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**COSTS OF COMPLIANCE
UNDER THE SCHEDULAR TAX DEDUCTION SCHEME (STD)
IN THE NORTHERN STATES OF MALAYSIA**

by

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Abstrak

Di Malaysia, sistem 'Pay-As-You-Earn (PAYE)', dikenali sebagai Skim Potongan Cukai Berjadual (PCB), yang mula diperkenalkan pada tahun 1995 melalui Peraturan Cukai Pendapatan (Potongan dari Gaji) 1994. Skim PCB memindahkan tanggungjawab mengutip cukai dari Lembaga Hasil Dalam Negeri (LHDN) kepada para majikan yang dipertanggungjawabkan untuk memotong cukai secara bulanan dari pekerja atau kakitangannya dan menghantar jumlah potongan tersebut kepada LHDN sebelum 10^{hb} bulan berikutnya. Tujuannya adalah untuk memastikan kutipan cukai dari pekerja dilaksanakan dengan cekap melalui potongan gaji oleh majikan. Skim PCB adalah penting bagi pekerja dalam era Sistem Taksiran Sendiri (STS) yang telah dikuatkuasakan sejak tahun 2004. Walaubagaimanapun, sejak pengenalannya pada tahun 1995, tidaklah diketahui samada pelaksanaan skim PCB di Malaysia telah mencapai tujuan yang diharapkan atau tidak; terutamanya di kalangan Industri Kecil dan Sederhana (IKS). Kos pematuhan bagi majikan di bawah sistem PCB juga tidak diketahui. Sehingga kajian ini dijalankan, tiada kajian empirikal yang telah diterbitkan yang mengkaji kos pematuhan yang perlu ditanggung oleh majikan IKS di bawah pentadbiran sistem PCB. Oleh itu, objektif kajian ini adalah untuk mengkaji kos pematuhan yang ditanggung oleh majikan IKS di bawah sistem PCB. Dapatan kajian telah menunjukkan IKS bersaiz kecil menanggung kos pematuhan yang tinggi berbanding IKS bersaiz besar. Kajian ini adalah penting untuk memberi maklumat strategik awal kepada pembuat dasar di LHDN untuk mengkaji kerelevanan sistem PCB yang dikenakan ke atas IKS, seterusnya menambahbaikkan kecekapan dan produktiviti sistem pentadbiran PCB tanpa membebankan terutamanya di kalangan IKS yang lebih kecil. Malah, dapatan kajian ini juga menunjukkan kos-kos berkaitan PCB yang dihadapi oleh majikan IKS dalam usaha untuk mematuhi sistem PCB.

Kata Kunci: Skim Potongan Cukai Berjadual (PCB), Industri Kecil dan Sederhana (IKS), kos pematuhan, dan majikan.

Abstract

In Malaysia, the Pay-As-You-Earn (PAYE) system, known as the Schedular Tax Deduction Scheme (STD) or 'Potongan Cukai Berjadual (PCB)' in the Malay Language, was first introduced in 1995 through Income Tax (Deduction from Remuneration) Rules 1994. The STD scheme shifts the responsibility of tax collection from the Inland Revenue Board (IRB) to the employers who are now charged with the duty to deduct monthly taxes from employees and to remit the amount to IRB by the 10th of the following month. The aim is to ensure an efficient manner of collecting tax from employees through salary deductions by employers. The STD scheme is central to employees in the era of Self Assessment System (SAS), which takes effect from 2004. However, since its introduction in 1995, it is not known whether the implementation of STD scheme in Malaysia has achieved its intended purpose or not particularly on SMEs. The cost of compliance for the employers under the STD system is also unknown. As far as this study is concerned, there has been no empirical study conducted to find out the compliance costs borne by the employers of SMEs under the administration of the STD system. Therefore, the objective of this study is to find out the compliance costs borne by employers of SMEs under the STD system. Findings from this study have shown that smaller size SMEs incurred a high compliance cost compare to a larger size SMEs. This exploratory attempt is essential to provide preliminary strategic information to policy makers in the Inland Revenue Board (IRB) to examine the relevancy of STD system on SMEs thus improve the efficiency and productivity of the STD administration system without putting the burden especially on smaller SMEs. In addition, it further pointed to the associated costs that are currently faced by the employers of SMEs in trying to comply with the STD system.

Keywords: Schedular Tax Deduction Scheme (STD), Small Medium Enterprises (SMEs), compliance costs, and employers.

1.0 Introduction

The income tax schedular system is known as the Pay-As-You-Earn (PAYE) system in other parts of the world. It has been practice widely in countries such as the United Kingdom (UK), Canada, Australia, Austria, Canada, Germany, the Netherlands, India, New Zealand, Nigeria, and the United States (US). It is designed to collect the correct amount of tax on employment income on a regular, current year basis so that the vast majority of employees do not need to fill in a tax return.

The wide usage of PAYE around the world is reckoned a good tax collection system. In Australia, PAYE is introduced in 1941. It is the most extensive collection system covering 85 percent of the Australian work force. During 1997-1998, the Australian Taxation Office (ATO) collected revenue totalling \$66 billion through the PAYE system, which represented almost 60 percent of a total of \$110.3 billion in ATO revenue collections for that year. Meanwhile, in the US, it is stated that a withholding tax arrangement such as PAYE is also the most effective means of encouraging compliance where the cost of compliance using PAYE is lower than for other tax collection method. PAYE therefore seems to be very encouraging for tax collection efficiency.

In the case of Malaysia, Barjoyai (1993) evaluated the impact of the 1988 Malaysian Tax Reform in terms of three (3) basic criteria: the efficiency implication, the distribution of tax burden (equity) and tax revenue generation, when he found that corporate tax was the most efficient and productive instrument while payroll tax, on the other hand, was found to be inefficient and unproductive. Thus the PAYE system was first introduced in 1995 through Income Tax (Deduction from Remuneration) Rules 1994. The PAYE system is known as the Schedular Tax Deduction Scheme (STD) or 'Potongan Cukai Berjadual (PCB)' in the Malay Language. The STD scheme shifts the responsibility of tax collection from the Inland Revenue Board (IRB) to the employers who are now charged with the duty to deduct monthly taxes from employees and to remit this to IRB by the 10th of the following month. The system, which involves deduction of tax at source, has been developed both as an anti-avoidance measure and an administrative aid for the IRB. The aim is to ensure an efficient manner of collecting tax from employees through deductions by employers.

Since its introduction in 1995, it is not known whether the STD implementation has achieved its intended purpose or not. Then in 2004, IRB shifts the responsibility of tax collection to employers through the reinforcement of the STD system. This is due to “preceding year assessment” basis (meaning declaring income earned last year this year and pay tax this year for last year’s income) has posed problems for IRB’s collection department mainly due to taxpayers who already spent their money earned in preceding year and they failed to set aside money to pay for their tax in current year.

However, STD Table may prescribe too little or too much deductions to tax resident single persons earning only a single source of employment income. Yong (2005) found: (1) insufficiency of tax deductions for monthly net salaries below RM10,001; (2) the presence of the “RM10,000 kink” in the STD table; and (3) special cases where bonus is subject to very large STD deductions. But, to date, there has been no published empirical study on compliance costs borne by the employers who are charged with the duty to deduct monthly taxes from employees using the STD system in Malaysia.

Compliance costs are incurred not only by taxpayers but also by those who are required to collect the tax from them on behalf of the IRB (Kasipillai, 2007). Therefore, the objective of this study is to find out the costs of compliance among employers of SMEs complying with the STD system. Have employers of SMEs complied with STD system? What is the compliance cost of employers of SMEs complying with the STD system?

2.0 Background of STD in Malaysia

Personal income tax in Malaysia is imposed on individuals either employed in their personal capacity or as individuals operating business as sole proprietors and also as partners in any partnership. For individuals whose source of income is from carrying on an employment, they will be taxable under Section 4 (b) of the Income Tax Act, 1967. The tax on income from employment can be deducted at source under section 107 of the Income Tax Act, 1967. The Director General of the IRB may direct any employer to deduct stipulated amounts from salaries or emoluments paid to an employee or from a pension, annuity or periodical payment falling under Section 4 (e) paid to a former employee. Such a deduction can be on account of tax payable by the individual for any

year of assessment. Subject to any rules made by the Minister of Finance under Section 154 (1) of the Act, tax must be deducted in accordance with the directive issued by the Director General. With effect from 1 January 1995, the IRB no longer issues deduction directives for employees except where deemed necessary. Tax deductions are based on a specific planned tables issued by the IRB known as the Schedular Tax Deduction (STD) Scheme.

3.0 Schedular Tax Deduction Scheme (STD)

STD is popularly known as ‘Pay As You Earn’ (PAYE) or PAYE Method in most developed countries such as the UK, Canada, USA, Australia, Austria, Germany and others. This tax collection method is considered suitable whereby the system imposed direct deduction from income sources of a taxpayer through deduction made directly by employer from their remuneration. It is a system designed to collect a sum of tax that must be paid by individual periodically from monthly salary in the current period (basis for current year) thus not burdening taxpayers at year end.

What is STD in Malaysia? The STD scheme was introduced to collect income tax as and when they are earned by taxpayers. The IRB has directed employers to deduct a certain amount out of the monthly salaries of taxpayers to pay for their income tax. Hence, it is a pay-as-you-earn principle. With STD, taxpayers are no longer paying income tax for preceding year’s income. The tax deducted is from the month’s income is to pay for income tax for that month’s salary. These STD deductions used to be a simple tax collection process imposed by the IRB on all employers. How does it work? Match your income for a month, follow the table provided by the IRB, follow the amount of estimated income tax payable and that amount is deducted from your monthly salary and remitted to the IRB by your employer. At the end of the year, you will receive the EA Form from your employer and you calculate how much actual tax you have to pay, taking into account the relieves you have, claims, exemptions, rebates, zakat etc and you fill up the BE Form (manual or e-filing), send to the IRB and pay the difference between your actual tax and the total STD deducted for the year by your employer. If your total STD deducted for the year is higher, then you get a refund from the IRB.

However, things get really complicated since January 2009. The STD table is changed, calculation of STD become totally impossible without payroll software, TP1, TP2, etc. Why has the STD turned into something so complicated? The reason is, Malaysia IRB wishes to follow its counterpart in Singapore in implementing a system where all salaried employees will not have to file their tax returns (BE Form) in future. The system will make the STD a Final Tax, as opposed to an Estimated Tax as at now. Malaysia is in the first year that the IRB is gearing towards this system. That is why there are so many ‘teething’ problems and adjustments needed. How long more before the IRB can fully implement the Final Tax via the STD system is yet to be seen.

Hence, in a way, since the implementation of the STD system upon employers in 2004, it has definitely reduced the voluminous administrative paperwork that the IRB would otherwise need to handle. The system has lessened the administrative work of the IRB but places the burden of compliance on the employers. Definitely, this system is a scheme of tax deduction, which ensures an efficient manner of collecting tax from employees through deductions by employers. Under STD, employers are required to deduct from the salaries of their employees a certain amount according to the STD table instructed by IRB. The system applies to all employment income taxable under Section 13 of the Income Tax Act 1967. It includes any wages, salary, overtime, commission, allowances, bonus, gratuity, etc. The system is also applicable to expatriates qualified as ‘resident’ under Section 7 of the Income Tax Act 1967. The amount of tax deduction applicable for an employee depends on the employee’s monthly income less deduction for contribution to the Employees’ Provident Fund (EPF), marital status and number of children.

With effect from 1 January 1989, every employee was required to settle tax through an instalment scheme as directed by the IRB. Employees were already subjected to this from the year of assessment 1987. Therefore, all taxable persons with an estimated tax liability exceeding RM500 are now on an instalment scheme whereby tax is being paid in instalments from the beginning of the year instead of being paid after the notice of assessment has been issued. The PAYE system presently adopted in Sabah and Sarawak requires tax to be collected in the same year the salary is earned. The STD system, on the other hand required the payment of tax only after income has been earned.

However, from year of assessment 2000 (current year basis), the STD system is in effect a PAYE system. For 'new employees' who started work on or after 1 January 1995, their employers are required to deduct the amount of tax applicable upon paying the net salaries. This means that persons who started work on or after 1 January 1995 were effectively already on the PAYE system. Now, all employees are on the PAYE system. It is a system of tax recovery where employers make deductions from their employees' remuneration every month in accordance with a pre-determined STD Schedule prepared by IRB. This is mandatory, in that neither the employer nor employee has any choice in the matter. Any deviation from the requirements of the Income Tax (Deduction from Remuneration) Rules 1994 can only be upon written authorization from IRB. For taxpayers with fixed monthly income, STD is the best scheme to adopt when paying their tax liability to IRB. The STD Schedule prepared by IRB presented a comprehensive payment scale of the required amount of deduction by a taxpayer.

The personal details are required to identify the amount of tax deduction applicable to an employee. Hence, employers are advised to maintain proper and up-to-date records for all their employees. Employers are also reminded that the tax deduction according to the given STD Schedule must be strictly complied with and no changes whether to increase or reduce the tax deduction may be made to the deductions without the approval of the IRB. Where some taxpayers may have an overpayment due to high STD deductions, the taxpayers may request for refunds.

On the other hand, where the tax deducted from salaries is insufficient to settle the taxpayer's income tax payable as stated in the Notice of Assessment, the difference must be paid within 30 days from the date of the notice. Under the Income Tax (Deductions from Remuneration) Rules 1994, an employer is required to make relevant deductions for each employee in accordance with the schedule, complete the Statement of Tax Deductions by an Employer (Form CP 39) and remit the aggregate amount of tax deductions to the IRB on or before the 10th day of the subsequent month together with the duly completed form CP 39. The employer also has to give to each employee a statement in respect of the total deductions made during the relevant year.

Note that the deduction in previous STD (Amendment 2004) is not the final amount of tax payable but in a way it has helped the taxpayers to reduce the amount of tax payable burden at the end of the year. Refund of any excess tax paid will then be made by IRB after the final tax payable and the total deduction by taxpayers has been determined. As discussed earlier, from 2009 onwards, IRB has introduced a new STD system. In the new system, tax exemptions and rebates will be filed on a monthly basis instead of yearly basis. This is beneficial to employees who normally over pay their income taxes, then later need to file for a refund the following year. It is expected that the new system will attract the employers' attention to reduce their employees' tax burden by installment payment through monthly remuneration deduction. However, it is yet to be seen as it will further increase their compliance cost due to some adjustment problems that employers have to overcome.

4.0 Significance of Study

The focus on compliance costs for complying with STD system in Malaysia is a departure from prior studies, which have almost exclusively examined compliance for corporate income taxation, for example Loh, Ismail, Shamsher and Ali (1997) and Hanefah, Ariff, and Kasipillai (2001). Adam Smith (1776) has cited the importance of compliance costs by suggesting that minimizing compliance cost is essential to ensure a high compliance level of paying taxes among the taxpayers. Many others shared his thought and this principle still hold good until today (Nightingale, 2000). Indeed, concern about the compliance costs of taxpayers is an area of growing interaction between academics, policy makers and the public.

What impact has the 2009 STD provisions on employers? More compliance costs are expected in terms of system changes plus the responsibility of managing the elections by deciding to agree or not. It appears that the IRB may be attempting to place some level of due diligence on employers to reject false deduction claims like medical expenses for serious diseases by hale and hearty employees (Deloitte, 2009). After agreeing to the employees' elections, the employer has to retain TP1 and TP2 for at least 7 years for audit purposes. The employer also has additional responsibilities to recalculate the STD arising from employee's elections.

Bearing in mind that elections by employees may vary, and be rather complex, the IRB has then made available a PCB or STD Calculator in its web site and requires this to be used where an election for deduction and rebates is agreed to and implemented (Tayib, Yusof, and Mansor, forthcoming 2009). The IRB thus expects employers to inform their employees of the elections available and the forms to be completed. Hence, this study is specifically concerned with compliance cost of employers as the agent charged with the duty to deduct monthly taxes from employees using the STD system on behalf of IRB.

In the UK, Collard and Godwin (1999) have performed a research on the compliance costs borne by the employers in collecting income tax under PAYE and National Insurance (NI) contributions. Their findings have indicated that the compliance costs are very unequally spread across employers, with the small new employers bearing particularly high compliance costs. The high compliance costs for very small employers, relative to the amount of tax collected has raised the question of whether PAYE is the best method of tax collection for them.

This study explores compliance cost faced by small employers in Malaysia as the STD scheme is central to employees in the era of SAS, which takes effect from 2004 (Yong, 2005), immediately preceding the introduction of SAS (Collard and Godwin, 1999). Economic effects of high compliance costs include deadweight resource costs, increased non-compliance, distorted production decisions and reduced investment, higher deficits, reduced tax equity, lower economic growth, adverse price movements and reduced international competitiveness (Chattopadhyay and Das-Gupta, 2002). In some developed countries (e.g. the UK and Australia), compliance cost assessments are now mandatory when introducing new tax proposals or regime. The study of tax compliance costs can be useful for tax design and policy by shedding light on these issues.

5.0 Literature Review

Taxation is seen as a part of price that should be paid for living in an organization of society (Nightingale, 2000). However, taxation is not merely a means of transferring money to the government, but it also has a tendency to reflect prevailing social values and priorities, which includes national defence, redistribution of income and wealth and economic stability (Nightingale, 2000).

Tax policy on the other hand has an important role to play in supporting the government's goal of fostering an environment that enables Malaysian businesses to grow and compete successfully in a global economy. In achieving these objectives, the authority should not neglect the distortion effects on the taxpayers' behaviour with regard to compliance cost borne.

5.1 Compliance Costs

Compliance costs are incurred not only by taxpayers but also agents who collect taxes on behalf, and third parties who are required to provide information to the tax administration (Kasipillai, 2007). Conventionally, Sandford, Godwin and Hardwick (1989) have defined tax compliance costs as "the costs incurred by taxpayers and third parties in meeting the requirements laid upon them in complying with a given structure and level of tax". Later, Sandford (1995) and also Collard, Green, Godwin and Maskell (1998) extended and refined the definition as "the costs incurred by taxpayers in meeting the requirements laid upon them by the tax law and the revenue authorities over and above the actual payment of tax and over and above any distortion costs inherent in the nature of the tax; costs which would disappear if the tax is abolished".

Tax compliance costs include the costs incurred by individuals of acquiring sufficient knowledge to meet their legal obligations, the costs of compiling the necessary receipts and other records and of completing tax returns; payments to professional taxation advisers and return preparers; and, incidental costs for postage, telephone and travel to communicate with advisers or the tax authorities (Turner, Smith, and Gurd, 1998). Meanwhile, compliance with tax rules can entail significant time and costs for many businesses too.

For businesses, Kasipillai (2007) and Cullen and Dunne (2007) added that compliance costs can also arise from variety of activities associated with tax planning (making decisions to get the best deal, for example deciding where to build a factory); compliance (cost of record-keeping, form preparation and filing, collecting, paying and accounting for tax on products or profits of the enterprise, and on the wages and salaries of employees together with the costs of acquiring the knowledge to enable this work to be done.); and litigation (resolving disputes with the IRB in court).

The importance of compliance costs are certainly known to classical economist. Adam Smith (1776) had long cited the importance of minimizing compliance cost to ensure a high compliance level among the taxpayers. Three out of four of Adam Smith's cannons of taxation relate directly or indirectly to tax compliance costs. They are 'certainty', 'convenience', and the 'economy', the other one being 'equity' (Smith, 1776, pp. 361-362). And literature contains many historical references to the burden imposed upon taxpayers as a result of their taxation obligations. For example, half a century after Smith's discourse, William Cobbett noted that farmers not only faced the cost of paying tax of "2d in the pound" for growing hops, but that "...in all such cases, there falls upon the consumer the expenses attending the paying of the tax...[such as] the trouble it gives him, and the rules he is compelled to obey in the drying and bagging, and which cause him great expense" (Cobbett, 1826, pp. 148-149).

Many others also shared the same thoughts as Smith on the characteristics of an efficient tax system (Meade Report, 1978; Green Paper, 1981; O'Brien Report, 1982; Ridge and Smith, 1991; Jackson, 1994; ICAEW, 1999). Nightingale (2000) agreed that these principles still hold good today, and suggested that in a modern tax system, an 'ideal' tax should conform as far as possible the following criteria: (i) simple, certain and convenience – simple for taxpayers to understand and easy for them to make payment; (ii) flexible – the structure and rate of a tax can be altered; (iii) administratively efficient – low administrative cost by the authority and low compliance cost by the taxpayer; (iv) neutral – does not distort economic choices, and (v) equitable – taxes must not only be fair but also be seen to be fair.

Due to the importance of the compliance costs by the taxpayers to be considered by the tax authority, researchers around the world have conducted various studies on the topic using different tax instruments. Some compliance costs studies have taken place in the last 20 years or so (for example Sandford *et al.*, 1989; Allers, 1994; Diaz and Delgado, 1995; Collard *et al.*, 1998; Hasseldine and Hansford, 2002). In the UK for example, modern research on the measurement of compliance costs dated from Sandford's pioneering study in 1973, which contains research across a range of taxes and countries. Meanwhile, before 1990 there were no published compliance cost studies in Australasia or Southeast Asia. Since then, there are quite a number of published studies in Australia (for example Pope, Fayle and Duncanson, 1990; Pope, Fayle and Chen, 1991; Pope, 1992; Pope, Fayle and Chen 1993a, 1993b, 1994; Wallschutzky and Gibson, 1993; Evans, Ritchie, Tran-Nam and Walpole, 1996, 1997; Rametse and Pope, 2002; Tran-Nam and Glover, 2002), New Zealand (Sandford and Hasseldine, 1992; Prebble, 1995), Singapore (Ariff, Loh and Talib, 1995; Ariff, Ismail and Loh, 1997), Malaysia (Loh *et al.*, 1997; Hanefah *et al.*, 2001), Hong Kong (Chan, Cheung, Ariff and Loh, 1999) and the US examining the compliance costs of public corporations and companies. Pope *et al.* (1991) investigated the compliance costs of public companies in Australia and they estimated the overall mean compliance costs per public company to be A\$62,604 (RM143,989). Ariff *et al.* (1995) undertook a similar study in Singapore and their mean compliance cost estimate was over S\$78,396 (RM172,471) for a company. A second Singapore study (Ariff *et al.*, 1997) estimated the average compliance costs to be S\$54,615 (RM120,153) following a number of tax reporting reforms.

Meanwhile, in Malaysia, the first tax compliance study was conducted by Loh *et al.* (1997) on public listed companies with regards to corporate income taxation. It was found that these companies incurred tax compliance costs of RM68,836 per firm in processing the tax in that year of closer to about RM5 million per firm. In another study by Hanefah *et al.* (2001) on the compliance costs of small and medium enterprises (SMEs) in Malaysia found that SMEs shoulder four times proportionally more compliance costs compared with larger companies that are listed on Bursa Malaysia.

Thus, while compliance costs have imposed deadweight resource costs on society, resentment of high compliance cost may lead to non-compliance and lower tax yields. For example, Kaplow (1995) suggested that the tax gap in developed countries is also still relatively high despite relatively self-claimed efficient tax administration system. He argued that large compliance costs due to the complexity of tax system could possibly be a major neglected cause.

None of these studies however, focused on compliance costs borne by employers complying with the STD system. High compliance costs borne by companies are suggested as non-contributing factor to an efficient taxation system. Thus a low compliance cost will reflect that the STD scheme is a good tax collection system. Even though there is no such study on the compliance costs of the STD system in Malaysia, studies on the PAYE system have been conducted elsewhere. In the UK, for example, the Centre for Fiscal Studies at the University of Bath has performed a research on the compliance costs borne by the employers in collecting income tax under the Pay-As-You-Earn (PAYE) and National Insurance (NI) contributions (Collard and Godwin, 1999). The period studied from 1995-96 was immediately preceding the introduction of self-assessment in the UK. It was found that, for the period under study, total costs are estimated to have been about £1.3 billion. The costs are very unequally spread across employers, with the small new employers bearing particularly high compliance costs. It is expected that under SAS, the impact of compliance costs falls on individual taxpayers as well as small businesses. Collard and Godwin (1999) have shown that the average compliance costs of small new employers complying with the PAYE system, as a percentage of the business revenue, takes a larger toll than on large employers.

5.2 Small Medium Enterprises (SMEs)

SMEs can be defined according to their level of turnover, number of employees or total assets. The typical characteristics of SMEs include a lower level of specialist tax expertise, greater owner-involvement in a day-to-day management, a smaller human capital base, a higher level of debt funding and greater exposure to personal liability (Cullen and Dunne, 2007).

The Malaysian National SME Development Council (NSDC) has grouped Malaysian SMEs into three categories: Micro, Small, or Medium. These groupings are decided based on either the numbers of people a business employs or on the total sales or revenue generated by a business in a year. Table 1 below depicts the approved definition by NSDC in 2005.

Table 1: NSDC's Approved Definition of SMEs

Business Categories	Number of full-time Employees		Annual Sales Turnover	
	Primary Agriculture	Micro	Less than 5 employees	Micro
Small		Between 5 and 19 employees	Small	Between RM200,000 & less than RM1 million
Medium		Between 20 and 50 employees	Medium	Between RM1 million & RM5 million
Manufacturing (including Agro-Based) & MRS*	Micro	Less than 5 employees	Micro	Less than RM250,000
	Small	Between 5 and 50 employees	Small	Between RM250,000 & less than RM10 million
	Medium	Between 51 and 150 employees	Medium	Between RM10 million & RM25 million
Services Sector (including ICT**)	Micro	Less than 5 employees	Micro	Less than RM200,000
	Small	Between 5 and 19 employees	Small	Between RM200,000 & less than RM1 million
	Medium	Between 20 and 50 employees	Medium	Between RM1 million & RM5 million

*MRS: Manufacturing-Related Services

** ICT: Information and Communications Technology

Source: SMEinfo ONE STOP SME RESOURCES available at <http://www.smeinfo.com.my/>

SMEs range from micro-businesses (such as taxi drivers and family-owned dairies) to larger firms with the potential to grow and develop globally connected operations. They are spread widely across most sectors, featuring particularly highly in the construction, manufacturing (including agro-based), manufacturing related services, primary agriculture, communication services, finance, insurance, property and business services industries (including ICT).

Malaysian SMEs accounted for 94 per cent of companies in the manufacturing-related business sector, therefore should not be underestimated. They contribute 27 per cent of total manufacturing output, own 28 per cent of fixed assets and employ 39 per cent of the country's workforce (Kasipillai, 2007).

In addition, the value-added products from SMEs are expected to be worth RM120bil, or 50 per cent, of total production in the manufacturing sector by 2020. Meanwhile from a financial viewpoint, Kasipillai (2007) has pointed that compliance costs will affect the economy negatively because compliance costs may increase overheads and the cost of doing business. There are also opportunity costs that are more difficult to quantify. For example, an hour spent complying with tax rules could have been spent tending to the business, thus adding value to the economy. Rising complexity in the tax system also leads to burdensome administrative costs. The benefits of lowering the tax complexity burden would dramatically benefit small businesses since they currently bear a disproportionate amount of the burden (Collard and Godwin, 1999). Reducing the complexity of the tax rules means that taxpayers are less likely to require expert assistance and are less likely to make errors. As well as reducing tangible costs, such as hours spent and expenditure on accounting fees, reducing the complexity of the tax rules can reduce the stress associated with completing tax requirements (Cullen and Dunne, 2007).

Kasipillai further asserted that compliance costs fall heavily on SMEs, which comprise more than 20,000 establishments in the manufacturing sector and 192,000 in services in Malaysia. They are considered the driving force of the economy, therefore minimising tax compliance costs is an important matter for all businesses including SMEs. Though Hanefah *et al.* (2001) found that compliance costs of SMEs in Malaysia shoulder four times proportionally more compliance costs compared with larger companies that are listed on Bursa Malaysia but other research elsewhere suggests that SMEs do not bear higher compliance costs than larger businesses in absolute terms but they bear higher relative costs instead (OECD, 2007). Consequently, SMEs bear a disproportionate burden of tax compliance costs (Collard and Godwin, 1999). Higher relative costs can be a barrier to economic growth for a group that constitutes the majority of Malaysian businesses. The government wants to ensure that, by making it easier for business to comply with their tax obligations, valuable economic resources are freed up and re-directed towards more productive activities. This should also improve voluntary compliance in the SMEs business sector.

6.0 Methodology

6.1 Research Design

The compliance costs of employers complying with the STD system were examined using primary data. A set of questionnaires were distributed to the employers who comply with STD system. The approach to measure compliance costs is adopted from Collard and Godwin (1999). This method is to build up a picture of compliance costs for each payroll starting from the time spent on compliance activities. Thus, the number of hours spent each month and at the end of the tax year in dealing with the STD was requested for the relevant payroll scheme.

6.2 Research Sample

The respondents in this study are the employers of SMEs in Perlis, Kedah and Penang. Malaysian SMEs can be grouped into three categories i.e. micro, small or medium. These grouping are decided based on either the number of people a business employs or on the total sales or revenue generated by a business in a year. The total number of SMEs from all sectors of industry in the northern region of Malaysia is 1575 companies, which includes 46 companies in Perlis, 513 companies in Kedah and 1016 companies in Penang (SME Directory, 2007). This study chooses the SMEs to further explain the compliance costs that are found to be very unequally spread across employers, with small new employers bearing particularly high costs found by Collard and Godwin (1999). About 400 SMEs were chosen randomly from the total population based on the different business sectors and ownership of SMEs.

6.3 Method of Data Collection

A field survey method was employed to obtain the primary data. It was considered the most suitable method in collecting the data (Kerlinger, 1973) for this type of study. It is basically the process of questioning those who are believed to possess the required information (Cox, 1979). A set of questionnaires developed by Collard and Godwin (1999) were adopted but amended where necessary to make it relevant to the Malaysian environment. Officers from the Malaysian Taxation Academy of the IRB (Akademi Percukaian Malaysia, Lembaga Hasil Dalam Negeri) were consulted for the accuracy of the details in the questionnaire.

A total of 400 sets of questionnaires were posted to the randomly-selected SMEs. However, the response rate was very disappointing. Only 4 responded to the questionnaires and 1 returned the non-response questionnaire with a book on “Sifat Dua Puluh”. A second round of data collection was done based on earlier phone calls to identify STD-compliance among the randomly-selected SMEs. Based on the several phone calls a new list of only STD-compliance SMEs was prepared for a self-administered walk-in survey. Again, this study experienced a total disappointment when most employers refused to accept our in-person visits on site particularly on survey related to tax. Table 2 depicts the number of SMEs contact via mail, phone calls and personal visits and their reactions or reasons or excuses given by them concerning the STD system compliance.

6.4 Analysis

This study is an exploratory attempt to study on only SMEs based on the results by Collard and Godwin (1999) who found that small employers experienced high compliance cost compared to large employers when they studied on all types of companies in the UK. So this study has focused only on SMEs based on the definition approved by National SME Development Council (NSDC) in 2005. However, this study has not been able to collect the necessary data to run a comprehensive analysis, thus resort to only simple analysis of frequencies and average to examine the data collected from the respondents.

Table 2: Number of SMEs Contacted

Types of Responses	Number of SMEs								
	PERLIS			KEDAH			PENANG s		
	n = 22			N = 173			n = 205		
	Total	Business Sector	No	Total	Business Sector	No.	Total	Business Sector	No
STD-compliance	4	Manufacturing	1	17	Manufacturing	11	11	Manufacturing	11
		Construction	2		Construction	5			
		Services	1		Services	1			
Staff not eligible to be taxable	7	Manufacturing	1	42	Manufacturing	23	19	Manufacturing	15
		Construction	2		Construction	5			
		Others	1		Others	1		Others	2
			1		Services	13		Services	2
No STD because staff pay Zakat	3	Manufacturing	1	20	Manufacturing	10	3	Manufacturing	1
		Construction	1		Construction	2		Construction	2
		Others	1		Service	5			
					Primary agriculture	2			
					Others	1			
Do not want to respond at all where tax is concerned	1	Others	1	12	Manufacturing	11	60	Manufacturing	58
					Services	1		Services	2
					Construction	1			
Do not know how to pay through STD	3	Manufacturing	2	1	Manufacturing	1			
		Construction	1						
New SME	2	Manufacturing	1						
		Services	1						
Company pay CP500				1	Services	1			
No STD because staff want to pay lump sum	1	Services	1	3	Manufacturing	2	2	Services	2
					Services	1			
Do not know about STD				9	Manufacturing	6	2		
					Services	3		Services	2
Cannot be contacted No answer or phone terminated				64	Manufacturing	31	78	Services	12
					Construction	8		Primary Agriculture	3
					Primary Agriculture	18		Manufacturing	45
					Services	7		Construction	2
								Others	16
Person-in-charge not available							6	Manufacturing	1
								Construction	3
Tax Agent liaison	1	Manufacturing	1				24	Manufacturing	24
Stop operating				4	Manufacturing	1			
					Service	3			

7.0 Findings and Discussion

7.1 Descriptive Analysis

Table 3 below shows STD-Compliance SMEs that response to the survey conducted.

Table 3: Responses from STD-Compliance SMEs

Number of SMEs								
PERLIS			KEDAH			PENANG s		
n = 22			n = 173			n = 205		
Total	Business Sector	No	Total	Business Sector	No.	Total	Business Sector	No.
4	Manufacturing	1	17	Manufacturing	11	11	Manufacturing	11
	Construction	2		Construction	5			
	Services	1		Services	1			
26% from 22 SMEs contacted			9.8% from 173 SMEs contacted			5.4% from 205 SMEs contacted		

From the survey conducted through mail and phone calls upon randomly-selected SMEs to 22 SMEs (47.8%) from Perlis, 173 SMEs (33.7%) from Kedah and 205 SMEs (20.2%) from Penang, only 32 SMEs i.e 4 (26%) from Perlis, 17 (9.8%) from Kedah and 11 (5.4%) from Penang are STD-Compliance SMEs showing that only 8 per cent are STD-Compliance SMEs form the total sample. This small number of STD-Compliance SMEs are due to most SMEs are either could not be contacted (phone terminated, line busy, no answer, and wrong number) or they refused to respond to tax-related survey for confidential reasons. This small number are represented by 30 SMEs (93.8%) fully responded to the survey, while 2 (6.2%) SMEs are non-responses as their questionnaires are incomplete.

The nature of business sectors of the 30 STD-Compliance SMEs are from the manufacturing (6 or 20% from manufacturing [incl. agro-based] and 18 or 60% from manufacturing related services) and construction business sector. Most are Chinese-owned SMEs, followed by Malay and Indian SMEs. This study shows that Chinese-owned firm are reluctant to cooperate to the survey conducted by providing minimal responses to the questionnaires while the Malays respond that most of their employees are under RM1,000 pay, only one or two are taxable employees entitled to STD but most resort to zakat payment instead. Meanwhile, the Indian-owned SMEs seems ignorant to the STD survey.

Compliance costs on employers of SMEs are of interest because high compliance costs may be a contributing factor to the establishment and expansion of SMEs businesses in Malaysia. Malaysian SMEs in particular can be grouped into three categories: micro, small or medium based on either the number of full-time employees or the annual turnover generated by the business in a year. The NSDC has approved the use of these common definitions for SMEs in the manufacturing (including agro-based), manufacturing related services, primary agriculture, and services sectors. These definitions are applied by all government ministries and agencies including financial institutions in the SME development. Therefore, these definitions will include even the micro SMEs when compliance costs are concern. No matter how small the SMEs are, they must be familiar with the tax obligations, setting up a basic system, store documentation, deal with enquiries and etc (Kasipillai, 2007; and Cullen and Dunne 2007; Collard and Godwin, 1999; Turner, Smith, and Gurd, 1998). The list of proxies to compliance cost based on the literature are (i) learning about tax rules, (ii) keeping records and other documentation, (iii) recording and updates new and existing employees, (iv) preparing and completing tax returns (v) discussion with advisers/preparers and payment to them, (vi) answer tax authority queries etc. (vii) paying taxes, (viii) invest in technology, (ix) incidental costs for postage, telephone and travel etc., (x) others. This study has requested the gross total spent as well as gross percentage of hours spent on these predetermined elements of compliance costs from the SMEs surveyed. Hence, it is expected that SMEs will have to bear high compliance cost per employee.

Finding from this study has shown that the compliance costs per employee are high for small employers then medium employers as in Table 4 below. However, bear in mind that, this might be because of the contributing factor of the economy of scale that could have lowered the costs of medium employers due to the number of employees.

Table 4: Compliance Cost per Employee for SMEs, 2007

<u>Number of Employees</u>	<u>Cost per Employee</u>	<u>Number of Cases</u>
Small	RM442	6
Medium	RM114	24

Table 5 shows that inexperienced employers with less than two (2) years of experience completing STD returns for IRB have high compliance costs. Though only 6 inexperienced employers, the information provided is sufficient to reflect the compliance cost incurred by them.

Table 5: *Compliance Cost per Employee for Inexperienced SMEs, 2007*

SMEs	Experience	Cost per Employee	Number of Cases
Inexperienced employers	Less than 2 years	RM499	6
Experienced employers	More than 2 years	RM106	24

Thus, as evidenced by Collard and Godwin (1999), it can be concluded that small, inexperienced employer's needs attention to their problems of high compliance cost. In fact, they also found that "tax collection via employers with less than 50 employees is substantially less efficient than tax collection via larger employers."

A measurement of compliance costs is the numbers of hours spent (Kasipillai, 2007 and Cullen and Dunne, 2007) by managers or administrative staff each typical month and at the end of year of assessment in dealing with STD. Respondents valued their working time based on own estimated evaluations. However, all respondents do not provide the number of actual hours spent on STD activities by manager or administrative staff when surveyed. Table 6 only summarizes the information about the estimated gross percentage of time spent on activities provided by them specifically associated with STD activities in 2007. The percentage of costs spent on the STD activities (administration and audits) have consumed the most time. Results show that almost 90 percent of the costs are attributable to routine STD administration and STD audits.

Table 6: *Labour Cost, 2007*

Payroll Activities	Estimated gross Percentage of time spent
Routine STD administration	72.5
Work on benefits-in-kind	5.4
Year-end costs	2.6
STD audits	17.0
Others	2.5
Total	100

Table 7: *Percentage Components of Associated Costs, 2007*

Cost Associated with STD	Total Percentage Of Associated Costs
Computer software	4.1
Tax adviser's fee (e.g accountant)	nil
Other current costs (eg. Telephone, postage, stationery)	42.9
Additional equipment, computer hardware etc.	35.3
Additional office space, heating, lighting etc	17.7
Total	100

Meanwhile, Table 7 summarises the associated costs with STD showing that the bulk of the costs goes to other current cost instead of computer software as found by Collard and Godwin (1999) in the UK Fiscal Studies. These contradictory findings are due to most Malaysian SMEs recently invested in additional equipment like computer and computer-related hardware that suggest the high percentage of associated costs than the software component. It is found that 50 per cent (15 SMEs) use computer software for the purpose of STD but 20 per cent (6 SMEs) use the computer for computing EPF instead, whilst 30 per cent (9 SMEs) use manual recording for STD.

Collard and Godwin (1999) suggested that compliance costs are related to size, composition, and rate of change of the payroll. Thus the size and composition of payroll will determine the technology the SMEs choose for payroll purposes. Table 8 below shows the size of SMEs by record type. The manual system is used to administer the STD for some smaller SMEs as it is the cheapest option for them. It is showing that the least-cost payroll technologies are still the main choice among small employers. The availability of low-price computers and software in the late 90s may be attractive but probably for clerical activities and accounting-related work instead of STD purposes. SMEs that responded that they use both methods (manual and desktop PC) have 2 payroll schemes dividing the payroll activities between full-time and part-time employees due to their size. The size of SMEs exceeding 500 employees is also due to the significant portion of part-time employees, thus the employers used manual method to record STD activities for them.

Table 8: *Least-cost Payroll Technologies by Size of SMEs and by Record Type, 2007*

Size of SMEs	Manual	Desktop PC	More than One Method
1-10	3	3	
11-50	6		
51-100	3		
101-150		3	
151-500		9	
501-1000			3
Total	12	15	3

There are four main methods of STD submission to IRB namely: using the standard documents supplied by IRB, substitute documents approved by IRB, electronic submission provided by IRB, and other electronic methods approved by IRB. The result of this study shows that all SMEs use the standard documents supplied by IRB to submit their STD deductions.

8.0 Conclusion

Generally, based on the findings from this study, from policy implications, the size of SMEs which are based on the number of employees has been found to be the main factor affecting compliance costs. Indeed, the payroll activities are changing due to its size. It is worthy to re-examine the high compliance costs for small employers in particular, relative to the amount of tax collected on behalf of IRB. This high compliance costs has raised the question of whether STD is the best method of tax collection from them (Collard and Godwin, 1999) while they are still ‘crawling’ to establish and expand their businesses. Until and unless they have grown to a ‘larger’ size SMEs that the STD system is relevant to be imposed to them for greater tax collection effectiveness and efficiency from the taxpayers but not at the expense of the smaller or micro SMEs in particular.

Even though there are 6 cases of inexperienced employers, it has provided sufficient information that they are suffering from higher compliance costs compared to experienced employers. The evidence from this category (inexperienced and experienced employers) suggests that particular attention should be given to the inexperienced employers.

Furthermore, one of the major factors affecting compliance cost is the costs of routine STD administration, which contributes 73 per cent of the total labour costs. Thus, the costs spent on compliance activities are mainly dealing with administrative or clerical works.

The technology chosen for STD purposes depend on the size of SMEs. Manual systems seemed to be the cheapest option for SME lower than 100 employees, but between 101 to 500 employees Desktop PC is their option, whereas more than 500 employees would go for more than one method, manual and technology-based.

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PAYE and NICs: a Survey of Costs to Employers

Your payroll scheme has been drawn randomly from scheme with the number of taxpayer records indicated below (as at July 1995):

1 -9	taxpayer records	<input type="text"/>	500-999	taxpayer records	<input type="text"/>
10-49	taxpayer records	<input type="text"/>	1,000-4,999	taxpayer records	<input type="text"/>
50-99	taxpayer records	<input type="text"/>	5,000+	taxpayer records	<input type="text"/>
100-499	taxpayer records	<input type="text"/>			

Is this information correct? YES NO

If NO, please indicate the correct range for your scheme :

If PAYE and NICs tasks for your payroll scheme are not done in this part of your business or organization, please forward the questionnaire to the appropriate office or department.

Does your payroll scheme involve more than one payroll?
(for example, a separate one for directors)?

YES NO

If NO, please continue over the page.

If YES, are you able to provide us with information about the total payroll scheme?

YES NO

If YES, please continue over the page.

If NO, please indicate in the box opposite which parts are omitted.

Brief description of parts omitted, including number of employee :

Now please continue over the page

**FOR ANY FURTHER INFORMATION or if you have any questions about how to complete the questionnaire
Please contact
LIYDIA RICHARDSON, on 01225-826817.**

Terms used in this questionnaire

NI National Insurance
NICs National Insurance Contributions
PAYE Pay As You Earn
SMP Statutory Maternity Pay
SSP Statutory Sick Pay

Questions about your whole organisation

1. What does your organisation mainly do or make?

2. Which of the following describes your type of organization? (Please tick one.)

- Sole proprietor
- Partnership
- Limited Company
- PIC
- Other

(Please specify in the box below)

3. What was the turnover of your organization in the accounting period ending in 1995/6 (excluding VAT)? (Please tick the appropriate box)

- Under £45,000
- £45,000 but under £100,000
- £ 100,000 but under £250,000
- £250,000 but under £500,000
- £500,000 but under £1 million
- £1 million but under £10 million
- £10 million or over

If £10m or over, please state the approximate amount:

£

4. Approximately how many people were employed by your organisation as at the end of March 1996?

5. For how many years have PAYE returns been completed for your organisation? (Please tick.)

- Less than 2 years
- 2 - 9 years
- 10 years or more

Questions about your payroll scheme at the End of the 1995/96 tax year (U. the one identified on the front cover)

6. How many people in each of the following categories were in your payroll scheme at the end of the 1995/6 tax year? (Please give an estimate if exact figures are unavailable. If there were none in a particular category, please write 0.)

Number in your Payroll Scheme at end 1995/6

- a) Directors of companies
- b) Full time employees *
- c) Part time employees * (less than 16 hours a week)
- d) Casual and temporary employees not included in (b) or (c) (full time or part time)
- e) Retired employees receiving company pensions through your payroll.
- f) Other (Please specify)

(*Other than partners, proprietors, directors or casual employees.)

Please remember that all information that you provide is strictly confidential. Please feel free to attach any additional comments that you wish to make on separate

7. How many of the employees on your payroll are paid :

- Weekly
- Monthly
- Other (please specify)

8. Please tell us how many employees joined or left the payroll during the 1995/6 tax year:

	Joiners	Leavers
a) Full time employees	<input type="text"/>	<input type="text"/>
b) Part time employees (employed for less than 16 hours a week)	<input type="text"/>	<input type="text"/>

9. Are there any major seasonal variations in the number of individuals on your payroll?
(If NO write 0, if YES please give details)

10a. Approximately how many employees in your payroll scheme were paid below the NIC lower limit of £252 per month (£258 per week) in the 1995/96 tax year?
(Best estimates are acceptable)

10b. Does the level of this lower limit influence your organization's decision as to the wages/ salaries offered?

YES NO

Questions about your payments of PAYE, NI, SSP and SMP

11. How frequently are your PAYE and NIC payments made to the Collector of Taxes?

- Monthly
- Quarterly
- Other periods (please give details in the following box)

12. On which day of the month are salaries normally paid?

Day of month

13. Please state the total amounts paid to the Tax Collector in respect of 1995/96.
(e.g. as shown on form P35)

- a) Income tax
- b) Employee's and
- c) Total

14. Of the PAYE and NI total given in question 13 above, how much relates to wages/salaries paid in the following periods?
(If exact figures are not available, please estimate)

- Weekly
- Monthly
- Annual

15a. About how many P11Ds/P9s have been completed for 1995/6?

P11Ds P9Ds

Please remember that all information that you provide is strictly confidential.
Please feel free to attach any additional comments that you wish to make on separate sheet

15b. For how many of the employees in the payroll scheme, including directors, does your organization provide the following taxable benefits? (Best estimates are acceptable.)

- Private medical insurance
- Company car available for private use
- Fuel available for private use in company car
- Home telephone expenses
- Mobile telephone
- Cheap or interest-free loans
- Traveling and subsistence
- Other taxable benefits and expenses

16. Have the Inland Revenue given any dispensations for expenses relevant to this payroll scheme?

- YES
- NO
- DON'T KNOW

If YES, please give brief details in the box below :

17a. About how many employees in this payroll were paid SSP or SMP in the 1995/6 tax year? (Please exclude those receiving only company sick pay. If no employees received SSP/SMP, please write 0)

	SSP	SMP	
Number	<input type="text"/>	<input type="text"/>	

17b. Did your organization qualify for the following in respect of the employees you have recorded for question 17(a) above?

	SSP repayment Under the Percentage Threshold Scheme introduced in 1995	SMP repayment under the Small Employer's Relief introduced in 1994
YES	<input type="checkbox"/>	<input type="checkbox"/>
NO	<input type="checkbox"/>	<input type="checkbox"/>
DON'T KNOW	<input type="checkbox"/>	<input type="checkbox"/>

Questions about the payroll system(s) used for your payroll scheme

18. Are any of the following used in your payroll work? (Please tick all that apply)

- a) Manual records
- b) Desktop computer software (e.g. Sage payroll system)
- c) In-house mainframe propriety Software (e.g. Unipay)
- d) Software designed in-house
- e) A special agency (e.g. payroll bureau)
- f) An outside professional adviser (e.g. an accountant or book-keeper)

19. If you have ticked more than one type of record-keeping in question 18, please explain how payroll work is divided between the different methods.

Please remember that all information that you provide is strictly confidential. Please feel free to attach any additional comments that you wish to make on a separate sheet.

20. By what means were details of your PAYE & NI deductions submitted at the end of the tax payer 1995/96? (If more than one arrangement was used, please tick all that apply.)

- a) Using standard documents Supplied by the Inland Revenue.
- b) Using substitute documents approved by the Inland Revenue
- c) Using Magnetic tape
- d) By other electronic submission

21a. Have the ways in which your payroll record-keeping and submission of PAYE & NI year-end returns are carried out changed in the last 2 years ?

YES NO

21b. If YES, please describe briefly the changes which have taken place :

Questions about the costs of in-house computer software

This section is only for those who have ticked questions 18(b),(c), or (d). If you did not tick any of those, please go straight to question 24a.

22a. What software package do you use?

22b. When was this package originally installed?

YEAR

22c. What was the cost?

23. For which of the following is the software used? (Please tick that all apply)

- PAYE & NI SSP
- SMP Benefits & Expenses
- Other payroll work (Please specify below)

Questions about the cost of operating PAYE, NI, SSP and SMP

If in doubt as to what to include when answering questions 24a-26, please see the notes on page 7. Please try to exclude, as far as possible, the costs of payroll activities not associated with PAYE, NI, SSP and SMP administration.

24a. What is your estimate of the total hours taken to deal with PAYE, NI, SSP and SMP for your payroll scheme? If NONE, please write 0.

Type of work \ By	Work in a typical month Hrs	Work at the end the tax year 1995/96 Hrs
Directors, partners proprietors		
Other managerial staff		
Other staff		

24b. What are the average hourly earnings of the staff dealing with PAYE, NI, SSP and SMP?

	£'s per hour
Directors, partners or proprietors	
Other managerial staff	
Other Staff	

Please remember that all information that you provide is strictly confidential. Please feel free to attach any additional comments that you wish to make on a separate sheet

25. Please estimate the percentage of time spent on each of the following payroll activities. Figures should add up to 100% but rough estimates are acceptable.

- a) Routine PAYE and NI administration %
 - b) Routine administration of SMP/SSP %
 - c) Work on benefits in-kind %
 - d) Year-end costs %
 - e) PAYE and NI audits %
 - f) Other (Please specify) %
- 100%**

26. For activities specifically associated with PAYE, NICs, SSP and SMP, please give estimates for each of the following for 1995/96.

Costs associated with :	£
Computer software	
Tax adviser's fee (e.g. accountant)	
Payroll bureau charges	
Other current costs (e.g. telephone, postage, stationery)	
Additional equipment, computer hardware etc	
Additional office space, heating, lighting etc	

Questions about additional costs and problems and your views PAYE and NICs (including benefits & expenses, SSP and SMP)

27a. Are there any particular aspects of your PAYE & NIC administration of this payroll scheme which REGULARLY give rise to high costs?

YES NO

27b. If YES, please specify which aspects give rise to high PAYE & NI administration costs. (Please use a separate sheet if necessary.)

28a. Have there been any UNUSUAL difficulties with administering PAYE & NI in the 1995/96 tax year?

YES NO

If YES, Please describe them briefly, and if possible estimate any costs incurred:

£ _____

Please remember that all information that you provide is strictly confidential.
Please feel free to attach any additional comments that you wish to make on a separate sheet

28b. Were these costs included in your answers to questions 24a – 26?

YES NO

29a. Please estimate how this total would be divided between costs associated with:

- PAYE %
- NICs %
- SSP/SMP %

TOTAL from 29a **100%**

30. In your view, how do you costs of administering PAYE and NI compare with other payroll schemes of a similar size and type? (Please tick one of the boxes below.)

- Average
- Above average
- Below average

31. Please state your full job title (e.g. Proprietor; Financial Director; Payroll manager)

Note on answering questions 24a – 26.

In answering Questions 24a – 26, please remember that PAYE administration includes activities such as: liaison with Inland Revenue, responding to changes in PAYE regulations; assisting with PAYE audits. As well as routine work, please remember that NI administration includes activities such as: liaison with the Contributions Agency; responding to changes in NI regulations; assisting with Contributions Agency audits, administering the NI contracted-out rebate. Work on benefits-in-kind includes the collection and processing of the information required for benefits as well as the completion of P11Ds etc.

Thank you for completing this questionnaire. Please return it as soon as possible in the reply paid envelope. We would welcome views based on your experience of how you think the PAYE and NI systems (including associated forms, instructions etc.) could be improved.

If you would like a summary of the research findings please tick his box

Name:

Organizations:

Address:

Telephone

Please remember that all information that you provide is strictly confidential.
Please feel free to attach any additional comments that you wish to make on a separate sheet

PLEASE USE THIS PAGE FOR ADDITIONAL COMMENTS IF YOU WISH

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