs are unlikely to be stable. Indeed, they are likely to vary over time according to the type of business, market characteristics and management structure etc.

In summary, for a variety of reasons it can be very difficult for taxpayers to accurately identify and measure their tax compliance costs. Therefore, studies measuring compliance costs are — for these conceptual and methodological reasons alone — likely to be imprecise in measuring such costs.

### *3.1.2 Approaches to measuring compliance costs*

There are two broad approaches to obtaining quantitative measures of compliance costs — large-scale surveys of taxpayers and in-depth case studies or surveys (usually involving interviews). Both can contribute to understanding compliance costs and both have their own particular strengths and weaknesses.

#### *Large-scale surveys*

Large-scale surveys generally involve a postal questionnaire being sent to a large randomly selected group of taxpayers. The surveys rely on estimates provided by respondents of the time and costs associated with complying with tax requirements. These estimates are grossed-up to gain an estimate of the total compliance costs faced by each group. The grossing-up procedures are usually reasonably sophisticated depending on the composition of the survey sample and the composition of the taxpaying group as a whole.

The most extensive work on compliance costs in Australia, conducted by Pope et al, uses this method. These studies follow the same broad approach used by Sandford in his studies for the UK. Both studies rely crucially on the assumption that:

... respondents are in a knowledgeable and responsible position within a company regarding financial/accounting aspects relating to income taxation, and have answered the questions sincerely and as accurately as possible (Pope, 1990a).

There is surprisingly little discussion in the Pope et al studies or in the international literature of the reasonableness of this assumption and accuracy of survey methods. As discussed in section 3.1.1, various important conceptual and methodological problems associated with measuring tax compliance costs means that this assumption might not be met in practice.

The use of surveys to identify such costs can also introduce its own additional biases. For example, Tait (1991) argues that because respondents perceive they may have an effect on policy makers, they have an incentive to overstate the



compliance costs they face. There is another hypothesis, however, which argues the opposite. Sandford (1995) suggests that postal questionnaires could understate compliance costs because those firms and individuals who face the highest compliance costs may be the least likely to return the questionnaire. However, conversely, it could be argued that firms with lowest compliance costs might be less likely to respond, because they have less of a focus on tax compliance costs.

Little research seems to have been undertaken to test these conjectures. Compliance surveys often ask the same question in two different ways as one way of validating answers. However, this is likely to show whether people have filled out the survey consistently, not whether their perceptions are accurate, or whether they are intentionally understating or overstating costs. Even with the best surveys, the most that can be achieved is the right order of magnitude rather than precise estimates.

The general question of accuracy of surveys aside, there is a number of specific points relating to the Pope studies that should be noted. The earliest two studies by Pope on the costs of personal income tax and company tax do not appear to be good examples of large scale surveys.

Firstly, the ATO declined to participate in Pope's studies. Sandford (1995) stresses the importance of close cooperation with tax authorities to make sure a representative sample is selected.

Secondly, the response rates to the survey were particularly low (as low as 16 per cent) which could magnify any problems associated with an unrepresentative sample. The low response rate could be attributable to both the complexity of the questions and the failure to send reminders to those receiving the questionnaire. However, as a general comment, response rates to most large scale compliance cost surveys do not seem high, even when reminders are sent.

Thirdly, in some of the Pope studies, especially the company tax survey the covering letter revealed the researcher's own interests. In one study the opening paragraph was:

Much concern has been expressed about the burden imposed on business by government regulations. But if the burden is to be lightened, it is necessary to find where, and on whom, it falls (Pope et al 1990a, p. 112).

This language is clearly tendentious and would bias the results upwards. Perhaps in response to criticisms of this sort, later studies in which Pope was involved have a much flatter letter of introduction:

I am writing to ask you to give some of your time to complete the attached questionnaire on the costs involved in meeting the requirements of the Australian tax authorities for ..... (Pope, Fayle and Chen 1993a, Appendix A).

With these points in mind it appears that, prima facie, the results may not be as credible as other large scale surveys (which themselves purport only to give an order of magnitude of compliance costs) and that there is potential for the results to be biased upwards, that is for costs to be overstated, rather than for costs to be understated.

The Pope studies also did not conduct any validation of the accuracy of the survey results obtained.

In addition, as noted in section 3.1.1 there is a number of other methodological and conceptual problems that make measuring such costs very difficult in practice. For these reasons, the ATO eschews use of large scale surveys to measure economy-wide tax compliance costs and the costs associated with particular types of taxes (such as fringe benefits tax etc). The ATO considers such surveys to be too imprecise to yield accurate data that could enlighten policy makers or provide performance indicators or targets over time. Therefore, the ATO prefers to focus research efforts on particular areas of the economy, such as the farming and pharmaceutical sectors, and develop proposals to reduce compliance costs based on research into those particular areas.

We agree with the ATO that surveys of tax compliance costs are likely to be imprecise and unlikely to yield data that could measure small changes in such costs. However, large scale surveys can employ standardised methodology to provide broad measures of tax compliance costs associated with different types of taxes and for different sectors of the economy. They can also provide estimates of total economy-wide tax compliance costs.

Such information could be of considerable benefit to governments, policy makers and the public debate about tax reform. It could, for instance, contribute to existing ATO research into identifying problem areas and highlighting possible solutions. It could also enhance public discussion about likely compliance costs of generic types of taxes and for different segments of the economy (such as rural producers, manufacturers, small/large business, exporters etc). Such data could also be used to measure large or significant changes in compliance costs over time that could result from changes in taxation policy.

In our view, the ATO has a considerable pool of knowledge and expertise about measuring such costs. Therefore it is very well placed to make a major contribution by identifying such costs and informing public debate about aspects of tax compliance costs.

#### *In-depth studies*

These studies can take many forms ranging from interviews to direct observation to multiple surveys. The small sample size can in some cases be less

representative of the general experience than large-scale surveys. However, this can be balanced by a more detailed understanding of what contributes to compliance costs within the firm.

The small business case studies conducted by Professor Wallschutzky and Brian Gibson of Newcastle University are the best example of this approach in Australia. The studies involved twelve small businesses keeping diaries recording time spent on compliance activities. Face-to-face interviews were conducted with the participants quarterly, and the researchers were available to answer questions by telephone or supply information at any time.

The study provides an estimate of the average time spent per month on compliance activities and a rough indication of the cost to the business of this time; however, it was not possible, nor was it the study's intention, to estimate the costs of compliance across all small businesses.

As with the large scale studies, the researchers relied on the businesses' own estimates of the time for compliance activities. However, the researchers considered that the diary method is likely to understate time taken on tax matters, as diaries may not have always been faithfully kept.

One limitation of the study is that no data are provided on external costs — accountants, lawyers fees etc — which other studies find to be significant, even though attempts were made to contact accountants. Therefore, this study is likely to have understated compliance costs.

In-depth studies can be a good complement to large-scale surveys or they can operate quite independently. They are useful for identifying ways of reducing compliance costs. Because of small samples, however, they are not usually able to produce reliable aggregate estimates of the costs of compliance for small business. In addition, because of its focus on small firms, this study does not shed any light on costs faced by medium and larger businesses. Nor does it provide data about the relative compliance costs of small vis a vis larger firms.

As noted above, the ATO sometimes use in-depth studies to measure compliance costs in particular sectors of the economy, such as the joint study with the National Farmers Federation and the Pharmacy Guild of Australia (see section 4.1).

### **3.2 Estimates of compliance costs in Australia**

This section presents and summarises the results of the Pope studies and the Wallschutzky case studies. While the focus is primarily on Australia, it makes international comparisons in some cases. A more detailed discussion of

international literature on compliance costs was undertaken by Walpole and Evans (1996).

### *3.2.1 Company income tax*

For this study (Pope, Fayle and Chen 1990a) a postal survey was sent to all publicly listed companies, and around 20 large unlisted companies, in 1986-87. The results have been updated by the author to reflect taxes paid in 1990-91 (updating has occurred for each of the 'Pope studies' reported below). Two hundred and ninety eight responses were received; a response rate of 16.2 per cent, which was admitted by the authors to be somewhat low.

The study found that the estimated total compliance costs of company income tax in 1990-91 were \$3246m or 22.9 per cent of the companies' income tax revenue. Other findings were that:

Internal costs account for 48 per cent and external costs (professional fees) for 52 per cent of the total costs. Compliance costs as a percentage of tax paid are extremely regressive, falling from nearly ten times greater than tax paid for the smallest (taxable) companies to 0.5 per cent for the largest companies. The regressive pattern is also confirmed when internal costs are expressed as a percentage of annual turnover, with costs falling from 3.0 per cent to 0.01 per cent. (Pope 1994, p. 90)

Finally, it was estimated that ninety six per cent of companies incur higher compliance costs (\$8389) than they remit in income tax (\$7079). The authors concluded that:

... from nearly every perspective, companies' income tax contributes the greatest relative burden of all compliance costs (of the major Commonwealth taxes) imposed upon the private sector. (Pope 1994, p. 96)

In comparison with a similar study of company income tax compliance in the UK, the Australian estimates are much higher. The UK study by Sandford using a similar methodology estimated costs at 2.2 per cent of revenue, significantly lower than the Australian estimate. This could partly reflect higher company tax rates in the UK. However, if compliance costs are expressed as a percentage of GDP, the Australian costs are still three to five times higher than the UK. Pope's study does not identify why the Australian costs are so much higher.

These results show that either Australia has a significant compliance cost problem with its company tax, or that the results of this study are imprecise, or both. It is this study, more than others conducted by Pope, where the potential for overestimation of costs is the greatest: the response rate was low which would exacerbate any problems of an unrepresentative sample, and — as noted in section 3.2.1 — the letter accompanying the survey revealed the researchers' interests.

### 3.2.2 Personal income tax

The survey (Pope, Fayle and Duncason 1990b) involved a postal questionnaire sent to 7000 voters and sought information for the 1986-87 financial year. The response rate was 16.3 per cent.

The compliance costs for personal income tax were estimated to be \$3642m in 1990-91<sup>3</sup> or 9.2 per cent of the net personal income tax revenue. As the study says:

... this compares to compliance cost estimates of 2.5 per cent for Canada (1986), 3.6 per cent for the UK (1983-84), and 5 - 7 per cent for the USA (1982).

The study concluded that:

Compliance costs of personal income taxation in Australia are high in terms of three criteria: dollar value, as a percentage of tax revenue and by international comparison.

The distribution of costs in the study is interesting. PAYE only taxpayers (ie those without business or investment income) comprise 64 per cent of all taxpayers yet only incur 28 per cent of compliance costs. Taxpayers with business or investment income on the other hand account for 36 per cent of taxpayers yet incur 72 per cent of all compliance costs.

Using the study's data, we estimate that the compliance costs per taxpayer in 1986-87 are in the order of:

- \$175 for PAYE taxpayers; and
- \$880 for taxpayers with business or investment income.<sup>4</sup>

Intuitively the figure of \$880 for each taxpayer with business or investment income appears well on the high side. As with the company tax survey there is a question over the reliability of the results which make it difficult to determine whether Australian costs are really so much higher than in other similar countries.

### 3.2.3 Wholesale Sales Tax (WST)

For this survey (Pope, Fayle and Chen 1993b) a pilot study was undertaken in September 1991 in order to verify the questionnaire. Comments were also

<sup>3</sup> The original 86-87 data was updated for tax paid in 1990-91.

<sup>4</sup> Derived by dividing the total costs for each group by the number of taxpayers in that group. ie

Taxpayer type	Taxpayers (000s)	Costs (\$m) 1986-87	Cost per taxpayer (\$) 1986-87
PAYE	5,392	952	177
Investment	3,071	2,715	884

provided by the ATO. The survey was sent to 3034 businesses randomly selected from the Yellow Pages. Of the 1236 responses that were received, 593 were useable — a response rate of 24 per cent.

Compliance costs of WST in 1991 were estimated to be \$179m, or 1.9 per cent of the WST revenue of \$9365m. Internal costs accounted for 95 per cent of the total and external costs 5 per cent.

### *3.2.4 Fringe Benefits Tax*

In April/June 1991 Pope, Fayle and Chen (1993a) undertook a study into the compliance costs of major employment related taxes in Australia. Taxes included were: employers Pay-As-You-Earn (which is employers making payments of employees' PAYE tax to the ATO); Fringe Benefits Tax; Prescribed Payments System and Payroll Tax. The survey covered the financial year 1989-90 and followed the same procedure as for the WST study. The response rate was 27.2 per cent.

The estimated compliance costs of fringe benefits tax (FBT) in 1990-91 were \$134m or 10.6 per cent of the FBT tax revenue. Internal costs account for 56 per cent and external costs for 44 per cent. The value of cash-flow benefits was estimated to be \$76m or 6.5 per cent of tax revenue. In terms of the type of benefit under FBT, employer provided motor vehicles was by far the largest component contributing nearly half (47.5 per cent) of the total. Expense accounts and low interest loans were the other major components.

The study's authors note that FBT is an optional tax. It is only incurred if employers choose to pay part of income in the form of fringe benefits — such as a company car. Indeed, it is important to note that only a small percentage of businesses pay FBT.<sup>5</sup> A relatively high compliance cost, as measured as a percentage of revenue collected by the tax, may not indicate the tax is inefficient; rather, it may indicate that in response to the tax employers decide to pay more income as salary than as in-kind benefits. Thus, the existence of FBT may increase PAYE tax revenue.

Taking this into account, the combined compliance costs of FBT and employers' PAYE are 1.7 per cent of the combined tax revenue.

A similar FBT operates in New Zealand. A New Zealand study estimated the compliance costs of FBT at 1.7 per cent of tax revenue, which is much lower than the figure for Australia (10.9 per cent). However, when FBT is combined with

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<sup>5</sup> Only 3 per cent of small business pay FBT and there are only about 73,000 FBT payers in Australia.

PAYE the figure for New Zealand is 1.9 per cent, slightly more the Australian figure (1.7 per cent).

The study's conclusion reflects this ambivalence about Australian FBT costs. The authors state:

The compliance costs of employers' PAYE and payroll tax appear to be high when expressed as a percentage of tax revenue in comparison to New Zealand. The onerous nature of FBT is illustrated by the high use of a professional adviser, by nearly two out of three respondent businesses. An alternative perspective, taking account of the impact of FBT upon total tax revenue, mitigates against this view (Pope et al 1993a, p. iv).

### *3.2.5 Employers' PAYE costs*

Pope, Fayle and Chen (1993a) concluded that employers face costs in complying with the PAYE system. They must withhold from employees' income a specified amount and remit this to the ATO at regular intervals.

The estimated compliance costs of employers' PAYE in 1990-91 are \$660m or 1.9 per cent of gross PAYE tax revenue. Internal costs account for 88 per cent and external costs for 12 per cent. Costs tend to be regressive, falling from 16.7 per cent of tax remitted for the smallest remitters to 0.2—0.4 per cent for the largest companies.

There is a lag between the time income is withheld from employee pay and when it is remitted to the ATO which gives a cash flow benefit. This benefit is estimated to be \$724m or 2.1 per cent of tax collected in 1990. If correct the implication of this is that, in aggregate, employers benefit from acting as tax collectors using the PAYE system.

Compliance costs on Australian employers for PAYE are similar to the costs estimated in studies for the UK (1.0 per cent in 1986-1987) and NZ (1.9 per cent in 1990-91).

Pope et al concluded that compliance costs of employers' PAYE:

... appear to be at reasonable levels when expressed as a percentage of tax revenue and by (limited) international comparison.

### *3.2.6 Prescribed Payments System*

The prescribed payments system requires contractors to withhold a specified amount from all prescribed payments for work by contractees and remit this to the ATO at regular intervals.

Because the ATO cannot provide a profile of those who make PPS payments, the study was not able to directly gross-up the survey results to get an estimate of the total compliance costs associated with the PPS system. However, the study

reported that businesses using the PPS tax incur average compliance costs of \$6989, comprising nearly all internal costs. Pope (1994) derives an estimate of PPS compliance costs for 1991 of \$120m, or between 6 and 7 per cent of revenue.

### *3.2.7 Summary and conclusions of the Pope et al studies*

Table 5 summarises the results from the Pope et al studies. It uses the figures contained in Pope (1994), which updated the original survey data to the 1990-91 financial year. As presented in Table 5 total compliance costs for Australia are estimated to be \$7981m, or 12.1 per cent of taxation revenue.

By far the most costly taxes are income related — personal income tax and company income tax — which account for \$6888m or 86 per cent of the total. The accuracy of the overall result thus hinges — in part — on the adequacy of the personal income tax study and the company income tax survey.



Table 5: Results of the 'Pope et al' studies on compliance costs (1990-91)

<i>Study</i>	<i>Compliance costs \$m</i>	<i>Compliance costs as % of collections</i>	<i>Methodology</i>	<i>International comparisons (costs as % of revenue)</i>	<i>Comments</i>
Personal income tax	3642	9.2	Postal survey, low response rate 16.3%	Canada 2.5 UK 3.6 USA 5 to 7	Costs in 1990-91 break down as follows: Taxpayers with investment or business income - \$2622m; PAYE only taxpayers - \$1091m. There are acknowledged deficiencies in the way survey was carried out.
Employers' PAYE collections	660	1.6	Postal survey. Response rate 27.2 per cent.		Unlike the company tax survey, the letter introducing the survey was much flatter, perhaps in response to obvious and justified criticism.
FBT	134	10.6	Postal survey. 27.2 per cent response rate (same survey)	NZ 1.9	On face value Australia much higher than NZ, however, FBT is an optional tax, when relationship with PAYE is taken into account, FBT may not involve high compliance costs.
Company income tax	3246	22.9	Postal survey. Survey sent to all listed companies. 16.9 per cent response rate	UK 2.2% (one tenth the Australian figure).	Low response rate. Accompanying letter may have elicited biased responses.
Wholesale Sales Tax	179	1.9	Postal survey. Response rate 24 per cent	No studies presented for contrast.	Study based on 1990-91 data, before the government made changes to the WST system. Compliance costs can now be expected to be lower.
<b>Total compliance costs</b>	<b>7981</b>	<b>12.1<sup>1</sup></b>	<b>5 postal surveys as reported above</b>	<b>UK 2.8 per cent. 'Australia 3.4 times greater compliance costs than UK' Pope</b>	<b>Reliability of the results open to questions. The overall result driven by the two weakest studies — Personal income tax and Companies tax. No reasons given why Australian system is supposedly over three times more costly than UK system.</b>

<sup>1</sup> Derived by dividing the total compliance costs from these taxes by the total revenue collected. Includes \$120m PPS compliance costs which are not shown in the table.

Pope compares the total compliance costs with data for the UK. UK operating costs (that is, compliance costs and Government administrative costs) were 3.9 per cent of tax revenue. This comprised compliance costs of 2.8 per cent and administrative costs of 1.1 per cent of tax revenue. Australian administrative costs are 1.1 per cent of tax revenue, which, when combined with the total compliance cost of 12.1 per cent yields a total operating cost of 13.1 per cent of tax revenue.

As noted in section 3.1.1, there are also a number of other broader methodological and conceptual difficulties in measuring tax compliance costs by large scale surveys. In practice it can be difficult to distinguish between costs generated by taxation and other costs generated by the need for businesses to have accounting and other information systems. These factors make estimation of tax compliance costs in Australia a particularly difficult task. In addition, the ATO, as reported by Wallschutzky and Gibson (1993), has expressed doubts about the methods used and the results.

Australian tax compliance costs are also estimated to be much higher than UK costs, and if correct constitute a serious problem for Australia. However it is not possible to say with any degree of confidence that the results are correct. The authors do not claim the surveys are completely accurate. Indeed, given the methodology, we have reservations about whether the surveys give the right

order of magnitude. The early studies are acknowledged to be the least reliable, yet it is these studies that cover the major revenue raising taxes and suggest compliance costs for these taxes are very high relative to comparable overseas countries.

It is also important to note that differences in estimates of compliance costs between countries might reflect a variety of factors — such as the definitions employed, structures of taxpayer populations and survey coverage etc — and cannot be attributed solely to differences in actual compliance costs. Indeed, there is a risk that measured differences in compliance costs between countries could primarily reflect variations in the approaches taken by researchers to measure such costs, rather than international differences in tax compliance costs.

Nevertheless, two points emerge from the studies that are supported by international research. Firstly, compliance costs of business taxes are strongly regressive. Small firms face higher proportionate costs than larger companies. Secondly, total compliance costs are a good deal higher than the administrative costs of the ATO.

### *3.2.8 Small business cost of tax compliance.*

In this study, supported by the ATO, Professor Wallschutzky and Gibson (1993) conducted an in-depth surveys of twelve small businesses to estimate the significance of compliance costs of taxes in their operations. The businesses, which employed between 3 and 75 people, were all volunteers for the study. Although they cover many areas of activity, because of the small number, it is unclear to the authors whether they were a representative sample of small business.

The businesses were provided with diaries and interviewed each quarter for a year. The interviews were described as semi structured. This study did not seek to measure external or economic costs of compliance. Therefore, it only sought to measure some of the sources of compliance costs.

The authors also consider that their results may understate the extent of internal compliance costs. Firstly, diaries may not have been filled in accurately, and small compliance tasks may not have been recorded. When asked to rank how accurately diaries had been kept the average response by firms was 'fairly accurately'. Secondly, as previously mentioned, the costs of external advisers are not included in the estimates of costs.

The study found that the average time spent on compliance activities for all taxes was 12 hours per month, although there were significant variations between months and between different firms. The firms were asked to put a value on the

cost of an hour of time spent on compliance.<sup>6</sup> The average was 40 dollars per hour. On this basis the study gives a cost of compliance for small business of around \$5000 to \$6000 per annum, although the authors say this figure is probably misleading (because of wide variations in the cost of time).

The relatively low number of hours spent on compliance activity caused the researchers to re-evaluate their initial assumption that tax compliance was a significant problem:

Compliance costs are important and the Australian Taxation Office (ATO) and others ought to look for ways of reducing them. However, it seems the importance and cost of these problems areas might have been overstated. This project began with the assumption that compliance for small business were significant. ....The project finished with the researchers questioning the basic assumption. This was due to the small number of hours recorded for compliance activities, the lack of number [sic] of significant problems which arose during the period, and the lack of suggestions by participants for changes to the way the tax system is administered (Wallschutzky and Gibson 1993, pp. 511-512).

Later in the paper the researchers stated even more categorically:

In short the tax compliance issue has been grossly exaggerated. For the small businesses interviewed it was not a first order problem (Wallschutzky and Gibson 1993, p. 542).

Among other findings of the study are that:

- of the taxes faced by small business, sales tax caused the most compliance problems;
- because it arose infrequently, capital gains tax could cause problems for small business because record keeping (of depreciation etc) was often not adequate; and
- the prescribed payments system may have caused large problems when it was first introduced but no longer presents many problems; similarly, FBT does not present many problems.

Wallschutzky briefly surveys other work in this area. He says his results are consistent with the Australian Bureau of Statistics (ABS) 'Paper Burden study' (ABS 1992), but not comparable with those of Pope et al. Notwithstanding different methodologies and the more limited scope of the Wallschutzky study, there appears to be an apparent inconsistency between the results of Wallschutzky's small business case studies and Pope's survey studies which focused on a wider range of businesses. Pope's surveys found the compliance costs overall to be quite high and that they were regressive, in most cases hitting smaller businesses the hardest. Wallschutzky, on the other hand, looking specifically at small business, finds that tax compliance (as distinct from levels of

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<sup>6</sup> Firms were asked to value time (\$per hour) devoted to compliance twice during the study. Of the 12 participating firms only one gave the same answer on both occasions.

tax) is not a first order problem for them. Wallschutzky finds few costs where Pope et al says they are the highest.

Intuitively, it is as difficult to accept Wallschutzky's conclusion that compliance costs are not an issue (especially since his research examined only some compliance costs) as is to accept Pope's conclusion as to their magnitude.

#### **4.0 Government action on compliance costs**

Despite questions over the methodology and academic research into measurement of compliance costs, Governments concede that the complexity of tax law and compliance costs are a problem. In June 1995, the Senate Economics References Committee released a report which assessed the taxation of small business.<sup>7</sup> This report recommended a number of specific measures to reduce compliance costs. As noted in the following discussion, the previous Commonwealth Government implemented a number of initiatives aimed at reducing compliance costs: industry specific consultative arrangements and joint studies conducted by the ATO and industry groups; the Tax Law Improvement Project (TLIP); and the requirement to prepare 'Cost of Compliance Tax Impact Statements' for new or changed tax legislation.

The new Government has established a Small Business Deregulation Task Force to reduce regulation, including tax compliance costs, faced by small business. Some specific policy changes have also already been promised by the new Government, including a reduction in the provisional tax uplift factor to 6 per cent and the establishment of the Australian Taxation Advisory Council to report to Parliament on the performance of the Australian Taxation Office and the operation of a statutory Charter of Taxpayers' Rights.

Key initiatives to reduce tax compliance costs are discussed below.

#### **4.1 Australian Taxation Office (ATO) initiatives**

The ATO has a number of initiatives which focus, in part, on reducing the costs of compliance. These include:

- reducing compliance cost being one of the four main focus areas in the ATO corporate plan;
- improving taxpayer access to the ATO: the ATO is currently improving payment options;

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<sup>7</sup> Senate Economics References Committee 1995, *A Question of Balance: the tax treatment of small-business*, Parliament of Australia, Canberra, June.

- simplification of record keeping;
- provision of information to taxpayers: directly through hot lines and shop fronts and indirectly through third parties, including business organisations. Information provided includes the TaxPack, Record Keeping Guidelines and Electronic Lodgement System and other publications;
- targeting taxpayer groups: reorganisation of ATO into segment business lines and related targeting of taxpayer groups;
- consultative arrangements with professional and small business associations to review fringe benefits tax legislation to reduce compliance costs;
- Networking with taxpayer forums: including the Tax Commissioners Small Business Consultative Group, Tax Liaison Group, Small Business Liaison Committees and Small Business Coalition; and
- Investing in research: program evaluation and commissioned research (including Wallschutzky study) (Australian Taxation Office 1994 and 1995).

The ATO also has a number of initiatives for specific sectors of the economy, such as small business or farmers. For example, in 1994 a joint ATO, National Farmers Federation and Pharmacy Guild of Australia study into compliance costs was completed. This report was prepared for the Taxation Commissioner's Small Business Consultative Group and focused on these two industry groups, and particularly on record keeping costs. It made a number of recommendations to reduce compliance costs, including easier record keeping requirements, fewer tax forms, more effective communication between the ATO and small business and other issues (Australian Taxation Office 1994). Most of the recommendations of this report have been implemented — or are currently being implemented — by the ATO.

In 1994-95 the ATO also established consultative arrangements with professional and small business associations to develop strategies to reduce the costs of compliance of the fringe benefits tax (Australian Taxation Office 1995).<sup>8</sup>

## **4.2 Tax Law Improvement Project**

In late 1993 the Government announced a three year \$10m, Tax Law Improvement Project (TLIP). The aim of the project is to:

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<sup>8</sup> In addition, in response to the recommendations of the Joint Public Accounts Committee Inquiry into the tax system (JCPA 1993), in 1994-95 the Small Taxation Claims Tribunal (STCT) was established within the Administrative Appeals Tribunal. The STCT provides a cheaper and less formal means of resolving disputes between the ATO and taxpayers, for amounts under \$5000. The STCT could result in reduced compliance costs for taxpayers having disputes with the ATO.

... restructure, renumber and rewrite the income tax law so that it can be more easily understood by those who need to read it.

Other goals of the project are to:

- reduce compliance costs;
- improve discussion of tax policy; and
- make it easier for taxpayers to understand their rights under tax law.

An immediate observation to be made is that only in a limited sense will the project 'improve' tax law. As the then Treasurer stressed, the project is not about changing tax law at all. Improvement is to be gained by making the existing law easier to understand. This is a limited objective, although it is one most commentators and industry groups consider to be an important first step to more fundamental reform.

While reducing compliance costs is one of the explicit goals of the project, its narrow scope will necessarily limit the extent to which compliance costs can be reduced. Poorly structured and poorly written law is only one source of excessive compliance costs and is arguably not one of the most important sources. Many taxpayers, both individuals and firms, never have cause to refer to the Tax Act. It is the record keeping and reporting requirements of the Act — as well as how it is worded — which impose excessive costs.

The ORR made a submission to the TLIP in August 1995. It suggested that unless the ATO was able to identify which areas of the tax system entailed the highest compliance costs, it might not be able to efficiently focus its reform activities under the TLIP. Concerns are also being expressed by industry over whether worthwhile gains will be achieved under the program. Indeed, some business associations have suggested that the project has the potential to make laws more, rather than less, complicated.

However, the TLIP can deliver worthwhile gains. But its narrow terms of reference and multiple objectives — of which reducing tax compliance costs is only one — mean that it will not address many of the issues associated with compliance costs. In this context, it would not be surprising if broad surveys of compliance costs or attitudes to the tax system (such as the benchmark study Wallschutzky undertook for the ATO) fail to show major falls in tax compliance costs after the TLIP is complete.

### **4.3 Costs of Compliance Tax Impact Statements**

In response to the recommendations of the Joint Public Accounts Committee Inquiry into the tax system (JCPA 1993), the Government announced that Tax Impact Statements (TISs) would be prepared for new or amended tax legislation.

The Committee recommended that the TIS be based on the Compliance Cost Assessments that are prepared by the Internal Revenue Office in Britain.

So far TISs prepared by the ATO are descriptive in nature and do not involve quantitative assessment of the costs involved. However, the ATO has almost finished developing a methodology for quantitatively estimating the costs involved. As part of this process the ATO has engaged a team of researchers from the University of NSW to advise on methodology for valuing the impact of proposed changes in tax legislation. This team is also gathering information on the nature and value of component costs. Their final report is due in June 1996.

It has taken the ATO some time to develop this quantitative methodology. However, this is perhaps not surprising as the task is a difficult one. It takes time to establish a methodology, obtain necessary data and train staff.<sup>9</sup>

In the meantime, a TIS approach is currently being employed for tax bills introduced into the Parliament. For example, in 1995 the Explanatory Memorandum accompanying tax bills introduced into the Parliament usually contained information about the impact on compliance costs on the proposed legislation (Walpole and Evans 1996).

We note that such methodology could also be extended to estimate existing, as well as new or revised, compliance costs by:

- estimating the time taken for a typical business to meet tax obligations;
- estimating other costs such as, external accounting or legal costs, need for computation capability, storage for records etc; and
- multiplying both these costs by the number of businesses or taxpayers affected by a particular tax, in order to construct broad estimates of compliance costs.

Using the data the ATO holds, and with the cooperation of business, the administration costs of such an exercise should not be high.

Notwithstanding the conceptual, methodological and data limitations of constructing such estimates — which are noted in section 3.1.1 — we believe that the calculation of total compliance costs for existing, new and amended tax regulations could provide a valuable contribution by the ATO to the formulation of tax policy and public debate and understanding of such costs.

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<sup>9</sup> See Walpole and Evans (1996) for a detailed discussion of compliance and tax impact statements, including the complex methodological problems involved, recent developments in the United Kingdom and key design features and characteristics of Tax Impact Statements.



#### **4.4 Small Business Deregulation Task Force**

The Coalition Government has established a Task Force to review the compliance and paper work burden imposed on small business. The Task Force has 6 months (until November 1996) to report to the Government on revenue neutral measures that could be taken to reduce the paper and compliance burden on small business by 50 per cent.

Taxation compliance costs will be one focus of the review. The Task Force will pay particular reference to FBT; Capital Gains Tax, the Superannuation Guarantee Charge, and other business taxes. In undertaking the review, the Task Force is to have regard to existing studies and relevant overseas developments in reducing compliance costs in the areas identified, and consult with business and community groups as appropriate.<sup>10</sup>

#### **4.5 Australian Taxation Advisory Council**

The new Coalition Government is also to appoint a statutory Australian Taxation Advisory Council to assist in making the ATO more responsive to its clients. The Council will report annually to the Parliament on a range of issues including the performance of the ATO, particularly in relation to tax simplification, and the operation of the statutory Charter of Taxpayers' Rights (another Government initiative).

### **5.0 Taxpayer suggestions for reducing compliance costs**

As part of the benchmarking study for the TLIP, Wallschutzky (1995b) sought suggestions on how compliance costs can be reduced. A selection of these are reproduced below. Clearly some suggestions may not be revenue neutral or may not be practical for other reasons. Also, we make no comment about whether these proposals are sensible, practicable or likely to reduce compliance costs.

Suggestions from business have included:

- simplify FBT eg reduce the number of benefits taxed;
- base company tax on audited accounting profit;
- allow employers to make one payment for both group tax and superannuation;
- allow all employers quarterly payment of group tax;

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<sup>10</sup> Studies of developments overseas include OECD 1994 and Vann 1995. Bardsley discussed the impact on the small business sector of reducing taxation compliance costs.

- have legislation specify a standard set of records that must be kept;
- reduce the retention period to three years; and
- co-ordinate payment of State and Federal Taxes.

Tax Agents suggestions included:

- provide employees with standard deductions;
- allow use of the cents per km method for business/work related travel expenses beyond 5000km;
- have a single registration for all taxes;
- give taxpayers the option of claiming standard percentages for certain expenses, rather than having to work them out;
- for companies, set a materiality limit above which supporting documents need to be kept and below which documents need not be kept; and
- change FBT by:
  - aligning the tax year with the income tax year; and
  - having a reasonable threshold to be passed for each fringe benefit before fringe benefits tax is payable.

## **6.0 Conclusions and discussion**

The costs of complying with the Australian tax system are undoubtedly a major issue for business. However, this brief survey shows the academic literature on compliance costs does not shed much light on the magnitude of the problem or establish an agenda for reform. While the Pope et al studies are ambitious in scope, it is difficult to assess what weight should be given to the results. If accurate, the results show that there are serious problems with Australia's company income tax system and the personal income tax arrangements, and that these problems are much worse than in other Western countries such as the UK and NZ. However, because of the methodological and conceptual complexity of measuring such costs, the low response rates and possible sampling errors, it is not possible to be confident about these results. Indeed, it remains unclear whether tax compliance costs in Australia are excessive.

The aims of the Wallschutzky case studies were much more limited, and given the small sample size, and the limited scope of compliance costs that were measured, the results should not be taken as indicative of the total compliance costs across all Australian firms. The conclusion that compliance costs are not a problem is no more convincing than Pope's conclusion about the seriousness of the problem.

Two points about compliance costs, however, are relatively well accepted and are not surprising. Firstly they tend to be much larger than the direct costs of administering the tax by the ATO.<sup>11</sup> Secondly, compliance costs are usually regressive affecting small taxpayers and businesses to a much greater extent than large firms.

No matter what action was taken to reduce compliance costs, these features may persist. Compliance costs may still disadvantage the small business sector relative to larger business. Indeed, compliance costs for small business are likely to reflect a number of factors, such as the absence of economies of scale which are often available for larger businesses. In addition, there is no reason to suggest that sophisticated tax systems overseas do not also impose relatively high tax compliance costs on small business. From a policy viewpoint this is important since much of the growth and increased employment has come from the small business sector, despite relatively high tax compliance costs.

Most research to date has focused on differences in compliance costs between large and small businesses. Very little is known about variations in tax compliance costs between different types of businesses and for different sectors of the economy.<sup>12</sup> There is considerable variation in the management structures used by different businesses. Therefore, future research could also focus on identifying differences in tax compliance costs between different types of businesses and for different management structures.

Some reductions in compliance costs are likely to be achievable by focusing not only on the complexity of tax law and the operations of the ATO, but also on the response of different types of businesses to prevailing tax laws and rules. This could help identify management structures and characteristics that are associated with lower tax compliance costs.

Planning costs which are incurred by taxpayers to reduce tax liabilities show up in the Pope studies as tax compliance costs. Planning costs have the effect of increasing compliance costs and reducing total taxation revenues, thus increasing the ratio of compliance costs to total taxation paid. Indeed, the relatively high tax compliance costs in Australia are likely to result — in part — from the complexity of the tax system providing scope to minimise tax liabilities by incurring substantial planning costs. The obvious way to reduce planning costs is to reduce scope for tax planning to minimise tax liabilities.

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<sup>11</sup> ATO running costs — including salaries minor administrative outlays, property expenses — totalled approximately \$1.1 billion in 1994-95 (Australian Taxation Office 1995, p. 7).

<sup>12</sup> Analysis of disaggregated data generated by the survey by the ABS (1992) could shed some light on this question.

As noted in section 3.1.1 voluntary compliance costs are incurred for a variety of reasons, including the complexity of the tax system and because of the large number of deductions that are currently available. These costs could be reduced, in part, by continuation and extension of current initiatives to simplify tax regulations.

However, because there is no clear way of measuring tax compliance costs, it will be difficult to ascertain the impact on compliance costs of any changes in taxation and other regulations. Hence, the success or failure of various changes in regulations in reducing compliance costs will be difficult to measure and articulate to business and the general public.

Even if these costs could be measured accurately, the next question that needs to be asked is how to reduce compliance costs? Minor “tinkering” with taxation regulations — such as changing the timing of payments from business to the ATO etc — is unlikely to result in major reductions in compliance costs. In addition, different approaches will be needed to reduce voluntary compliance costs and those costs that are mandated by tax regulations.

Indeed, in broad terms it is clear that there is a very large number of underlying causes of compliance costs, including:

- economic activity is increasingly complex;
- the design of tax law is often constrained by equity considerations (for example complex transitional provisions preserving pre-existing benefits);
- the tax system is being used to achieve a variety of other non-tax objectives (for example welfare, education and industry assistance);
- ad-hoc development of tax law over time;
- governments prescribe in legislation arrangements that will apply in most circumstances, rather than allowing a large measure of bureaucratic discretion. This increases the transparency and certainty of the tax system. However, it also increases its complexity (Industry Commission 1996, p. 134);
- the ongoing need to develop, draft and refine complex anti-avoidance provisions to close off tax minimisation practices; and
- significant reliance on income tax as the main revenue base.

Previous government efforts to reduce compliance costs were limited primarily to the ATO undertaking a number of initiatives. Clearly, the TLIP is at best only a partial solution to the problem and Tax Impact Statements (TISs) need to be further developed to include quantitative analysis of the compliance cost of *existing* as well as new or amended taxes. Indeed the ORR’s submission to the ATO in 1995 — regarding the TLIP — argues that it is incumbent on the ATO to

employ some of its considerable expertise in this area to undertake further analysis on taxation compliance costs. This would help the ATO identify such costs, inform public discussion and debate, and help the ATO take further action to reduce excessive costs.

However, it is also important to note that many of the main sources of compliance costs are a consequence of the growing complexity of economic transactions and the structure of the tax system. Therefore, the ATO is unable to address on its own many of the key sources of tax compliance costs.

An independent assessment of tax compliance costs — including benchmarking with other countries — could help identify scope for reductions in these costs. However, significant reductions in tax compliance costs will also require a broader agenda of research, action and discussion by all levels of government and the community. Consideration of many of these broader issues is beyond the scope of this paper.

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