

“Investigating Costs of Tax Compliance of Large Enterprises in New Zealand”

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Tax compliance costs refer to additional costs that a business taxpayer incurs in order to comply with requirements imposed on it by tax law. Being considered as a “hidden cost of taxation”, tax compliance costs put significant strain on business resources and thus have been a focus of many empirical studies seeking to measure them.

One of the features of the tax compliance costs is that they are regressive, which means that for businesses of the smaller size, SMEs in particular, tax compliance costs appear to be more burdensome relative to large enterprises. Given the heightened interest of economic policy toward SMEs in many countries around the world, it is not surprising that the majority of studies on tax compliance costs have focused on SMEs as the object of their analysis

By the way of contrast, large enterprises have received considerably less attention in the literature on tax compliance costs, partly because unlike SMEs, large enterprises get the benefits of economies of scale, which make tax compliance costs less burdensome for them. Moreover, a number of those few studies, including the latest study in New Zealand, that specifically focus on large enterprises were undertaken more than 20 years ago.

Considering the gap in the literature and that large enterprises play important role in the economy, the need to gain a better understanding of tax compliance costs in large enterprises can be justified.

The purpose of this study is to investigate the costs of tax compliance of large enterprises in New Zealand. Specifically, using semi-structured interviews with a number of tax practitioners from large chartered accounting firms in New Zealand this study ascertains magnitude, composition and determinants of the tax compliance costs of large enterprises in New Zealand.

1. Introduction

Costs of tax compliance refer to additional costs that arise “in meeting the requirements laid upon them in complying with a given structure and level of tax” (C. T. Sandford, Godwin, & Hardwick, 1989, p. 10). Therefore, compliance by businesses with statutory regulations of tax law can be viewed as a form of hidden taxation in addition to the tax burden itself. Furthermore, a low level of business income and other taxes established in a particular jurisdiction does not necessarily mean that tax regime is favourable for businesses in that jurisdiction, as at the same time high costs of compliance with that tax regime might negate the favourable effect of a low tax burden. From the standpoint of economic theory, costly compliance activities are no more than the “dead weight losses”, in other words, pure losses for the society and business, as they

only increase the effective tax burden without increasing tax revenue (Eichfelder & Vaillancourt, 2014, p. 1).

In the light of the ongoing concerns that excessively high level of tax compliance costs, referred by C. Sandford (1995) as “taxation hidden costs”, can significantly impede business productivity, economic growth and decrease the attractiveness of a country for foreign investments a number of academic studies, predominately empirical, have been undertaken in many countries over the last twenty years. One of the finding made by these studies is that costs of tax compliance are regressive by nature (Tran-Nam, 2015, p. 80), which imply that the smaller the turnover of business the heavier the burden of the costs of tax compliance. Therefore, recognising the importance that the small business is playing as the source of employment growth, innovation and a tool of poverty alleviation in the world (Organisation for Economic Co-operation and Development, 2000) the majority of these studies are particularly focused on measurement of the costs of tax compliance of small and medium enterprises (SMEs).

By way of contrast, large enterprises were found to bear much smaller burden of the tax compliance costs due to the economies of scale and learning curve effect (Evans, 2008, p. 458), which resulted in the obvious misrepresentation of studies measuring costs of tax compliance of large enterprises (Evans, Lignier, & Tran-Nam, 2016). A report issued by the European Commission on the existing studies of the costs of tax compliance indicates that large enterprises are represented by only five empirical studies, while SME are represented by thirty five studies (European Commission, 2013, p. 8). Moreover, to the best of the authors knowledge among existing academic studies on large enterprises undertaken in the last 20 years there is no study to date, which considers large enterprises in New Zealand.

In the view of the fact that there is a gap in the literature and that no study has been undertaken in the last twenty years¹ on large enterprises in New Zealand context, the goal of this paper is to conducts exploratory analysis of the tax compliance costs of large enterprises in New Zealand. In particular, the paper seeks to shed a light on aspects such as magnitude, composition and determinants of the compliance costs. The paper is organised as follows. Next section will provide an outline of existing literature on the costs of tax compliance of large enterprises, followed by the explanation of the applied methodology. Section four will discuss main findings. Finally, section five will conclude.

2. Literature Review

The literature on the costs of tax compliance of large enterprises is presented only by a handful of studies, some of which were undertaken in 1990s. This section will provide a brief outline of these studies and discuss main findings made in them.

Among studies conducted in 1990s are studies by Slemrod and Blumenthal (1996) which measures and analyses costs of tax compliance of large corporation in the United States (US), Erard (1997) with focus on large enterprises in Canada, Chan, Cheung, Ariff, and Loh (1999) which measures tax compliance costs of public companies in Hon-Kong.² Next phase of studies considering large enterprises started after 2010, when Susila and Pope (2012) investigated costs of tax compliance of large enterprises in Indonesia. To the best of the author's knowledge the latest study measuring tax compliance costs of large enterprises is the study by Evans et al. (2016). This study measures tax compliance costs of large enterprises in Australia. The discussion of the findings made in all these five studies is provided below.

Slemrod and Blumenthal (1996) undertook a mail survey among 1,329 of the large corporation in the US with the response rate of 27.5% (equivalent to 365 completed surveys). The results of this survey showed that the total costs of tax compliance of the large US corporations were approximately 2.6% of the total tax revenue that the Internal Revenue Service (IRS) collected from these largest enterprise at that time.

Furthermore, their study revealed that the costs associated with such basic tax compliance activities as record keeping, doing tax research and filing tax returns, in large US corporations were approximately 50% of the total costs. Costs related to tax planning, audit and litigation constituted 35% of the total costs. The results also demonstrated a clear division of tax compliance activities in large US corporations between in-house personnel and external tax advisers. Thus, almost 90% of the costs associated with basic tax compliance activities were generated internally, while almost 40% of tax planning, audit and litigation costs were produced by services provided by external tax advisers.

In terms of costs drivers, Slemrod and Blumenthal (1996) showed through regression analysis that business size was the most significant cost determinant. It was established that the 10% increase in firm's size (expressed either by the value of assets or sales) leads to increase in the tax compliance costs between 4.1% and 6.1%, thus confirming again the effect of economies of scale for large enterprises.

Erard (1997) examined large enterprises in Canada and followed closely Slemrod and Blumenthal (1996) in the method employed. The results of estimation undertaken for the large Canadian enterprises revealed that in relation to the total tax revenue collected from these large enterprises a compliance burden was almost 5% of taxes paid.

The composition of tax compliance costs showed that in-house personnel accounted for 56.9% of the total costs, in-house non-personnel expenditures and assistance of external experts accounted for 20.6% and 22.5 % respectively. Furthermore, the breakdown of in-house personnel costs by their activity function showed that about 46% was spent on records keeping and filing returns, while only 9.5% of the total external costs were related to record keeping and filing. Among external costs of tax compliance 53% and 37% of the total external costs structure were associated with tax planning and audit, appeals and litigation respectively.

As for the determinants of the tax compliance costs of large Canadian enterprises, the study established that business size and existence of the overseas transactions were main drivers of the tax compliance costs. Similar to Slemrod and Blumenthal (1996) these two factors contributed to the growth in tax compliance costs less than proportionately, indicating the effect of economies to scale in Canadian large enterprises.

Chan et al. (1999) investigated tax compliance costs of the publicly listed companies in Hong-Kong using data on listed companies' tax compliance costs that they incurred during 1995-1996 tax year. Public companies included in the sample were divided into three groups depending on the size of their turnover. Group 1 represented listed companies with the smallest turnover, while Group 3 consisted of the listed companies with the largest turnover.

Differences between these three groups of companies were especially noticeable in the composition of the costs of tax compliance. Thus, the smaller listed enterprises (Group 1) were using the assistance of external advisers in regard of tax computational activities more often compared to larger listed enterprises (Group 3). Furthermore, it was noted in the study that tax planning costs were 39% of the overall tax compliance costs for the enterprises from the Group 3, while Group 1 companies' costs of tax planning were only 13% of the total costs. This may imply that tax planning was more relevant for the larger listed companies and the costs associated with tax planning were growing as well with the size of turnover. Moreover, in the case of enterprises included in the Group 3 tax planning costs were almost 42% of the total external costs with the remaining costs related to computational activities, while in the case of the enterprises from the Group 1 tax planning costs were only 12% and computational costs

were 88% of the total external costs of tax compliance. This finding points to the fact that the composition of the external tax compliance costs in smaller and large enterprises is different. The share of non-computational external services, for example tax planning, is larger for large enterprises.

Similar to Slemrod and Blumenthal (1996) and Erard (1997) regression analysis was undertaken in order to test how business size expressed in terms of turnover affects tax compliance costs. The result of regression showed that there was strong positive correlation albeit less than proportionate, which again confirmed the effect of economies of scale in large enterprises.

Susila and Pope (2012) examined the tax compliance costs among the population of 28, 681 large Indonesian enterprises registered in Large and Medium Taxpayer Offices. The estimation of the tax compliance costs revealed that in 2010 total costs of tax compliance of large Indonesian enterprises translated in 3.6 % of the total tax revenue collected from large enterprises in 2010.

Furthermore, computation result showed that costs of routine tax compliance activities implemented internally accounted for 54 % of the total tax compliance costs, while costs of routine compliance done externally were only 9% of the total costs. Moreover, among external costs, which accounted for 27% of the total costs, almost 48% were costs associated with tax audit, litigation and tax appeal. The balance of external costs were connected with routine compliance and tax reviews. Such composition of internal and external costs of large Indonesian enterprises indicates that the large part of routine tax compliance activities are done in-house, while most of the legal services are outsourced to external advisers.

Finally, in the study by Evans et al. (2016) costs of tax compliance were measured for large corporate sector in Australia for 2011-2012 fiscal year. Analysis of the costs breakdown indicated that 60% of the total external costs of tax compliance were related to income tax, while expenses on Goods and Service Tax (GST) were only 9%, which was in contrast to SMEs, who “relied heavily on external services for GST” (Evans et al., 2016, p. 777). In relation to the type of external services, only 37% of external expenditures were related to record keeping, preparation and lodgement of taxes, while another 27% were expenditures on tax planning and 23% were related to tax review, audit and litigation. This finding suggests that the composition of costs of tax compliance of large enterprises in Australia is different from the composition of tax compliance costs in SMEs and that the type of external services

provided for large enterprises is different from the type of external services provided for SMEs, where 80% of all external costs were related to record keeping, preparation and filing of tax returns (Evans et al., 2016, p. 777).

Percentage composition of internal and external costs of tax compliance indicated that internal costs were approximately 46.7% of the gross tax compliance costs, while external costs accounted for 34.2%. The remaining 20% of the tax compliance costs were associated with non-labour costs. It is worthwhile to note that almost 60% of the total costs related to record keeping and tax computational activities (basic tax compliance) were implemented in-house, while other 40% of these costs were outsourced. This result implies that, although large enterprises in Australia retain less record keeping and computational activities in-house in comparison to US and Canadian large enterprises, they nevertheless rely more on internal resources when it comes to implementation of the basic tax compliance functions.

In summary, the following comments can be made in regard to findings made in previous studies of tax compliance costs of large enterprises.

First, tax compliance costs of large enterprises are substantially high in their absolute value, being estimated as 2.6% of tax revenue collected from US large enterprises in the case of US large enterprises, 5% of tax revenue in case of Canadian large enterprises and 3.6 % of the total tax revenue in the case of large enterprises in Indonesia.

Second, four studies demonstrated that, although tax compliance costs tend to increase with business size, they do it less proportionately due to the economies of scale.

Third, the composition of tax compliance costs in large enterprises presented in all five studies showed that activities related to records keeping, computation and filing of tax returns account for 37% - 60% of all the costs, while the rest of the costs are associated with tax planning, audit, litigation and with small fraction of the other compliance related expenditures. This implies that the composition of the costs of tax compliance in large enterprises is different from the composition of tax compliance costs in SMEs, where the majority of costs are associated with record keeping and preparation of tax returns (Evans et al., 2016, p. 777).

Fourth, most of the computational activities related to tax compliance are done in-house, except for smaller public enterprises in Hong-Kong, where reliance on external advisors in this regard was found to be greater in comparison with large entities from US, Canada, Indonesia and

Australia studies. This finding points to the fact that large enterprises appear to be more efficient than SMEs in relation to computational activities and preparation of tax returns and therefore their reliance on external tax advisers for computational activities is less. Based on the composition of tax compliance costs in each of the five studies, it appears that outsourcing most of tax compliance activities related to tax audit, appeal and litigation to external parties is customary for large enterprises. Eichfelder and Vaillancourt (2014, p. 21) provide some evidence that as the size of business increases the costs related to audit and litigation increase, while costs of record keeping and tax computational activities becomes less relevant, thus implying that large enterprises are costs efficient in relation to record keeping and computational activities.

Finally, in relation to the costs of tax planning activities, it is difficult to conclude from these studies, if there is a strong connection between tax planning costs and business size, as neither of these studies, except for the study on Hon-Kong public enterprises, provides the breakdown of tax planning costs by the size of respondent enterprises. However, Eichfelder and Vaillancourt (2014, p. 23) argue that tax planning costs tend to increase with the size of business.

3. Methodology

Literature review has provided insights into the main aspects of the costs of tax compliance in large enterprises such as magnitude, composition and determinants. Next step is to explore similar aspects of tax compliance costs of large enterprises in New Zealand. Before explaining the methodology applied in this paper it should be noted that all the studies introduced in the literature review are empirical studies, which use quantitative method of research. This quantitative method presumes that the representative sample is drawn from the population of large enterprises and obtained results can be generalised over the wider population.

In contrast to the empirical methods employed in prior studies, this study uses qualitative method of research using semi-structured interviews as data collection method. The choice of semi-structured interviews as data collection methods have obvious advantages in comparison with large scale self-administered surveys, which were traditionally used in prior empirical studies. First, semi-structured interviews require much less resources compared to large scale surveys as they can be conducted either face-to-face or over the telephone. Second, number of

interview participants is generally less than the number of large scale survey respondents, as the selection of participants of the semi-structured interviews is usually based on purposive sampling (Patton, 2002). The purposive sampling technique is the method in which participants are selected or sampled on a basis of their knowledge and experience with the subject of the researched problem (Creswell & Clark, 2017). Third, large scale self-administered survey traditionally have low response rate (European Commission, 2013, p. 11),

Therefore, applying purposive sampling technique interview participants were selected from external tax practitioners from the largest chartered accounting firms in New Zealand. In addition, one participant was selected from the New Zealand Inland Revenue Department (IRD). Overall, five tax practitioners from the chartered accounting firms located in Auckland, Wellington and Christchurch and one IRD official gave their consent to participate in the interview. Below is the table with information on the interview participants.

Table 1: Participants of the interview

Coded as	Gender	Position and occupation	Accreditation with professional body
Tax Practitioner 1	Male	Partner, tax and legal advisor	CA-NZ, NZLS
Tax Practitioner 2	Male	Partner, tax advisor	CA-NZ, Institute of Directors in New Zealand
Tax Practitioner 3	Male	Partner, tax advisor	CA-NZ
Tax Practitioner 4	Male	Partner, tax advisor	CA-NZ, Institute of Directors in New Zealand
Tax Practitioner 5	Female	Director, tax advisor	CA-NZ, IFA
IRD Official	Male	Tax Specialist	CA-NZ

An important aspects pertaining to conducting interviews is the data saturation. Data saturation refers to the situation when each new instance of gathered data does not produce new information. Therefore, upon achieving data saturation further data collection and/or analysis are unnecessary. In this regard, data saturation determines the size of the sample in qualitative research. In the present study, despite a small sample size, after having interviewed five tax practitioners, it was noticed that a number of similar answers was received from each of them, indicating that the data saturation point may have been achieved. Consequently, it was decided that interviewing five tax practitioners was sufficient for the purpose of this study.

One of the advantages of using semi-structured interviews, for example over unstructured interviews, is that they are usually conducted following an interview guide, which contains questions related to the topic explored by researcher (DiCicco- Bloom & Crabtree, 2006, p. 21). In this regard, an interview guide allows researcher to achieve optimal use of the time allotted for an interview and keep an interview flow staying focused on the main issues (DiCicco- Bloom & Crabtree, 2006, p. 21). Considering the importance of having an interview guide, two interview guides were prepared prior to the start of the interviews. One guide was specifically designed for interviewing tax practitioners and another guide was tailored to the interview with an IRD official. The difference between these two guides is predominately in types of questions that were asked during interviews.

Thus, a set of questions intended for tax practitioners comprised questions seeking to elucidate the magnitude, composition and determinants of the tax compliance costs of large enterprises in New Zealand. Interview guide with tax practitioners also included questions asking tax practitioners' opinion about the differences between SMEs and large enterprises in New Zealand in respect of carrying out tax compliance activities and composition of tax compliance costs.

An interview guide with an IRD official consisted predominately of the questions asking about methods that the IRD uses to monitor tax compliance activity of large enterprises in New Zealand and whether the IRD sees this approach effective.

One common question included in both interview guides was the question asking both tax practitioners and an IRD official how they understand the concept of large enterprises in New Zealand. The importance of asking this question is based on the fact that there is no common definition of large enterprises neither in prior studies no in New Zealand. Various criteria and thresholds are used by different stakeholders in New Zealand, including the IRD. This makes

understanding of what large enterprises are an elusive concept. Therefore, it was considered necessary to seek both interview groups' opinions about the definition of large enterprises in New Zealand.

Data gathered from the interviews with both groups of participants were analysed by means of schematic analysis, which represents the process of identifying themes or patterns within data obtained in qualitative research. In line with Braun and Clarke (2006) schematic analysis assumes generating codes, which, according to Gibbs (2007), involves identifying passages in the text connected by common idea and indexing the text into categories. However, due to the relatively small sample size, it was considered that the generation of codes would not be necessary. Therefore, the content of audio-recorded interviews was first transcribed and compiled in tables. Each table is related to the set of questions identified in the interview guide. Furthermore, the content of each table with the participants' responses was reviewed to identify interview themes and to analyse them. Finally, the interview findings were summarised based on this analysis.

4. Main Findings

An analysis of the responses provided by tax practitioners allowed the following findings to be made about the magnitude, composition and determinants of the costs of tax compliance of large enterprises in New Zealand. Furthermore, findings were also made in regard to the differences between SMEs and large enterprises in New Zealand in how tax compliance functions are organised in them and in structures of their external costs of tax compliance. In addition, interviews with the tax practitioners and an IRD official provided insights into how both groups understand the definition of large enterprises in New Zealand.

4.1 Magnitude of Tax Compliance Costs

Findings in regard to the magnitude of the costs of tax compliance of large enterprises were non-conclusive. Due to the broad responses provided by the tax practitioners about the fee they charge large enterprises for various tax services, it was not possible to form a conclusion about the magnitude of external costs of tax compliance in large enterprises in New Zealand. According to replies of tax practitioners, a large enterprise in New Zealand might be charged

in a range of NZ\$ 2,000 – NZ\$ 20,000 or an hour fee of NZ\$750 for the review of its tax return depending to a great degree on the complexity of the reviewed tax return. An hourly rate of NZ\$750 quoted by one of the tax practitioners might suggest that the costs of a large enterprise for tax advisory and tax planning could be sizable.

4.2 Composition of the Tax Compliance Costs

Qualitative nature of information obtained during the interviews does not allow inferences to be made about composition of tax compliance costs of large enterprises in percentage terms. Most tax practitioners found it difficult to answer what percentage particular types of service they provided took up among all the services they made to the clients. However, all tax practitioners responded that services related to income tax constitute the largest part of the services provided by external tax practitioners to large enterprises. This is the most time consuming tax according to tax practitioners due to existence of various tax regimes such as controlled foreign company (CFC) regimes, transfer pricing and thin capitalisation. The complexity and extent of large enterprises' business operations very often trigger these regimes, thereby increasing tax practitioners' time on dealing with large enterprises' income tax.

High percentage of expenses on income tax related services in total external expenses is also reported in studies by Slemrod and Blumenthal (1996) and Evans et al. (2016) for US and Australian large corporations. Although it is not possible to provide in this study what percentage of the total cost of tax compliance New Zealand large enterprises spend on their income tax related externals services, responses provided by the tax practitioners in this regard suggest that it is possible that New Zealand large enterprises may have composition of external costs of tax compliance, comparably similar to US and Australian large enterprises.

4.3 Determinants of Tax Compliance Costs

Findings made from the interview with the tax practitioners in regard to the determinants of the tax compliance costs of large enterprises identified the following cost drivers.

First, it is the size and the nature of business operations carried out by large enterprises which contribute to the increased complexity of tax situation, thereby driving costs of externals services. Often large enterprises initiate business restructuring, triggered by changing

economic environment, which in turn leads to complex tax situation and increased costs of tax compliance.

Second, existence of CFCs and engagement in cross-border operations also appear to be the factor driving tax compliance costs. Increase of the costs here occurs due to the characteristics of the foreign operations of a large enterprise, which may to a large extent affect complexity, and complex tax rules related to CFC and cross-border regimes. Blumenthal and Slemrod (1995) also found that the number of CFC and complex rules in US tax code related to CFC were main factors driving costs of tax compliance in large US corporations.

Third, frequently changing tax regulations were also named by the tax practitioners as a factor contributing to the increase in the costs of tax compliance. Frequently changing tax regulation mainly affects large enterprises in New Zealand through the newly adopted Base Erosion and Profit Shifting (BEPS)³ initiatives. A number of transactions carried out by large enterprises may get caught up in newly adopted BEPS initiatives, thereby increasing the complexity of tax treatment of transactions and further contributing to the costs of tax advice related to this complex tax treatment.

The fact that frequently changing tax regulation, especially newly adopted BEPS initiatives, was identified by the tax practitioners as a costs driver, is in line with the recent study by Hoppe, Schanz, Sturm, and Sureth-Sloane (2017). Thus, Hoppe et al. (2017) in their study on drivers of tax complexity among multinational enterprises found through conducting a survey among 221 external tax practitioners from 108 countries (including New Zealand) that frequently changing tax regulation was the second most relevant complexity driver (the first being excessively detailed tax regulation) in the case of multinational enterprises. Moreover, BEPS developments are cited in Hoppe et al. (2017) as one of the factors contributing to the frequency of changes in tax regulation.

4.4 Tax Compliance Functions and Structure of External Costs: SMEs vs Large Enterprise

According to the information provided by the tax practitioners, large enterprises and SMEs in New Zealand generally organise their tax compliance functions in a different way. Large enterprises usually have internal resources and automated systems to process information required for filing tax return and to make necessary calculations. External tax practitioners mainly review tax returns, as the risks of taking a wrong tax position are high for large

enterprises. By the way of contrast, SMEs are more likely to outsource tax preparation and filing functions to the external tax practitioners as they do not have enough qualified employees to deal with tax return preparation. Findings made in the Inland Revenue Department (2016) report on the costs of tax compliance in SMEs in New Zealand reveal that SMEs are more likely to outsource preparation of their income tax return, while retaining preparation of Goods and Services Tax (GST) and payroll tax (PAYE) returns in-house. This finding confirms the correctness of the tax practitioners' responses that SMEs generally outsource preparation and filing of tax returns at least in regard of income tax. Furthermore, Eichfelder and Vaillancourt (2014, p. 15) argue that the costs of basic compliance functions such as record keeping, tax computation and tax filing appear to be of less relevance for large enterprises. Tax practitioners also confirm that large enterprises in New Zealand focus less on the costs of basic tax compliance, rather it is structuring of a business in a more tax efficient way that is of a greater relevance to them.

Another difference between SMEs and large enterprises is related to the composition of external costs of tax compliance. Evans et al. (2016, p. 776) mention that large enterprises rely more heavily on the services of lawyers and tax adviser, rather than accounting services as in the case of SMEs. The replies of Tax Practitioners were not conclusive whether large enterprises get involved in legal disputes with the IRD more often than SMEs and therefore require more legal services. However, their replies were more confirming in regard to tax planning services, implying that there is a possibility of the composition of external costs of tax compliance in large enterprises in New Zealand being different from SMEs in a way that large enterprises require more tax planning services from external tax practitioners than SMEs. Literature on the costs of tax compliance of large enterprises confirms that the costs of tax planning, tax advisory and legal services make up the largest part of external costs.

In the case of large enterprises the pattern of separation of tax compliance activity between internal staff and external tax practitioners appears to be compatible with the model of the cost efficient tax compliance administration outlined in Eichfelder and Schorn (2012). Eichfelder and Schorn (2012), using the profit optimisation model, find the pattern of the most cost efficient tax compliance administration: doing part of activity in-house (usually basic tax compliance like record keeping, tax computation and lodgement of tax returns) and outsourcing more complex activities to external tax practitioners. The fact that large enterprises in New Zealand allocate tax compliance activities in the way described by the model suggests that in general large enterprises in New Zealand follow costs efficient tax compliance administration.

4.5 How Tax Practitioners and an IRD Official Define Large Enterprises

Result of the interview showed that there is no universal understanding of what large enterprises in New Zealand are among the tax practitioners who participated in the interview. Every tax practitioner described what they understood by a large enterprise using criteria established by the IRD, New Zealand Ministry of Business, Innovation and Employment (MBIE) and New Zealand Financial Reporting Act 2013 (FAR 2013). Interestingly, neither of the tax practitioners used the same criteria in their responses. One of the tax practitioners used a qualitative criteria to describe large enterprise in New Zealand, which is the presence of tax manager in organisation. Although tax practitioners use predominantly quantitative criteria, for example turnover, the fact that one of the tax practitioners applied qualitative criterion (the presence of tax manager) suggest that qualitative criteria can be also used along with quantitative to define large enterprises in New Zealand. Overall, it can be said that universal definition of large enterprises in New Zealand has not been established yet.

The interview with an IRD tax official provided the following insight into how the IRD defines large enterprises in New Zealand. Currently the IRD applies NZ\$ 100 million turnover to classify large enterprises (Inland Revenue Department), however this definition includes tax exempt organisations and is used predominately for the customers' service.⁴ Therefore, this definition is not applied by the IRD for monitoring tax compliance of large enterprises in New Zealand. For monitoring tax compliance of large enterprises in New Zealand, especially those large enterprises who appear to be members of multinational groups, the IRD uses the term "significant enterprise". Thus, it was revealed from the interview with an IRD official that the following enterprises fall under the definition of significant enterprises and therefore are subject to a stricter compliance focus:

- **SME**
 - Less than 50 employees or less than annual GST turnover NZ\$ 30 million
- **Significant Enterprises**
 - More than 50 employees or more than annual GST turnover NZ\$ 30 million
- **Large Enterprises (within classification of significant enterprises)**
 - More than annual GST turnover NZ\$ 80 million

Consequently, the IRD will define an enterprise as large for the tax compliance purposes when its annual GST turnover exceeds NZ\$ 80 million. According to the interviewed IRD official there are approximately 600 taxpayer groups that can be labelled as “large enterprises” in New Zealand. Therefore large enterprise defined in accordance with these criteria appears to be not only large by the turnover size, but also “significant” from the perspective of tax compliance. As mentioned above the population of large “significant” enterprises is subject to a stricter compliance control from the IRD which arguably might affect the costs of tax compliance of these category of enterprises. However, this is the matter of future investigation.

5. Conclusion

This study provided an explorative analysis of the costs of tax compliance of large enterprises in New Zealand. Specifically the study sought to ascertain the magnitude, composition and main driving factors of the costs of tax compliance of large enterprises. In addition, the study examined what differences exist between SMEs and large enterprises in New Zealand in terms of the way how tax compliance functions are carried out in both of them and in terms of the structure of external costs of tax compliance.

Using semi-structured interviews the study managed to make the findings outlined in the section 4 of this paper. Due to non-empirical nature methodology the study could not provide conclusive results about magnitude and the composition of the tax compliance costs in large enterprises. The rest of the findings presented in section 4 are in line with prior literature on the costs of tax compliance of large enterprises.

Thus, the findings about the costs of tax compliance of large enterprises in New Zealand can be summarised as follows. Income tax appears to be the most expensive tax to comply with for large enterprises in New Zealand. In line with the literature, large enterprises in New Zealand carry out the largest part of basic tax compliance in-house, while using the services of external tax practitioners in regard to tax planning. This pattern of separation of tax compliance activities suggests that large enterprises in New Zealand follow cost efficient tax compliance administration. Complex nature of business operations undertaken by large enterprises trigger complex tax regimes and is likely to be most significant driver of the costs of tax compliance. Literature and responses provided by the tax practitioners indicate that costs of the basic tax

compliance is less relevant to large enterprises and therefore it is possible to make an assumption that external costs, which are predominately associated with tax planning, tax review and legal services, contribute the most to the burden of tax compliance costs of large enterprises in New Zealand.

The study has the following limitations. First, the qualitative nature of research does not allow to generalise obtained results over the wider population of large enterprises in New Zealand. Second, it was expected that tax practitioners would provide more accurate and in-depth responses. The number of participants may seem to be low and due to the time limitation some questions, for example questions asking what tax practitioners would suggest in order to simplify tax regulation for large enterprises in New Zealand, were omitted. Third, interviews were conducted with external tax practitioners only, whereas for the fuller picture of the magnitude and composition of the costs of tax compliance interviews with large enterprises would be very helpful.

Consequently, in the light of above mentioned limitations, future research of the costs of tax compliance of large enterprises in New Zealand can adopt either qualitative or empirical methods. However, empirical research would enable making comparison of the obtained results with the results of prior studies of large enterprises, which were undertaken in other countries.

Notes

- ¹ The last known in the literature study on large enterprises in New Zealand was conducted by Jon Prebble in 1995. It was a qualitative study, which estimated costs incurred by large enterprises in New Zealand to comply with controlled foreign companies (CFCs) regime.
- ² Although current official name of Hon-Kong is Hong Kong Special Administrative Region of the People's Republic of China (Hon-Kong SAR), the study uses data for the period of 1995-1996, which is before the time when Hon-Kong was transferred to China
- ³ Base Erosion and Profit Shifting (BEPS) Action plan has been devised by OECD in order to combat tax evasion by large multinational enterprises and is being currently adopted in New Zealand.
- ⁴ From the researchers' correspondence with an IRD official

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