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Chris Evans

Studying the Studies: An overview of recent research into taxation operating costs

Chris Evans*

Abstract

Studies into the operating costs of taxation – compliance costs for taxpayers and administrative costs for revenue authorities –

considerably over time and between governments. But very little was done in the way of assessing and measuring compliance costs until well into the twentieth century.

Since then, however, this has been an area of taxation research that has flourished – arguably too much so in the view of some: see, for example, James (2003, pp. 69-70). There have been more than 100 published studies into either compliance costs or administrative costs (or sometimes both) since Haig’s tentative first modern study (1935) in the US; and more than 60 of those have occurred since 1980. Studies have now occurred in most developed and many transitional and developing countries, have

Mortgage Interest Relief At Source (MIRAS) in the 1980s as an example of this. A more recent example may lie in the introduction of systems of self-assessment in Australia and the UK in the late 1980s and 1990s. Once again, increased burdens are likely to translate to increased awareness and research interest.

III. THE SCOPE OF THE STUDIES

It is a difficult task to summarise on any systematic basis the taxes that were the subject of research in the studies listed in the appendix, as many of the studies were not focused upon one particular tax, but embraced a variety of taxes or tax related matters. For example, the study of employer related taxes in Australia by Pope, Fayle and Chen (1993a) covered specific taxes such as Fringe Benefits Tax (FBT) and payroll taxes, as well as tax collection or reporting mechanisms such as PAYE and the Prescribed Payment System (PPS). At least five other studies identified in the appendix are concerned with similar areas.

Roughly a dozen of the studies focused solely on Personal Income Taxes (PIT), and about the same number considered just Corporate Income Taxes (CIT). Eight other studies (for example, Arthur D Little Inc, 1988; Evans, Ritchie, Tran-Nam and Walpole, 1997) considered all federal taxes, whether business or personal. Indirect taxes are also well represented in the appendix, with seven Value Added Tax/Goods and Services Tax (VAT/GST) and four sales tax and excise duty studies identified.

The balance of the studies are spread across a range of tax and tax related areas, including tax expenditures (Gunz, Macnaughton and Wensley, 1995), Petroleum Revenue Tax (Sandford, Godwin and Hardwick, 1989) and road tolls (Friedman and Waldfogel, 1995).

Just as the types of taxes that have been the subject of study over the last 20 years is diffuse, so is the nature of the taxpayer. As in previous periods (see Tran-Nam and Evans, 2002, p. 393), there has inevitably been a greater emphasis on business taxes and taxpayers. But despite this emphasis, very few types of taxpayer have escaped scrutiny over this period. Taxpayers not in business (employees, the retired) have been included in many of the studies (Slemrod and Sorum, 1984; Allers, 1994; Evans, Ritchie, Tran-Nam and Walpole, 1997; Chattopadhyay and Das-Gupta, 2002), but usually only as part of a broader survey. They rarely feature as the central part of the study (though see Satvrianos and Greenland, 2002, which focused entirely on individuals with wage and investment income). In contrast, employers have been the sole or primary focus of the research in at least six studies (Leonard and O'Hagan, Nam and Walpole, TcuB9 Tj -29 Fy43o7n,Oo8B yp4o4; Aods080 e per

The vast majority of the studies look at the costs incurred by taxpayers. In contrast, very few studies (for example, Green, 1994; Evans 2003) consider the perspective of the practitioner, even though practitioner costs have always been a very significant component of the compliance costs incurred by business and non-business taxpayers.

It is also slightly surprising how few truly international comparative studies have taken place over the last 20 years. Some of the national studies contain comparative sections where the outcomes for one country are compared with those in others (for example, Evans, Ritchie, Tran-Nam and Walpole, 1997, pp. 58-83). But the dangers of international comparisons are well known to most researchers. Sandford (1995, pp. 405-408) identifies a number of reasons why such comparisons are more likely to mislead than enlighten, and, in an earlier piece (1994) the same author offered the advice that “comparisons of ... operating costs should be used sparingly, with the greatest care and with a comprehensive statement of their limitations”.

One relatively early study and two more recent studies have countered the trend for studies to be national rather than international. Bannock and Albach (1989) compared VAT compliance costs in Germany and the UK. More recently, Cordova-Novion and De Young (2001) undertook a multi-country survey of business tax compliance costs in eleven different countries for the OECD, and Evans (2003) has completed a comparative study of the operating costs of taxing personal capital gains in Australia and the UK.

In summary, studies in the last 20 years have considered most of the different types of tax and most of the different types of taxpayer. The level of coverage has varied – some taxes and taxpayer types have received very comprehensive coverage while others have been relatively under-researched. The analysis now turns to the manner in which that research has been conducted.

IV. RESEARCH METHODOLOGIES

Research literature has typically categorised the study of human and social phenomena by reference to two broad camps – the quantitative (or traditional, positivist, empiricist) and the qualitative (also referred to as the constructivist, naturalistic, interpretive, post-positivist or post-modern). The quantitative paradigm is the more traditional approach to research and typically adopts a deductive approach. In contrast the qualitative approach relies upon an inductive logic. Theories develop through the study rather than being established at the outset, and the methodology is also likely to emerge as part of the process of research rather than being predetermined.

Studies into tax operating costs borrow from both traditions, though there is a far greater emphasis on quantitative techniques. The studies use a variety of specific research methodologies to research into aspects of compliance costs. These include surveys (invariably using questionnaires) conducted through commercial polling organisations (Allers, 1994), or by mail (Green, 1994), email (Bertolucci, 2002) and telephone (Yellow Pages, 1996, CPA Australia, 2003), other interview-based methodologies (Plamondon, 1993; 1995; 1997), diary and case study approaches (Wallschutzky and Gibson, 1993), and documentary analysis (Arthur Andersen & Co, 1985) and estimating/simulating techniques (Thompson, 1984). Often the studies

Postal surveys feature most prominently in the appendix, with nearly two thirds of the studies using this methodology wholly or in part. Roughly one quarter of the studies used interviewing techniques, usually on a face-to-face basis and with a structured survey instrument or script built into the process. The labour intensive diary and case study approaches tended to be the least used methodology.

The appendix shows that response rates for postal surveys into compliance costs have varied considerably. At the one end of the scale there are studies that failed to achieve a response rate of 10%. For example, Vaillancourt (1989, p 47) reported a response rate of only 9.2% based on a distribution of 4,196 questionnaires to Canadian employers, and Arthur Andersen & Co (1985, Chapter 3, pp. 4-5) achieved just 7% response rate in a survey of 600 small businesses. At the other end of the scale,

The research also points strongly to the regressivity of compliance costs of such taxes, particularly where VAT type taxes are involved. The size of the business is a key factor in determining compliance costs, and most of the studies confirm that smaller businesses carry disproportionately higher compliance costs.

In contrast, compliance costs for property taxes are low in absolute and relative terms, as are compliance costs of some excise duties in developed countries (for example, tobacco and petrol) where the sales are high and the number of businesses involved are low. Compliance costs for excise duties in developing countries appear to be significantly higher than those in developed countries, though the evidence is somewhat thin at the moment (Shekidele, 1999).

The evidence from the studies also points to the fact that compliance costs are perceived to be a very significant issue for most business taxpayers and many non-business taxpayers, as well as for practitioners. They are an on-going cause for concern, and the problem is not perceived as improving over time (Blumenthal and Slemrod, 1992; Evans, 2003), despite attempts by governments (ostensibly) designed to reduce the burden faced by taxpayers. Complexity of legislative provisions together with the frequency of legislative change are identified as prime causes of high compliance costs (Green, 1994, Evans, 2003).

The studies in the appendix also suggests that administrative costs are absolutely and relatively less burdensome than compliance costs. Those studies that do address administrative costs suggest that they rarely exceed 1% of revenue yield, and more usually come in well below 1%.

VI. CONCLUSIONS

In summary, therefore, the initial neglect of this area of research has now long passed. The last 20 years have seen issues relating to tax operating costs shift from the periphery to a more central position. As a result, there is now an extensive and varied literature available which can provide a useful reference point for studies relating to the regulatory burden.

Using a variety of methodologies researchers have identified and quantified both compliance and administrative costs, and are now exploring a number of related and more qualitative issues. As Evans, Pope and Hasseldine note in their concluding chapter (2001, pp. 409-417), future operating cost research is likely to both “drill down” (seeking depth by looking at “hot spots” and politically sensitive areas) and “reach out” (broadening the scope of the research to embrace new countries, more comparative work, other disciplines and fresh methodologies).

The operating costs literature will clearly continue to develop over the next 20 years, and it is to be hoped that the fruits of operating cost research will continue to be evident in the policy-making process. There is an obvious interconnection between tax law design and implementation. Tax law design should not take place without clear recognition of the impact of the proposed changes on the operating costs of the tax system. Sensible tax law design must be informed by an understanding of the impact that design will have on the burden that taxpayers will face and the administrative costs that the revenue authority will be required to carry. The greatest contribution that research into operating costs can make in the future is to ensure that those who formulate and implement legislative change are properly informed as to the operating cost implications of their actions. This will not always be (and indeed does

not need to be) the decisive factor; but it cannot be ignored in the way that it so often has in the past.

Pope identified a number of possible stages in the awareness of compliance costs (Pope, 1992, pp. 27). These ranged from initial neglect, through recognition by professionals (tax advisers etc), quantification (usually by academics), policy recognition, effective policy measures resulting in lower compliance costs, and finally to continual monitoring of compliance costs.

Many of the developed countries that have undertaken the studies summarised in the appendix have clearly passed through the first four of these stages, and in some of them there is even lip-

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APPENDIX SUMMARY OF MAJOR PUBLISHED STUDIES OF TAXATION OPERATING COSTS SINCE 1980 BY REFERENCE TO GEOGRAPHICAL LOCATION

North American Studies

Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology 2. Sample frame 3. Respondents 4. Response rate	Major outcomes	
					Compliance costs	Administrative costs
1984 (1982)	Slemrod & Sorum	USA (Minnesota residents)	Personal income taxes	1. Postal survey 2. 2,000 3. 653 4. 33%	Compliance costs were 5% to 7% of revenue yield; self employed incur relatively higher costs	Not addressed.w16 TD () Tj e6,F0 c -0.5704 Tw (Not add

Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology 2. Sample frame 3. Respondents 4. Response rate	Major outcomes	
					Compliance costs	Administrative costs
1988 (1983-1985)	Arthur D Little Inc	USA (USA individuals and businesses)	Federal taxes	1. (a) diary study of 750		

Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology 2. Sample frame 3. Respondents 4. Response rate	Major outcomes	
					Compliance costs	Administrative costs
1993 (1995)	General Accounting Office (US)	USA (Federal administration)	Value added tax	1. Estimate of administrative costs of a value added tax 2. Not relevant 3. Not relevant 4. Not relevant	Not addressed	Recurrent administrative costs of a value added tax would be between US\$1.22b and US\$1.83b, with 70% of those costs related to audit work; transitional costs of introducing a value added tax would be US\$800m; costs would vary with key design features of the tax, and a simple single rate, broad-based VAT would minimise administrative costs
1995 (1994)	Friedman & Waldfogel	USA (Massachusetts & New Jersey toll road users)	Road tolls	1. Case study 2. Not relevant 3. Not relevant 4. Not relevant	Operating costs of tolls in the US are between 15% and 42% of revenue yield during rush hour, and between 11% and 19% of revenue yield over an entire weekday.	
1995 (1994)	Gunz, Macnaughton & Wensley	Canada (Ontario corporations)	Tax expenditures (scientific research and experimental development (SRED) initiatives)	1. Face to face or telephone interviews with survey instrument 2. 111 3. 51 4. 46%	Compliance costs of SRED initiatives were quite low in aggregate, representing less than 1% of the credits claimed; compliance costs not regressive based on firm size, but were highly regressive based on the size of the claim	Not addressed

Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology 2. Sample frame 3. Respondents 4. Response rate	Major outcomes	
					Compliance costs	Administrative costs
1997 (1996)	Plamondon	Canada (Ontario employers)	Federal and provincial payroll taxes	1. Interviews (face to face) conducted by accountants with questionnaire 2. 40 3. 40 4. 100%	Compliance costs were “relatively low” (2.76% of revenue yield for 30 small and medium sized businesses interviewed); Ontario workers’ compensation system causing confusion and uncertainty; support from employers for harmonization of payroll taxes	Not addressed
1998 (1996)	Plamondon & Zussman	Canada (Canadian business taxpayers)	Canadian federal & provincial business taxes	1. Estimation of compliance costs followed by panel discussion and poll 2. Not relevant 3. Not relevant 4. Not relevant	Compliance costs for Canadian business estimated at C\$3.4b, or 0.4% of GDP, 1.5% of revenue yield; a single tax administration would reduce annual compliance costs by between C\$171m and C\$285m	Administrative costs of Federal & Provincial business tax system estimated to be C\$2.2b; a single tax administration would reduce annual administrative costs by between C\$97m and C\$162m

European Studies

Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied		Major outcomes
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Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology 2. Sample frame 3. Respondents 4. Response rate	Major outcomes	
					Compliance costs	Administrative costs
1989 (1983 & 1988)	Sandford, Godwin & Hardwick	UK (UK alcohol, tobacco and oil companies)	Excise duties	1. Postal survey of alcohol industry (a), and interviews with tobacco (7) & oil (3) companies and others 2. (a) 369 3. (a) 99 4. (a) 30%	“Administrative and compliance costs of the main excises are outstandingly low in absolute and proportional terms” (but estimates somewhat speculative); for 1986-87 administrative costs were £41.9m and compliance costs were £33.3m; total operating costs of £75.2m were 0.45% of revenue yield; some regressiveness, but not as pronounced as with VAT studies	
1989 (1986-87)	Sandford, Godwin & Hardwick	UK (UK oil companies)	Petroleum revenue tax	1. Postal survey 2. 14 3. 9 4. 64%	Compliance costs in 1986-87 were £5.25m, or 0.44% of revenue yield; low revenue yield in 1986-87 makes this ratio particularly unreliable; but compliance costs are relatively low (compared to other central government taxes)	Administrative costs 1986-87 were £1.4m, or 0.12% of revenue yield
1989 (1986-87)	Sandford, Godwin & Hardwick	UK (UK VAT registered traders)	Corporation tax (part of value added tax survey below)	1. Postal survey 2. 3,000 3. 680 4. 24%	In 1986-87 compliance costs were £300m (2.22% of revenue yield) and administrative costs were £70.3m (0.52% of revenue yield); total operating costs were 2.74% of revenue yield; roughly 50% of compliance costs were external fees to advisers; compliance costs were regressive; cash flow benefits exceeded compliance costs	
1989 (1986-87)	Sandford, Godwin & Hardwick	UK (UK VAT registered traders)	Value added tax	1. Postal survey 2. 3,000 3. 680 4. 24%	Aggregate compliance costs were £791m (3.69% of revenue yield) and cash flow benefits (disproportionately enjoyed by larger firms) were £580m (2.98% of revenue yield); total operating costs were 6.67% of revenue yield; compliance costs were regressive; cash flow benefits exceeded compliance costs	

Year of publication (Year(s) under review)	Author(s)	Country (population studied)			Major outcomes
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Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology 2. Sample frame 3. Respondents 4. Response rate	Major outcomes	
					Compliance costs	Administrative costs
1995 (1991)	Diaz & Delgado	Spain (Spanish taxpayers)	Personal income taxes	1. Interviews (face to face) with questionnaire 2. 2,500 3. 2,355 4. 94%	Compliance costs were 3.3% of revenue yield, with time costs comprising 73% and monetary costs 27%	Not addressed
1996 (1991-96)	KPMG	UK (UK listed companies)	Corporate taxes	1. Postal survey 2. 1,200 3. 266 4. 22%	Total compliance costs for UK listed companies estimated to be £265m; tax compliance costs have increased by 33.6% in the period 1991-96; major causes were complex, uncertain and badly drafted legislation	Not addressed
1998 (1995-96)	Collard, Green, Godwin & Maskell	UK (UK employers)	Pay as you earn and national insurance contributions	1 (a) Postal survey followed by (b) in-depth face to face interviews 2. (a) 4,168 (b) 310 3. (a) 1,338 (b) 310 4. (a) 32% (b) Not relevant	Compliance costs were £1.32b, or 1.3% of revenue yield; compliance costs highly regressive (bottom 30% pay 75% of compliance costs); labour costs account for approximately half of compliance costs	Not addressed
2001 (1998 & 1999)	Delgado Lobo, Salinas-Jiminez & Sanz Sanz	Spain (Spanish individuals)	Personal income taxes	1. Interviews (face to face) with questionnaire 2. 2,500 3. 2,388 (1998); 2,449 (1999) 4. 96% (1998); 98% (1999)	Compliance costs were 1.8% of revenue yield in 1998 and 1.3% in 1999. Reduction due to PIT reform operative fr	

Australasian and South East Asian Studies

Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology 2. Sample frame 3. Respondents 4. Response rate	Major outcomes	
					Compliance costs	Administrative costs
1990 (1986-87)	Pope, Fayle & Duncanson	Australia (Australian registered voters)	Personal income taxes	1. Postal survey 2. 6,737 3. 1,098 4. 16%	Compliance costs of PIT were between \$2.8b and \$3.8b, or between 7.9% and 10.8% of revenue yield; they were relatively higher than countries with comparable PIT systems; they were	t

Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology 2. Sample frame 3. Respondents 4. Response rate	Major outcomes	
					Compliance costs	Administrative costs
1994 (1990-91)	Pope, Fayle & Chen	Australia (Australian companies)	Companies income tax	1. Postal survey 2. 2,531 3. 571 4. 23%	Net compliance costs of companies were \$2.05b, or 14.5% of revenue yield; compliance costs were regressive	Not addressed
1995 (1991 & 1992)	Prebble	New Zealand (New Zealand companies)	Companies subject to controlled foreign company regime	1. Two personal interviews 2. 200 3. 14 4. Not relevant	Compliance costs for controlled foreign companies are relatively lower than compliance costs for domestic companies of a comparable size	Not addressed
1995 (1994)	Ariff, Loh & Talib	Singapore (Singapore Stock Exchange listed corporate taxpayers)	Corporate income taxes	1. Postal survey 2. 200 3. 65 4. 33%	Compliance costs were "reasonable" compared to other countries, but the large element of fixed costs caused them to be particularly regressive	Not addressed
1996 & 1997 (1994-95)	Evans, Ritchie, Tran-Nam & Walpole	Australia (Australian business and personal taxpayers)	All federal taxes	1. Postal survey of (a) business taxpayers and (b) personal taxpayers 2. (a) 7,496 (b) 1,867 3. (a) 2,464 (b) 936 4. (a) 33% (b) 50%	Federal taxpayer compliance costs (after taking into account the value of tax deductibility of certain costs and the value of cash flow benefits) were \$6.2b (1.4% of GDP or 7% of revenue yield); compliance costs were regressive, and larger businesses actually enjoyed net compliance benefits rather than costs	Not addressed
1996 (1996)	Yellow Pages Small Business Index	Australia (small businesses)	All taxes	1. Telephone interviews (commercial opinion poll) 2. 1,200 3. 1,200 4. 100%	Small businesses spend 832 hours pa (16 hours per week) on financial accounts, invoices, tax and other compliance matters; tax element is less than 25% (3 hours per week); the hours a firm spent on tax matters increased directly with the size of the firm, the number of taxes involved and the sector of activity; one third of all small businesses considered the time spent on tax compliance to be excessive	Not addressed
1997 (1995)	Ariff, Ismail & Loh	Singapore (Singapore Stock Exchange listed corporate taxpayers)	Corporate income taxes	1. Postal survey 2. 234 3. 62 4. 26%	Limited reduction in compliance costs of larger firms as a result of simplification, compared to 1994 study; most of the reduction was due to lower computational (as opposed to planning) costs	Not addressed

Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology 2. Sample frame 3. Respondents 4. Response rate	Major outcomes	
					Compliance costs	Administrative costs
1997 (1995)	Loh, Ariff, Ismail, Shamsher & Ali	Malaysia (Malaysian Stock Exchange listed corporate taxpayers)	Corporate income taxes	1. Postal survey 2. 300 3. 80 4. 27%	Compliance costs were regressive, and primarily comprised computational costs (59%) as opposed to planning costs (41%)	Not addressed
1999 (1995-96)	Chan, Cheung, Ariff & Loh	Hong Kong (Hong Kong Stock Exchange listed corporate taxpayers)	Corporate income taxes	1. Postal survey 2. 496 3. 75 4. 15%	Established a positive relationship between company size and compliance costs; compliance costs were regressive; average compliance costs were relatively high compared to Singapore and Australia (as a result of low administrative costs, difficulties with territorial source basis and higher level of external costs); no major industry variations in patterns of compliance costs	Not addressed
2002 (1998-2000)	Rametse & Pope	Australia (Western Australian business taxpayers)	Start-up costs of the Goods and Services Tax (GST)	1. Postal survey 2. 3,199 3. 868 4. 27%	Estimated GST start-up compliance costs for small businesses were AUD\$7,600; this included owner/manager time of 131 hours; start-up costs were considerably higher than official government estimates	Not addressed
2002 (Jun 1999- Jun 2001)	Tran-Nam & Glover	Australia (small business taxpayers)	Transitional costs of the Goods and Services Tax (GST), Australian Business Number (ABN), Pay As You Go (PAYG) and Business Activity Statement (BAS)	1. Case study 2. 31 3. 31 4. Not relevant	Small businesses incurred net transitional compliance costs of AUD\$4,853 (mean) or AUD\$2,393 (median); (median was preferred); in addition to monetary costs, small business taxpayers appeared to suffer substantial psychological costs during the transitional period	Not addressed
2002 (2002)	Evans, Tran-Nam & Jordan	Australia (business taxpayers)	Tax Value Method (TVM)	1. Case study 2. 40 3. 40 4. Not relevant	There would be significant transitional compliance costs for businesses of all sizes and in all sectors if the Tax Value Method of identifying and calculating assessable income were to be introduced. Practitioners and businesses were unable to identify any recurrent compliance benefits that would offset these transitional costs over the longer term after the introduction of the Tax Value Method	Not addressed

International Studies and Studies from the Rest of the World

Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology 2. Sample frame 3. Respondents 4. Response rate	Major outcomes	
					Compliance costs	Administrative costs
1999 1995-96	Shekidele	Tanzania (Tanzanian large businesses)	Excise duties	1. Hand-delivered survey (supplemented with semi structured interviews with firms and tax officials) 2. 14 3. 9 4. 64%	Compliance costs of excise duties were relatively high (15.57% of revenue yield) compared to developed countries; some evidence of regressive nature of compliance costs	Not addressed
2001 (1998-99)	Cordova-Novion & De Young	Multi-country (Australia, Austria, Belgium, Finland, Iceland, Mexico, New Zealand, Norway, Portugal, Spain and Sweden) (businesses)	Business taxes	1. Postal survey 2. 22,544 3. 7,859 4. 35%		