



Survey of Business Compliance Costs

Summary of Results

July 2003

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1. Executive Summary

Businesses are required to comply with a plethora of government laws and regulations. Respondents to VACC's *Automotive Industry Economic Survey* consistently nominate government regulation as a major factor that constrains business performance. In order to gain a greater insight into this important issue, VACC surveyed members about the impact of regulatory compliance on their business.

The results from VACC's July 2003 *Survey of Business Compliance Costs* show that businesses in the Retail Motor Industry are spending more time than ever before complying with Federal, State, and Local Government laws and regulations.

Compliance costs hit the Retail Motor Industry harder than most, as the majority of its businesses are small, that is they employ less than 20 staff. Around 89% of the survey respondents were small businesses, with half of those businesses having less than five staff on the payroll.

The main results of the survey were:

- VACC/TACC members reported that their businesses spend an average of 11.6 hours per week on regulatory compliance tasks, with the average compliance hours rising as business size increases.
- Eighty-six percent of members reported that the time they spent on regulatory compliance activities had increased compared with five years ago.
- Business owners are undertaking 59.4% of total business compliance activities, employees are performing 28.3%, and consultants such as accountants complete the remaining 12.3% of compliance tasks. The survey results show that owners of micro businesses, those with less than five employees, carry the greatest share of the compliance burden.
- Respondents were asked what the impact on their business would be if governments reduced the compliance burden by 50 per cent. The areas of greatest impact identified were 'more time to run business' (cited by 70.8% of respondents), 'less stress' (68.8%), 'increased profits' (50.1%), 'increased productivity' (48.4%), and 'more family/leisure time' (47.4%).

The results of VACC's quarterly *Automotive Industry Economic Survey* support the findings of the *Survey of Business Compliance Costs*. AIES results consistently show that government regulation is a significant hindrance to the performance of Retail Motor Industry businesses. In June Quarter 2003, 33% of members identified *government regulation* as factor limiting the performance of their business.

The Federal Government's commitment to reduce business compliance costs and red tape by 50 per cent has not been delivered. In fact, the majority of small businesses in the Retail Motor Industry report an increased compliance load compared with five years ago. Governments at all levels must work together to reduce the compliance burden by improving the process of regulation design and implementation. This is a key area of reform that could potentially deliver social and economic benefits to Australia.

2. Background

Businesses are required to comply with a plethora of government laws and regulations. The results from business surveys such as VACC's quarterly *Automotive Industry Economic Survey* consistently highlight government regulation as a major factor that constrains business performance. Whilst the majority of business owners recognise the importance of these laws and regulations, there is a point at which the compliance burden becomes excessive, unreasonable and detrimental to the business performance.

In April 1996 the Commonwealth Government established the Small Business Deregulation Task Force to review the compliance and paperwork burden imposed on small business. The Task Force was required to report on the revenue neutral measures that could be taken to reduce the paperwork and compliance burden on small business by 50 per cent.

As part of its reference, The Task Force was required to gather extensive information on small business red tape. In the attempt to quantify the red tape compliance burden the Taskforce commissioned Yellow Pages to undertake a survey to establish the current level of burden experienced by small business.

The survey that was undertaken in 1996 by the Small Business Deregulation Task Force has never been replicated and the achievements of the Government in reducing red tape have largely never been evaluated. Consequently there is little empirical evidence of the progress in reducing compliance costs.

In order to gain a greater insight into this issue, VACC surveyed members about the impact of compliance costs on their business.

3. Survey Results

3.1 Time Spent per Week on Compliance Activities

The survey results showed that on average Retail Motor Industry businesses spent 11.6 hours per week complying with Federal, State, and Local Government laws and regulations. The compliance burden grew as employment size increased. Those VACC/TACC members with less than 5 employees spent an average 8.9 hours per week on compliance tasks, employers with 5 to 19 staff average 10.0 hours, and those with 20 or more employees averaged 26.4 hours.

Hours Spent per Week on Compliance Activities

Employer Size	Mean Hours	Median Hours
Less than 5 employees	8.9	4.5
5 – 19 employees	10.0	6.0
20 or more employees	26.4	15.0
All	11.6	6.0

The median hours per week spent by businesses on compliance activities highlights some interesting issues. The median for all employers was 6.0 hours per week, compared with an average of 11.6 hours. The difference in the two values is due to a substantial number of businesses reporting comparatively high compliance hours per week.

Further research that determines the characteristics of those businesses with an excessive compliance burden is needed. Governments and employer associations could use such research to target policy, assistance and training initiatives to the benefit of those businesses most in need of relief from compliance burden.

The respondent comment below highlights the effect that an excessive compliance burden can have on a business:

“Regulation and compliance issues have intruded into business, especially private/family businesses that in many areas of business management, the owners/operators and managers spend more time ensuring its compliance and to safeguard its existence than they do working on the business to develop the business to promote its growth.”

Another respondent comment shows that while some businesses now have their compliance burden down to a reasonable number of hours per week, it came at a cost.

“Although I have it (compliance) down to 4 hours per week, it has taken many hours of time and consultations in setting up computer systems etc.”

3.2 Time Spent on Compliance Compared with Five Years Ago

Respondents were asked to consider whether over the past five years, the time spent by their business on government compliance activities had increased, stayed the same, or decreased.

Overall, the burden had increased for 86.2% of VACC/TACC members, remained about the same for 12.9%, and decreased for just 0.9% of members.

There were some differences reported across employer size groups. Those employers with '20 or more' or '5 to 19' employees were the most likely to have reported an increased compliance burden (90.0% and 89.5% respectively), compared with 81.9% of employers with less than five staff.

However, employers with less than five staff were the least likely to have reported a decreased compliance burden, 0.7% compared with 1.1% for those with 5 to 19 employees, and 1.3% for those with 20 or more. Those members in the smallest employer size grouping were also the most likely to have reported no change in their compliance burden compared with five years ago.

In regard to the increased business compliance burden, one respondent asked:

“Didn't this government promise less paperwork?”

Time Spent on Compliance Compared with Five Years Ago

	Businesses with less than 5 employees	Businesses with 5 to 19 employees	Businesses with 20 or more employees	All employer sizes
Increased	81.9%	89.5%	90.0%	86.2%
About the same	17.4%	9.4%	8.8%	12.9%
Decreased	0.7%	1.1%	1.3%	0.9%
TOTAL	100.0%	100.0%	100.0%	100.0%

For some respondents it is not just the increase in compliance activities that is an issue. Complexity of compliance requirements is a problem for many businesses, as exhibited by the comment below:

“Complexity of reporting exacerbates (the) increased amount.”

3.3 Responsibility for Compliance Tasks

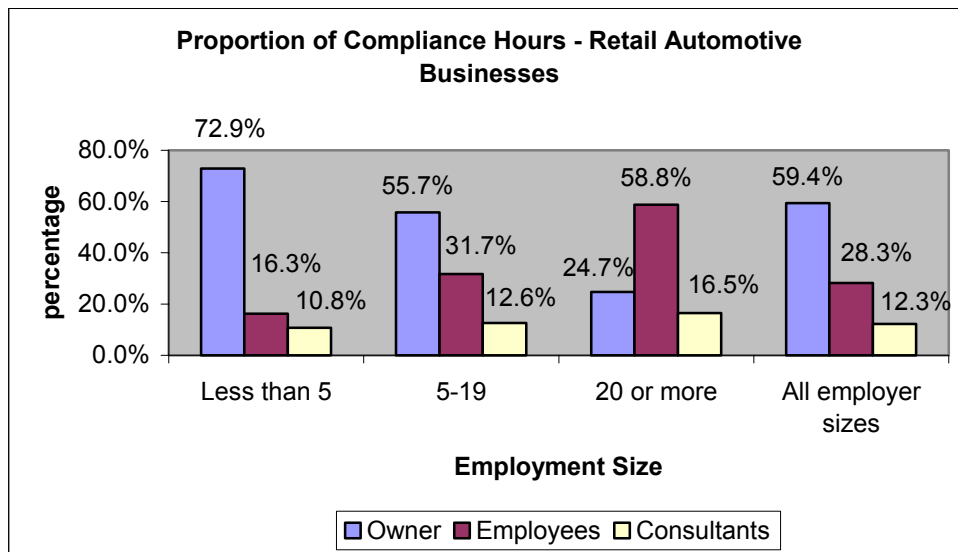
Of the hours that businesses are spending on compliance activities, business owners are undertaking 59.4%, employees are performing 28.3%, and consultants such as accountants complete the remaining 12.3% of compliance tasks.

Not surprisingly, micro business owners have the greatest compliance burden. They complete 72.9% of their business's compliance tasks, compared with 55.7% in businesses with 5 to 19 staff, and 24.7% in business with 20 or more employees. Micro businesses have fewer resources available to afford to pay employees or consultants to complete compliance tasks, and inevitably have to take on the workload themselves.

“Regulation and compliance increase costs and time spent in the business after hours.”

In businesses with 20 or more staff, employees complete 58.8% of compliance tasks, whilst consultants undertake 16.5%. Thus, with an increased compliance burden for most businesses over the past five years, businesses expenses have risen, placing cost pressures on some businesses.

“Cost of GST and Quarterly BAS compilation has added some 25% to workload of our bookkeeper and accountants.”



3.4 Impact on Businesses if their Compliance Burden is cut by 50%

VACC/TACC members were asked what the impact would be on their business if governments reduced their compliance burden by 50 per cent. Seven out of every ten members agreed that, simply, they would have more time available to run their business.

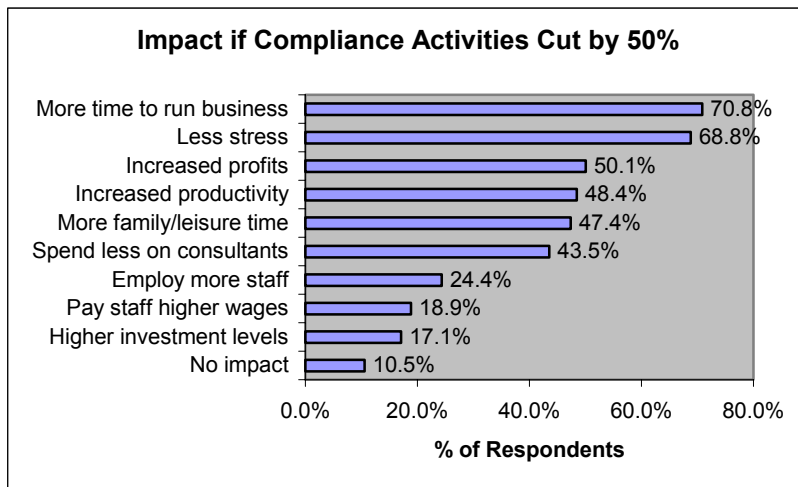
“If we didn’t spend so much time complying and filling out forms we could get on with business.”

Several members asserted that having more time available to run their business would free them up from the day-to-day business demands, and allow them to better strategically plan and manage their business.

Members also indicated that a 50 percent reduction in compliance activities would have health and family benefits. Some 68.8% of members cited that it would result in less stress associated with running their business, and 47.4% would have more time for family and leisure pursuits.

“Any more stress caused by government regulations and I will close this business ...”

A reduction in compliance burden would also be a positive for business growth, with 50.1% of VACC/TACC members confident it would increase their profitability and 48.4% reporting that it would increase the productivity of their business.



The table below highlights the differing impact of a cut in compliance activities across employer size groups. Businesses with less than 20 employees were much more likely to report expecting more family and leisure time than businesses with 20 or more employees. This is not surprising given the high proportion of the compliance burden personally undertaken by owners of small businesses.

As employer size increased, members were more likely to report that a compliance reduction would lead to increased productivity, profits and investment. Again, this is a logical outcome as larger businesses are more likely to have their compliance work completed by employees or consultants, representing significant additional business costs.

“Compliance issues have resulted in us taking a staff member from business development and having to put her in an administration/accounting role purely for the sake of satisfying requests and the needs of complying to government regulations.”

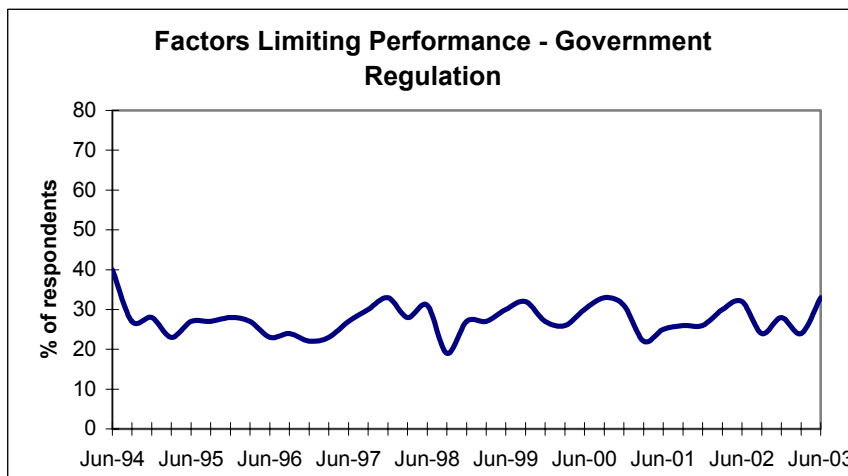
Impact on Business/Owner if Compliance Activities Cut by 50%, Employer Size

Impact	Businesses with less than 5 employees	Businesses with 5-19 employees	Businesses with 20 plus employees
No impact	11.8%	10.5%	6.3%
Higher investment levels	14.7%	18.1%	22.5%
Pay staff higher wages	16.7%	21.3%	18.8%
Employ more staff	24.2%	24.4%	25.0%
Spend less on consultants	42.8%	43.2%	47.5%
More family/leisure time	54.6%	46.7%	22.5%
Increased productivity	40.5%	53.0%	62.5%
Increased profits	44.8%	53.0%	60.0%
Less stress	67.6%	72.1%	61.3%
More time to run business	66.6%	74.6%	73.8%

4. Other VACC Compliance Cost Data

The results of VACC's quarterly *Automotive Industry Economic Survey* support the findings of the *Survey of Business Compliance Costs*. AIES results consistently show that government regulation is a significant hindrance to the performance of Retail Motor Industry businesses.

Government regulation has been a consistent problem for the Retail Motor Industry over the past decade. In June Quarter 2003, 33% of AIES respondents identified *government regulation* as a factor that limits their business performance. This proportion has remained virtually unchanged since 1994. It highlights the frustration that many businesses owners feel about the lack of improvement made to the stifling impact of government regulation, despite promises of action from all levels of government.



5. Profile of Respondents

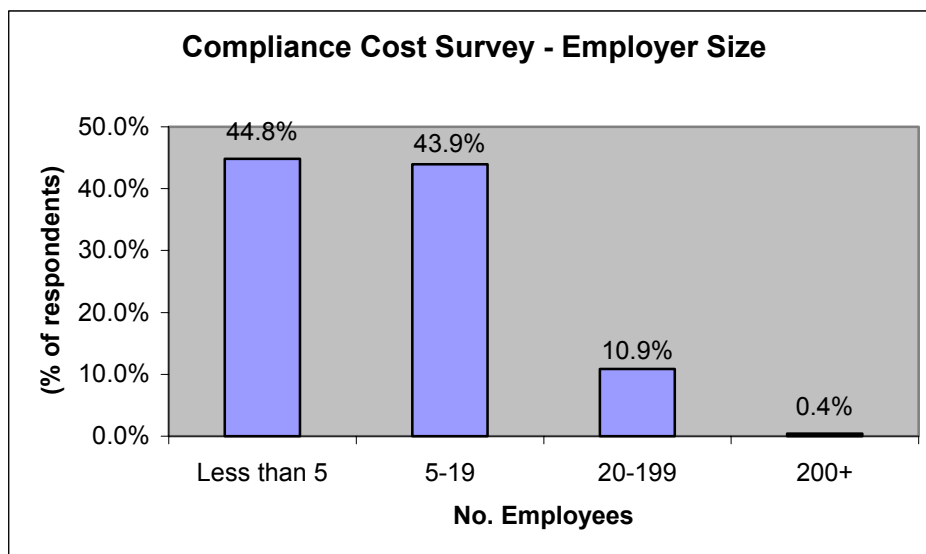
The *Survey of Business Compliance Costs* was administered as a two page questionnaire attached to VACC's June Quarter 2003 *Automotive Industry Economic Survey*.

The survey results were compiled from the responses of 726 VACC/TACC member respondents, with 675 responses from VACC members and 51 responses from TACC members. Some 57% of member respondents were located in metropolitan areas, with the remaining 43% operating from rural locations.

Proportion of Survey Respondents by VACC/TACC Division

VACC Division	%
Australian Automobile Dealers Association	9.4%
Automotive Electrical Division	6.4%
Automobile Repairers Division	39.8%
Body Repair Division	10.5%
Commercial Vehicle Industry Association	2.9%
Engine Reconditioners Association	1.7%
Farm Machinery Dealers Association	2.9%
Motorcycle Industry Division	3.3%
Radiator Service Division	1.4%
Service Station Division	2.6%
Towing Operators Division	0.4%
Used Car Traders Division	3.9%
Tyre Dealers Association	4.6%
General VACC/TACC Membership	10.1%
TOTAL Respondents	100.0%

The profile of the survey respondents, all of whom operate in the Retail Motor Industry, reflects an industry that is primarily comprised of small businesses. Some 88.7% of survey respondents were categorised as 'small' businesses, that is, they employed less than 20 staff. Furthermore, 44.8% of all respondents were 'micro' businesses, those employing less than five staff.



6. Conclusion

The Federal Government's commitment to reduce business compliance costs and red tape by 50 percent has not been delivered. In fact, the majority of businesses in the Retail Motor Industry report an increased compliance load compared with five years ago.

Governments at all levels must work together to reduce the ever increasing and more complex web of business compliance burden by improving the process of regulation design and implementation. This is a key area of reform that could potentially deliver important social and economic benefits to Australia.

7. Respondent Comments

Below are verbatim written comments by *Survey of Business Compliance Costs* respondents. A small number of responses have been edited for clarity.

GST and Tax

“Cost of GST and Quarterly BAS compilation has added some 25% to workload of our bookkeeper and accountants.”

“GST compliance takes up valuable time and has not simplified the tax system.”

“The compliance factor and cost of all the government charges and taxes is crippling small business. Small business has never got used to the GST or Business Activity Statements. We have never recovered since the introduction of the GST - a giant cash cow for the Government who claim to be supporters of small business. In essence they are making it more difficult for small business to survive, we are just keeping our head above water.”

“GST is our main factor being quarterly accounts costs have gone up lots.”

“The government need to get off their office chairs and out to rural communities to see how we're going since the introduction of their blessed GST. Do they want small business or not, and do they care?”

“GST compliance is horrendous however it forces us to keep a much better control of finances and profit.”

“Office administrator - drops customers home, picks up parts, reception, but now number one job is to be sure that all paper work is correctly entered into the computer system on time so the GST can be completed. Our visa statement arrives about the 14th or 15th of the month. Our Amex statement arrives about the 19th or 20th. Somehow I am supposed to do my BAS by the 21st! (A month and a week would be fair to do a BAS).”

“With the introduction of GST and government charges, more time and money is being paid to accountants and banking charges. Over the last 2 years we have had 1.5 employees per week (devoted to compliance).”

“Fair simple tax system that should be fair for the country. I feel that this system has become worse than the last with compliance. Small business is paying a high price for very little in return.”

“GST sucks!”

“It would be very difficult to comply without assistance at BAS time (quarterly).”

“GST is easy to do but takes time.”

“GST is a waste of time.”

“One compliance cost we have experienced resulted from being firm in regards to charging GST, at first we actually lost business - they simply went where they got the job done without GST. We now quote a higher figure, don't give them paper work then put the job through with GST - everyone happy!”

“Some of the OHS regulations are ridiculous. GST is a pain.”

Compliance Costs

“Compliance issues have resulted in us taking a staff member from business development and having to put her in an administration/accounting role purely for the sake of satisfying requests and the needs of complying to government regulations.”

“Increasing costs are causing considerable extra dealership costs and deterioration of our people's resources and time. When will it stop?”

“Cost of compliance \$250 per week.”

“Although I have it down to 4 hours per week, it has taken many hours of time and consultations in setting up computer systems etc.”

“I believe all governments are out of control and just seem to be intent on getting more and more money out of the general public.”

“Hardware, software, bookkeeper etc costs for GST collection and compliance.”

“The cost of all compliance issues have and are having a huge impact on small businesses who are unable to pass on the cost to the consumer. Insurance companies are too dominant and the ACCC should be looking very carefully at market share issues.”

“Five years ago my wife worked side by side with me planning and initiating business plans. Over night GST took my wife out of business. I now pay the time for her to collect tax for the government. I have no office support at all and have no time to plan for future, simply react to today or the past. We have made large capital outlays on computers and programs with no return to business other than avoidance of fines. Not to mention four returns per annum rather than one. Any attempts to introduce programs for workshop purposes such as reporting, invoicing, stock control, and quotes have been rejected. Due to (a) no time to learn programs (b) fear that it might not comply and conflict with MYOB.”

“Not just time, yet these costs are always escalating”

“We will soon be required to comply with EPA guidelines on underground storage of fuel. This will take up way too much time and will cost a great amount of money. Govt regulations are gradually destroying small business.”

Time Impact of Compliance

“If we didn't spend so much time complying and filling out forms we could get on with business.”

“Regulation and compliance increase costs and time spent in the business after hours.”

“Regulation & compliance issues have intruded into business, especially private/family businesses that in many areas of business management, the owners/operators and managers spend more time ensuring its compliance and to safeguard its existence than they do working on the business to develop the business to promote its growth.”

“Lots of time is spent on general invoicing, bookkeeping, banking, GST compliance & reconciliation of payments. This is usually done after business hours (evening, weekends).”

“We are running a small business to collect taxes, do all the book work and compliance work and any other monies to faceless rude uncooperative time consuming govt dept who extinguish all incentives to expand and grow your business and create job opportunities for others. It is a total disgrace, when do we have a say in what is really happening with small business?”

“My office staff are now tax processors - this is taking up a lot (too much) of their time when they should be attending to improving our business - not chasing a few cents here and a few dollars there - time wasted!”

“More and more time has to be set aside to read all literature sent to small businesses even if it is not necessary to take it any further. This all takes time, pulling you away from being more productive.”

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“This is getting out of hand - ALL ASPECTS.”

“Between courses and government regulations and being small business owners we barely have time to run our business, much less make a profit, and if we manage to make some money they tax us to death anyway!”

“Complexity of reporting exacerbates increased amount.”

Red Tape

“Didn't this government promise less paperwork?”

“In the last twelve months a huge amount of my time. Since the 28th August 2003 has been constantly hindered by council application permit/meeting with my own town planner and still not having a reply after answering council questions in regards to our submission we still may not be allowed to operate in our own building which is classified as industrial III and two other workshops opened without permit in area since were been here.”

“It is a very trying time for small business at present and the government is not trying to make things easier. There is too much red tape, too many costs and no benefit for the ‘little man’ whose contributions to the economy are quite significant and should be recognised.”

“Every government department seems to want small business to regulate itself and reports, records & annual fees etc are forwarded on to their departments. This all creates time consuming book keeping within the business which is lost productivity.”

“Most over-governed country in the world.”

“Three levels of government are all doing their best to put me out of business.”

“In a low margin family business, more red-tape means we must employ an office assistant, which comes directly off Gross Profit.”

“Small business values have effectively been decreased. A good trades person requires more than experience, exposure and finance to take over or start a business successfully and without stress of compliance small business is an easy target for over regulation.”

Impact on Employment

“Stopping us employing more. Restricting our business growth. We are being treated in some areas as guilty before even talking to management there is a real them and us in some areas which is quite insulting as we have been in business over 25 years.”

“No time to work on growing business, always bogged down in compliance issues. Afraid each time we hire new staff that a potential problem will exist. Forever covering your back, making sure cannot be taken for a ride either by Workcover issues or disciplinary issues. I dislike working with employees - next business venture no employees. Government is bogging us down with regulations and work.”

“I believe small business can provide significantly greater employment dollar for dollar of where much of our business income goes - viz taxes - potential to significantly reduce unemployment whereas much of tax dollar goes to ineffective Claytons solutions to assist the unemployment. I believe small businesses are extremely competitive, indeed reaching damagingly so. Our service costs per hour are a fraction of Government's. Our local council has moved rates 21% over last 3 years and is moving them 10% next financial year and their 5 year plan is for 9% the year after. Govt Departments must be made to produce a yearly ‘service costs/hour’ which is published on a special web site for all & sundry inc media to keep track of, thus forcing them to benchmark against each other and their previous years.”

Business Charges

“We pay too many taxes.”

“The actual cost of almost everything including labour has gone up. This cost is passed onto the consumer who now thinks twice about repairs etc. There is no room for discussion, as the chances of being sued are great.”

“Accountants fees have increased significantly since GST, which itself was to be expected.”

“Insurance and Workcover now amount to well over \$30,000 a year or \$600 per week for just 14 people. A major cost for a small business, which is being squeezed on profitability.”

“We are becoming totally over governed and the duplicated taxes and charges from the three sources are driving small business to the wall.”

“OH&S compliance of second hand equipment and the compliance of our subcontractors, eg. Freight has forced them to increase their rates, and subsequently our prices increase but often we cannot recover those costs.”

“Business Insurance and Workcare are one expense that appears non negotiable and at the same time no return for the dollars spent.”

“They are constant.”

Positives of Compliance

“The only comment I would like to make is that the GST is working well and the PAYG has made a big difference to control the cash flow.”

“We have always completed a quarterly business assessment so GST was no big deal.”

“No one has made us ‘comply’ by force. It is a regular activity to improve products etc to dispose of waste, and other environmental factors.”

“I now have a competent bookkeeper/ Accountant so that they don’t hinder me a great deal - what hinders me and stresses me is meeting market demands.”

General

“It is not only the documented compliance which inhibits industry, it is the ‘what if?’ factor. If something happened, (accident etc) if we were found to be not complying in some insignificant area, what impact would it have on the business?”

“Any more stress caused by government regulations and I will close this business, take a job 9-5 maybe back bench for Government. Perhaps \$120,000 a year (asleep on the job!)”

“Being self employed in this day and age is a joke.”

“Hard to understand why anybody would want to go into business and employ people. Small business employers are treated like dirt! The attitude of government towards us is completely wrong, unless you are a teacher or a minority interest group they are not interested!”

“I have been in business 20 years. It is harder to make a profit now than it was then. Every year it gets harder.”

“Not only are we required to be tax collectors, lawyers, psychologists, nursemaids and unpaid servants of all governments and local councils, but we are severely punished if we make an honest mistake. We are not allowed to punish our paid staff even if they are deliberately intransigent.”

“Superannuation Guarantee Levy and reporting is a waste of business owners time!”

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“What the hell do all these Government agencies achieve for our tax dollars - we do all the running around - then they want more or come up with more legislation and on it goes again - so we waste more time and money - someone should do a time and motion study on how our governments (state/federal/local) waste our time and tax dollars coming up with this rubbish.”

“Compliance issues eventually level out but others are bound to emerge!”

“Increase in OHS issues & policies have demanded more time.”

“Workcover - government should introduce a no claim discount to reward businesses that comply on a continual basis.”

“Everything has increased except our hourly rate. Because the insurance companies dictate the hourly rate, which we can't increase as they will not pay & there is always one business in the repair industry that will tag along with the insurance industry.”

“This business should be compensated costs of compliance for VicRoads cost for stationery eg. RW Book and registration books are ridiculous charges.”

“We do all the paperwork for Vic Roads on new motorcycles registration and we pay them an \$11 administration fee. How crazy is that? They should pay us \$11 per rego.”

“As we are regulated to comply we do, making and meeting the obligations.”

“There is a gaping hole in the system that enforces greater and greater compliance on us as a service shop in the automotive trade and yet allows anyone to fix their vehicle - a vehicle which could cause a fatal accident on our roads. If I need a leaking tap fixed I have to get a licensed plumber - who must sign a compliance certificate. A leaking tap won't kill anyone - brakes & other safety features fitted by backyarder mechanics can do.”