

# Exploring the Impact of Adverse Events on SME Tax Compliance Behaviour: A longitudinal study

Year 3 – Qualitative and quantitative findings



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The photograph on the front cover of this report is by courtesy of Shane Scott.

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Te Wāhanga ā-motu mo te Rangahau me Aromātai

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## Preface

In 2010 and 2011, a series of major earthquakes hit Canterbury, with one particular earthquake on 22 February 2011 resulting in 185 deaths. The earthquakes caused major economic and social disruptions to everyday activities and social life, and this prompted Inland Revenue to look at how it responds to sudden large-scale adverse events.

A large proportion of tax debt is owed by small businesses, and a disaster makes small and medium enterprises (SMEs) from certain industry sectors more exposed to incurring tax debt. Furthermore, there is a concern that tax debt could increase during the reconstruction phase as some SMEs grow faster than their ability to meet their new tax filing and payment demands<sup>1</sup>. Disasters can also make people change their attitudes towards tax compliance. This could impact on SMEs in certain industries as they become exposed to hidden economy opportunities during the various recovery and rebuild phases.

Following an adverse event, a well-working tax system and its administration are key to helping the economic and social recovery of the affected region and country. This is why Inland Revenue (IR) wants to better understand how an adverse event can affect long-term debt, and if social norms and attitudes change leading to increased hidden economy activity during recovery. As the tax administrator, IR also wants to know what impact its actions may have in mitigating these risks so that learnings can be applied to respond appropriately to future adverse events.

IR is carrying out a longitudinal research project over five years. In Year 1 (2012) we conducted a literature review and a survey and qualitative research with SMEs and tax agents. We also began an analysis of IR's relevant administrative data.

<sup>1</sup> Research has found that while most SMEs are aware there are financial penalties for late payment of business tax, there is a lack of detailed knowledge and understanding of how they are applied (Poppelwell, Kelly and Wang, 2011). This lack of detailed knowledge did not impact on the compliance behaviour of SMEs who have never been in debt, but did for those who were in debt or had been in debt.

The Year 1 findings showed that on-time filing and payment of tax had worsened for some SMEs due to such factors as the damage and disruption to businesses and a shift in business owners' payment priorities. However, attitudes regarding tax and participation in the hidden economy seemed little changed.

Tax agents and SMEs were generally positive about IR's assistance and support during the earthquakes and feel that IR was suitably approachable and flexible regarding SMEs' tax obligations, which was essential for struggling SMEs. They also felt it would be appropriate for IR to return to a stricter approach on a case-by-case basis as SMEs recovered.

In Year 2 (2013), we conducted qualitative research with stakeholders from a range of business sectors, government agencies and professional bodies as well as IR staff. We also continued the analysis of IR's administrative data.

The research showed that, while most SMEs were gradually recovering from the earthquakes, there were some businesses that were stagnating or failing, and other that were booming (mostly in construction). There was also a large influx of new businesses.

People described a 'new normal' in Christchurch with SMEs moving location and/or changing their business activity, population shifts, shortages of skilled labour, insurance pay out frustrations and advances in the rebuild itself.

Norms and values regarding tax seemed to remain fairly stable, and people were again appreciative of IR's flexibility and assistance.

Year 3 of the research (2014) involved follow-up research with a subset of the SMEs and tax agents who had participated in the Year 1 baseline research (2012). In addition, we carried on with the analysis of IR's administrative data (and will continue to do so in the fourth and fifth years of the study).

This report focuses on the Year 3 findings from the survey and qualitative interviews with SMEs and tax agents, with direct comparison to the Year 1 baseline findings. It also draws in some of the findings from the Year 2 stakeholder interviews.

## Executive summary and conclusions

This section of the report summarises the background, key findings and conclusions of the research.

### Background and objectives

Sudden large-scale adverse events can cause major economic and social disruption, with flow-on effects for small and medium enterprises' (SME's) tax compliance behaviour and tax revenue collection. Following the Christchurch earthquakes, Inland Revenue (IR) is cognisant of the potential for:

- SME tax debt to grow during the reconstruction phase as some SMEs grow faster than their ability to meet new tax filing and payment demands
- New norms and values arising, which could impact SMEs in certain industries as they become exposed to hidden economy opportunities during the various recovery and rebuild phases.

IR is carrying out a longitudinal research programme to understand the impact of the earthquakes on SMEs' attitudes and behaviours with regard to tax compliance (including the acceptability of committing hidden economy activity) and to understand what difference IR's response has made to SMEs' behaviours.

This report presents the findings of Year 3 of the research, which are based on:

- Quantitative research: 613 SME owners and 40 tax agents in the Canterbury region who took part in telephone surveys in both 2012 and 2014
- Qualitative research: individual in-depth interviews with 10 SME owners and five tax agents in the Canterbury region who took part in both the 2012 and 2014 research studies.

### Key findings

**Objective: What is the impact the different phases of a disaster have on SMEs (either directly or indirectly) and what are the different influences they have on behaviour?**

*People are now in a disillusionment or recovery psychosocial phase of the disaster recovery model*

There are four psychosocial phases of disaster recovery<sup>2</sup> that contextualise the research. The phases are:

1. **Heroic** – characterised by helping each other and survival immediately after the adverse event.
2. **Honeymoon** – characterised by community bonding, optimism, envisaging what the city will be like when it is rebuilt, and visible Government support.
3. **Disillusionment** – characterised by the reality of personal and financial loss, broken homes, bureaucratic delays and physical and mental health problems.
4. **Recovery** - characterised by emotional wellbeing, growth, problem solving, re-examining priorities and resilience.

In 2012, it was evident that people were in the 'honeymoon' phase. They thought it would only be another year or so until the vertical rebuild would be underway and there was a sense of optimism coupled with pragmatism.

In 2014, it is now evident that some SMEs have shifted from 'honeymoon' sentiments to 'disillusionment' sentiments (while others are the same in terms of recovery sentiments).

<sup>2</sup> The Prime Minister's chief science adviser, Professor Sir Peter Gluckman, delivered a briefing paper on the likely psychosocial effects of the earthquakes to the Government on 10<sup>th</sup> May 2011. <http://www.pmcsa.org.nz/wp-content/uploads/Christchurch-Earthquake-Briefing-Psychosocial-Effects-10May11.pdf>

### *Business stage of recovery is still staggered, but advancing toward 'recovered'*

In both 2012 and 2014, we quantitatively measured business stage of recovery. Compared to 2012, more businesses are now in the advanced stages of recovery:

- Not trading 8% (up from 4% in 2012)
- Surviving 14% (down from 21% in 2012)
- Recovering 24% (same as in 2012)
- Recovered 24% (up from 19% in 2012)
- Not affected (and currently trading) 29% (down from 32% in 2012).

The longitudinal design of the research provides the opportunity to analyse whether there is both 'forward' and 'backward' movement through the stages.

Many businesses have progressed – 45% of those not trading in 2012, 54% of those surviving in 2012, and 34% of those recovering in 2012 have moved forward into later stages of recovery.

However, backward movements in the stages of recovery are also evident – 5% of those surviving in 2012, 23% of those recovering in 2012, and 38% of those recovered in 2012 have moved backwards in the stages of recovery.

As well as the stages of recovery and movement identified quantitatively, the qualitative research adds further insight into business stage of recovery, with the addition of businesses that are:

- Stagnating – these businesses are seemingly not able to take control and move forward, rather they are waiting for external factors to resolve themselves
- Reprioritising – some businesses are not recovering as such; rather they have reprioritised work/life balance
- New entrants – businesses that are new to the Christchurch market, most commonly new migrants or previous salary and wage earners
- Booming businesses (either new entrants or existing businesses that are experiencing exponential demand and growth).

### **Objective: To what extent have the Christchurch earthquakes changed SMEs' attitudes and behaviours with regard to tax compliance?**

#### *Contextually, high compliance requirements may make people less inclined to be compliant*

In the qualitative interviews, there was discussion about the increased administration and compliance that people in Christchurch experience in both their professional and personal lives. People express

frustration with bureaucracy – lack of flexibility, delays and 'ticking boxes' – associated with the large central and local government agencies, as well as private organisations such as insurance companies. There is some suggestion that there may be an inverse relationship in Christchurch, with high compliance requirements making people less inclined to be compliant.

#### *General tax compliance attitudes are about the same as in 2012*

Overall, business owners' general tax attitudes are similar to 2012. There is little change in agreement that they should accept responsibility towards paying their fair share of tax (93%), that paying tax is the right thing to do (88%), and that by paying tax they are contributing to New Zealand and society (84%).

However, compared to 2012, there is less resentment towards paying tax – nearly seven in ten (69%) now disagree that they resent paying tax (up five points since 2012).

#### *There is a weakening of rationale that paying tax contributes to the rebuild*

Nearly two thirds (63%) of SMEs agree that paying tax is important because it contributes to the Christchurch rebuild, but the proportion who 'strongly agree' with this statement has dropped eight points since 2012.

Qualitatively, this may be attributed to SMEs expressing disappointment with the lack of rebuild progress in the CBD (Central Business District). There are also indications that there is disconnect between Christchurch tax revenue and Christchurch spend.

#### *Expectations for tax compliance are largely positive or neutral*

SMEs' views on their abilities to meet future tax obligations are generally positive or neutral compared to the last tax year. One in five (20%) say their tax compliance will be better (20%), and 76% say it will be about the same, in 2014/2015. Of the 3% who say it will be worse, around a third (31%) say they expect it to improve for the 2015/2016 tax year.

Among all current non-compliers, 43% indicate their tax compliance will be better either by 2014/2015 or 2015/2016.

Each stage of the business recovery model (identified in the research) presents unique financial management challenges and has different tax compliance risks.

Qualitatively, SMEs and tax agents identify the highest non-compliance risks from those that are surviving, stagnating, new entrants or booming. The risks for those that are surviving or stagnating are that they are in a poor financial position and impacted by external

events outside their control. They may already have business and tax debt they need to manage. New entrants are a tax compliance risk because of their lack of both financial management and knowledge of tax compliance systems and processes.

Booming or high growth businesses are at risk if they are undercapitalised, with high costs of growth. They may also be time poor.

The highest tax compliance risks are considered to be time and resource-poor small companies, partnerships and sole traders.

The business risks are compounded by the different phases of the Christchurch rebuild environment which is difficult for businesses to plan for.

**Objective: What is the level of acceptability of SME tax compliance behaviour and can IR mitigate the effect of non-compliant behaviour to reduce the ‘acceptability’ of committing hidden economy activity and restore pre-disaster compliance levels?**

*On balance, hidden economy activity is perceived to be about the same as before the earthquakes*

Among SMEs, a majority (63%) still believe there has been no real change in hidden economy activity. There has, however, been a small increase in the level of uncertainty since 2012 (25% in 2014 compared to only 19% in 2012).

Tax agents exhibit greater shifts in their views on the incidence of hidden economy activities. One in ten (10%) tax agents now believe there has been an increase (no tax agents thought this in 2012). Further, one quarter are now unsure about what changes have occurred (25% compared to 15% in 2012). Fewer tax agents now believe there has been a decrease in such activities (10% compared to 20% in 2012) or no real change (55% compared to 65% in 2012).

In the qualitative research, both SMEs and tax agents thought that there has always been some level of hidden economy and think there is more *opportunity* in the current Christchurch environment. The opportunity for increase is through:

- more cash payments, particularly between homeowners and tradespeople (especially sole traders) who are doing work outside the scope of insurance work
- sub-contractors who are on-site on a more casual or short-term basis
- illegal employment
- people renting out rooms
- new migrants with different tax norms in their country of origin.

The argument against an increase is:

- continual movement to online payments
- larger contractors having to fulfil contractual requirements with correct and full financial processes
- insurance requirements for paper trails.

*Greater support for IR taking a hard line response to hidden economy behaviour*

In 2014, there is greater support for IR taking a hard line in dealing with ‘under the table’ cash payments (agreement has increased by seven points to 53% among SMEs and five points to 70% among tax agents). Consistent with this, SMEs demonstrate less support for IR being more lenient about cash payments because of the earthquakes (disagreement with this notion has increased five points to 64% since 2012).

In the 2012 qualitative interviews, there were divided views about whether under-declaring income was deliberate, or whether errors could be made, e.g. claiming non-business expenses, or how to account for cash. This then impacted on the type of approach that IR should take, with a ‘softer’ response for non-deliberate actions and a ‘harder’ response for deliberate actions.

By 2014, there is an apparent hardening of belief – people who deal in cash are deliberate and know what they are doing.

There is support for IR taking a hard line (and advertising that they are). There are also other preventative communication messages:

- The lack of records and accounts means there is no recourse for homeowners if work is not up to standard and no recourse for tradespeople if there is a dispute about payment.
- Businesses that want to apply for finance and/or sell their business will need full accounting and proof of income.

*Hidden economy behaviour unacceptable, but also minimalised*

Although people think IR should take a harder line, there is also some minimalising of the ‘problem’. In the qualitative research, people thought that only small amounts of cash would be involved on a small scale, which doesn’t necessarily warrant a priority for IR.

**Objective: What impacts did IR's presence, its communication flow at various phases, and the assistance package have on maintaining SME compliance behaviour? Did these have a positive impact on business survival and recovery and prevent long-term tax debt?**

#### *IR highly commended for first year actions*

Both SMEs and tax agents highly commend IR's response in the first year or so after the earthquakes. IR was visible, helpful, flexible and took a case by case approach that helped businesses (and their tax agents) manage their financial situation and tax obligations.

#### *SMEs continue to rate IR's assistance and personalised service positively, but rate the website and advertisements more moderately*

Take up rates of IR's assistance has decreased for extensions of time (down 13 points to 23% in 2014), waived penalties (down six points to 17%), and payment arrangements (down three points to 12%). However, more SMEs now say they receive practical advice from IR (up 19 points to 28%).

Large majorities (65% to 82%) of SMEs that received these types of assistance found them helpful.

Majorities of SMEs also rate direct personal contact with IR (inbound phone calls, outbound phone calls and face-to-face conversations) highly (65% to 74% rated their experience as helpful).

IR's website and IR advertisements are rated less positively (56% and 35% respectively rate these as being helpful).

#### *IR's role continues to be a balance between collection and consultancy (with emphasis on the latter)*

Slightly less support is now evident for businesses affected by the earthquakes not having to pay previous tax debts until they are fully operating again, with 50% agreeing with this statement (a drop of five points since 2012).

However, qualitatively, people suggest that IR has too quickly reverted to 'business as usual' pre-earthquake compliance collection models.

As well as question marks about the timing of 'business as usual' there are questions about whether this is the appropriate model for the Christchurch environment, which is now an environment of constant change. There are suggestions for a new 'business as usual' model that retains flexibility, and takes a more individual and consultative approach. This would support and manage the businesses that are tax compliance risks, i.e. surviving, stagnating, still recovering, new entrants and booming businesses.

## Conclusions

People (both SMEs and tax agents) in Christchurch continue to be at different psychosocial and business stages of adverse event 'recovery'. Overall, there is evidence of 'forward' movement and a 'new' normal. The new normal is contextualised by a business environment that is constantly changing and evolving. Business owners have had to (or will have to) be flexible, adapt and change as circumstances change.

There is evidence that as businesses change and adapt, IR's Christchurch model will also need to change and adapt.

The tax compliance risks that exist in other regions of New Zealand, and existed in Christchurch pre-earthquakes, are still there in some form. However, it seems unlikely that business and tax compliance will 'return' or be restored to a pre-earthquake tax collection model.

The hidden economy is perceived to be relatively small (and has an end date when home owners' repairs are finished). There are other evolving tax compliance risks (survivors that succumb to financial pressures, new entrants, new migrants and 'boom and bust' businesses) that will require close management and response by IR.

Four years on from the adverse event, there is a call for a more consultative model from IR – not to the same extent as immediately after the earthquakes, but with a greater component of flexibility and case by case approach than the pre-earthquake model.



## Background and objectives

IR plays a central role in securing and delivering most of the financial resources required by the Government. These resources provide essential services and facilities that improve New Zealanders' quality of life.

Sudden large-scale adverse events (adverse events) can cause major economic and social disruption, with flow-on effects on tax compliance behaviour and revenue collection. Tax compliance behaviour can be affected by a customer's relationship with their tax administration and the 2010 and 2011 Christchurch earthquakes have triggered the need for IR to look at its response to adverse events.

Since a large proportion of tax debt is owed by small businesses, the impact of a disaster makes small and medium enterprises (SMEs) from certain industry sectors more exposed to incurring tax debt. There is also a concern that tax debt could increase during the reconstruction phase as some SMEs grow faster than their ability to meet their new tax filing and payment demands.

The prolonged nature of the Christchurch earthquakes has caused large-scale disruptions to everyday activities and social life. Disasters can make people question the relevance of existing norms and values. IR is concerned that new norms and values can arise in a short period of time; this could impact on SMEs in certain industries as they become exposed to hidden economy opportunities during the various recovery and rebuild phases.

IR is carrying out a longitudinal research programme over three to five years that consists of a desk top review of literature and secondary source data, an environmental mapping exercise utilising IR administrative data, and primary quantitative and qualitative research with SMEs and tax agents.

The four broad aims of the longitudinal study are to answer:

1. In what ways, and to what extent, have the earthquakes impacted on SME tax compliance?
2. What is the mechanism by which the earthquakes have an impact on SME tax compliance?
3. How have the actions of IR affected that impact?
4. How should IR act to get the best compliance result when adverse events occur?

In Year 1 (2012) of the longitudinal study, Colmar Brunton conducted quantitative and qualitative research with SMEs and tax agents. In Year 3 of the study (2014), IR commissioned Colmar Brunton to re-contact the same SMEs and tax agents that took part in Year 1. Both qualitative and quantitative research was again conducted with these groups.

This Year 3 (2014) report presents the qualitative and quantitative findings with SMEs and tax agents. The key objectives of this research are to explore:

- To what extent have the Christchurch earthquakes changed SMEs' attitudes and behaviours with regard to tax compliance?
- What is the level of acceptability on SME tax compliance behaviour, and can IR mitigate the effect of non-compliant behaviour to reduce the 'acceptability' of committing hidden economy activity and restore pre-disaster compliance levels?
- What impacts did IR's presence, its communication flow at various phases, and the assistance package have on maintaining SME compliance behaviour? Did these have a positive impact on business survival and recovery and prevent long-term tax debt?
- The impact the different phases of a disaster have on SMEs (either directly or indirectly) and the different influences they have on behaviour.

The Year 3 research especially focuses on changes that have occurred in attitudes and behaviours since Year 1.

# Methodological Overview

This section of the report outlines the methodological approaches used for this research. A longitudinal design was employed for both the quantitative and qualitative components of the research.

## Quantitative research methodology

The quantitative research used a longitudinal design, whereby a group of the same respondents were surveyed by telephone in both Year 1 (2012) and Year 3 (2014) of the research programme.

In total, 613 SME owners and 40 tax agents in the Canterbury region took part in both survey waves.

The table below summarises the key aspects of the research methodology.

### Key aspects of methodology

	Year 1	Year 3
Sample sizes	1,161 SMEs 100 tax agents	613 SMEs 40 tax agents
Fieldwork period	21 June to 31 July, 2012	29 April to 25 May, 2014
Interview length	14 minutes (SMEs) 13-minutes (tax agents)	17 minutes (SMEs) 13-minutes (tax agents)
Response rates	35% (SMEs) 42% (tax agents)	64% (SMEs)* 68% (tax agents)*

\*Response rates have been calculated as the number of completed interviews as a proportion of SMEs (and tax agents) where an attempt to contact them was made (excluding disconnected or wrong numbers). In the Year 3 survey, we did not attempt to contact all Year 1 respondents as the desired total sample sizes for Year 3 did not require this. Also, 32 tax agents were not contacted due to their recent participation in other IR surveys and 4 due to liquidation.

### Questionnaire

To aid comparisons over time, most of the questions asked in the Year 1 survey were retained. A small number of questions were added and removed. (See Appendix C)

### Longitudinal data analysis

The main advantage of a longitudinal design is that because the same respondents are surveyed repeatedly, variations caused by changes in the sample are eliminated and even small changes in perceptions and behaviours are apparent and can be deemed 'real'.

Both the Year 1 and Year 3 results presented in this report are based on the sample that answered both surveys. The group of Year 1 respondents that did not take part in the Year 3 survey have therefore been excluded from the Year 1 results presented in this report. Therefore, these results may differ slightly from the results presented in the 2012 report on the Year 1 survey.

### Sampling approach

IR updated the contact details of respondents that took part in the Year 1 survey.

In Year 1, the sample was stratified by a customer's tax debt history status and business size. A disproportionate sampling approach was undertaken that increased the number of interviews with employers and those who had current debt in December 2010, to ensure that sufficient numbers of interviews were conducted in these key subgroups of interest to allow for statistically robust analysis and comparisons between groups.

At the analysis stage, both the Year 1 data consisting of respondents that also took part in Year 3, and the Year 3 data, have been weighted to ensure that the sample reflects the population characteristics in terms of business size and debt history. The population data provided by IR in 2012 has been used for this purpose.

Sample profiles of the weighted and unweighted data are provided in Appendix B.

### Estimated sampling errors

For the reasons discussed above under 'longitudinal data analysis', observed changes between the Year 1 and Year 3 surveys are not subject to sampling error. However, the point in time samples are subject to sampling error as they are still samples of the wider populations of interest.

The next table provides estimated margins of error for the key groups used in the analysis. Margins of error have been calculated at the 95% confidence level and assume simple random sampling.

#### Maximum margins of error

	Sample size	Maximum margin of error
All tax agents	40	+/-15.5%
All SMEs	613	+/-4.0%
<i>Business size</i>		
Sole traders	274	+/-5.9%
1-5 employees	146	+/-8.1%
6-19 employees	148	+/-8.1%
20+ employees	45	+/-14.6%
<i>Debt history status</i>		
In debt in December 2010	114	+/-9.2%
Never in debt	149	+/-8.0%
Used to be in debt	350	+/-5.2%

## Qualitative research methodology

### Qualitative research 2012/2014

The 2012 qualitative research consisted of 30 in-depth individual interviews conducted face-to-face; 21 with SME owners and nine with tax agents, as well as one focus group with IR staff based in Christchurch. These interviews were conducted in April 2012.

The 2014 qualitative research consisted of 15 interviews; 10 with SMEs and five with tax agents, and all these participants had been interviewed 2012.

Additionally, one person from the New Zealand Contractors' Federation was interviewed (as was the case in 2013).

These interviews were conducted in June 2014.

A range of SMEs were interviewed in terms of:

- Size: from sole trader to medium-sized SMEs (20+ employees).
- Industry: construction, retail, hospitality and property.
- Recovery level: surviving, recovering, recovered.
- Location: Christchurch Red Zone, CBD and Greater Christchurch.
- Business turnover: a range of turnover compared to before the earthquakes.
- Earthquake impact and tax compliance: the focus was primarily on SMEs that had been affected (to varying degrees) by earthquakes and had possibly experienced a change in tax compliance as a result.

### Qualitative research 2013

This research project consisted of 50 in-depth individual interviews (39 stakeholders and 11 IR staff) conducted face-to-face in Christchurch and over the telephone in February and March 2013.

The industries included construction, manufacturing, finance, hospitality, tourism, retail, Government, business and professional organisations (including NZ Contractors' Federation). Some of these findings, e.g. a business model of recovery, are incorporated into this report.

## Notes to the reader

Some of the analyses of the quantitative and qualitative data use variables that IR provided as part of the sample. These variables include the following:

- Debt history status (currently in debt, used to be in debt, never in debt) as per IR's records for 2013/2014
- Business size (sole trader, 1-5 employees, 6-19 employees, 20+ employees) – as per IR's records for 2013/2014
- Tax compliance (payments) – as per IR's records for 2013/2014.

All of the qualitative verbatim comments are from 2014 unless otherwise stated.

# Section 1. Contextual understanding of psychosocial stages of disaster recovery

This section of the report summarises the psychosocial phases of disaster recovery to provide a contextual understanding of the results presented in the subsequent sections of the report.

Over each year of the longitudinal study, results have been framed by a model of *business* recovery developed by Colmar Brunton. This business model of recovery frames both the qualitative and quantitative research results on tax compliance attitudes and behaviours. The business model is discussed in the next section of the report.

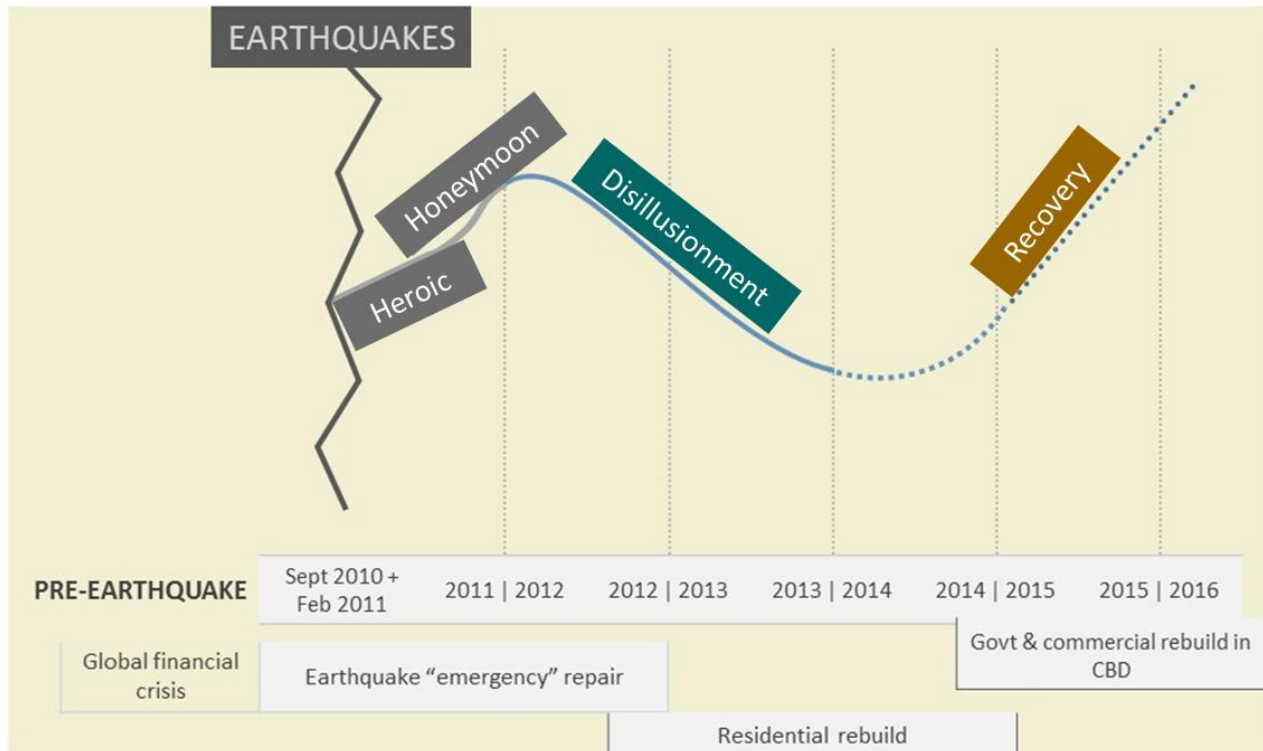
A research participant in a related piece of work<sup>3</sup> conducted for IR earlier this year framed the social

<sup>3</sup> The research participant was from the Canterbury District Health Board and took part in a qualitative interview conducted as part of the 2014 Christchurch Rebuild Workforce research.

issues in Christchurch by using an internationally recognised (and used) model of psychosocial phases of disaster recovery<sup>4</sup>. We have included the psychosocial model in this report because our observations of SMEs in this longitudinal research fit well with the model. The model provides the social and personal *contexts* to business recovery. The psychosocial model and the four phases of heroic, honeymoon, disillusionment and reconstruction/recovery are depicted in the following chart. A description of each phase (and quotes from businesses) follows the chart.

<sup>4</sup> The Prime Minister's chief science adviser, Professor Sir Peter Gluckman, delivered a briefing paper on the likely psychosocial effects of the earthquakes to the Government on 10th May 2011. <http://www.pmcsa.org.nz/wp-content/uploads/Christchurch-Earthquake-Briefing-Psychosocial-Effects-10May11.pdf>

## Psychosocial stages of disaster recovery



## Heroic phase

Immediately after the impact of an adverse event (which is characterised by confusion, disbelief and survival of self and loved ones), there is a heroic phase that is characterised by helping each other and survival.

*“When we opened, the staff wanted to come to work and tell everyone their stories. We had customers who came in and were just so grateful that we were open because they didn’t have running water and we’ve got quite large bathrooms and people were going in there and having a wash.”*

**(Hospitality (restaurant), surviving, 50+ employees, 2014 reflection)**

## Honeymoon phase

Following the immediate heroic phase, there is a honeymoon phase which is characterised by community bonding, optimism and envisaging what the city will be like when it is rebuilt. It is also characterised by visible Government support, e.g. the funds to pay staff salary and wages.

In 2012, people were still reasonably optimistic.

*“We’re seeing the good stories in the paper now – the small businesses opening, the cafes opening, businesses moving into an area, renovating the house. They’ve set up their business in a house – they’re working. There’s a lift – for those who have got drive and energy I think it’s going to be an exciting place, for those that are quick on their feet.”*

**(Tax agent, 2012)**

By 2013, there was evidence of a split between optimism and caution.

*“We chase business that is pretty similar to what we were doing, just on a larger scale now.”*

**(SME, recovered, 2013)**

*“Prior to the earthquake I could probably name half a dozen medium-sized businesses that were probably very close to going under... those companies are absolutely thriving now.”*

**(NZ Contractors’ Federation, 2013)**

*“There’s a whole huge hunk of them (SMEs) that are actually still being affected... there is still potential for SMEs to be caught up in the whole post-earthquake disruption.”*

**(IR staff, 2013)**

## Disillusionment phase

The disillusionment phase is characterised by some people still facing the reality of personal and financial loss, broken homes, bureaucratic delays and physical and mental health problems. (Note however, disillusionment may not be experienced to the same extent by some people who have not been as adversely affected by the earthquakes.)

It is evident that some people have passed the ‘honeymoon’ phase and while they are trying to look to the future they are disillusioned, lacking in energy to keep going and somewhat depressed. The following quotes illustrate these sentiments.

*“Things don’t happen for us easily. Looking ahead at the business it is worrying, we’re a bit frightened about what’s going to happen and we’ve got to really budget because we’ve got commitments with our mortgage, loans and rent... I’ve probably become more sick of it in the last six months. The roading situation and the flooding is worse than it was straight after the earthquake. You can just see that it’s going to go on for years and it’s just depressing.....We feel like we’re climbing a never ending ladder.”*

**(Hospitality (restaurant), surviving, 50+ employees, 2014)**

*“It hasn’t gone away for some people. It’s ongoing. They’ve had broken homes for four years. They’ve struggled through, but have run out of energy. It wears you down, run out of gas.”*

**(Tax agent, 2014)**

*“We’ve just been wrestling the insurance company for 3 ½ years and I have no energy to think. I don’t think people outside of Christchurch have any idea just how hard it is to have gone through this...We haven’t replaced anything, hardly done a thing. It’s a peculiar feeling to just go ‘oh I can’t be bothered’. It’s quite demotivating.”*

**(Tax agent, 2014)**

In reviewing the discussions we had with people in 2012 and then revisiting these same people in 2014, it is clear that in 2012 people had little or no idea of the timeframes that might be involved. More than anything, unmet expectations of the timeframes for insurance pay outs, the rebuild, issues in owners’ personal lives, and a return to ‘business as usual’ have contributed to disillusionment and a lack of energy to move forward for

some businesses. It is evident in some people's comments that they are still facing almost the same issues as they were in 2012.

## Recovery phase

The reconstruction or recovery phase is characterised by emotional wellbeing, growth, problem solving, re-examining priorities and resilience.

In 2014, there are now more businesses that have recovered. The following quote illustrates how some people have worked through the various phases of honeymoon and disillusionment and are now in a recovery phase.

*"As with anything there's opportunity and it's how you deal with that. We managed to survive and we made the assumption that we'd establish ourselves at some stage. Insurance helped us pay staff for a year, which we made full use of by retaining all our staff and we kept together as a team of people, so we'd get together and do something, whether it was doing a dinner at someone's house or a charity fundraiser or helping people. Then that dried up and we didn't realise we were still a couple of years away from re-establishing the restaurant. It was a pretty stressful time, the second year was pretty tough and then by the third year we were in the re-establishing mode."*

**(Hospitality (restaurant), recovered, 20+ employees, 2014)**

There is a 'new normal', where people have realised they can't predict what will happen and have to be flexible.

*"We don't get stressed, or sick or start arguing. We just have to deal with it (inconsistent work flow). It's starting to change."*

**(Plumber, sole trader (husband and wife), no employees, 2014)**

## Psychosocial phase by industry

The construction and retail industries were key industries covered in the qualitative research and therefore addressed below in the context of the psychosocial phases. Wider industry analysis is presented later in the next section in the context of the business model of recovery (based on the telephone survey data).

### Construction industry

Interestingly, the year by year timelines that SMEs and tax agents drew in the qualitative interviews to illustrate their perceptions of the factors impacting on recovery in the construction industry closely replicate the psychosocial phases of recovery.

Of note is that many SMEs were in a vulnerable financial position prior to the earthquakes due to the global financial crisis.

*"Business wasn't hugely robust. They were still feeling the effects of the GFC at the time of the earthquake and had experienced downturns in business and profitability at the time of the earthquake. The earthquake struck at a time when businesses weren't operating from a position of strength."*

**(Tax agent)**

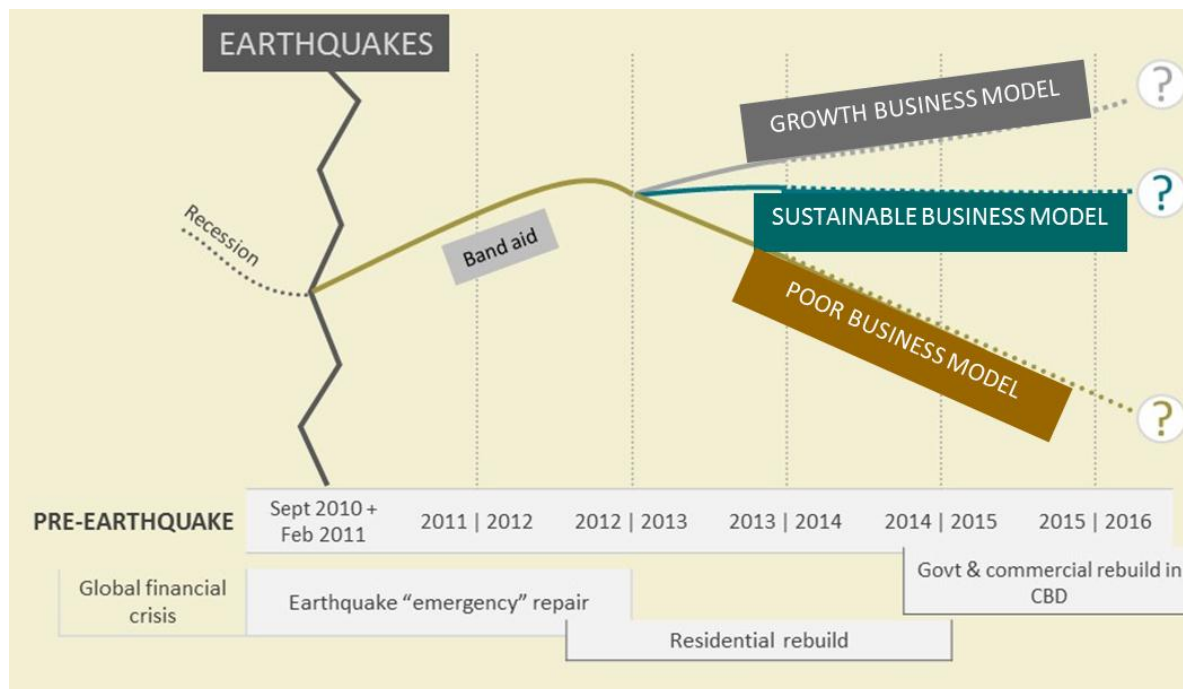
After the 2011 earthquake, the heroic and honeymoon phases of recovery involved a rapid increase in demand in the construction industry. However, tax agents tend to describe this as a 'band aid' that *could* mask some fundamental underlying issues of poor financial management of the business.

The disillusionment phase closely correlates with a downturn (after the initial period) among businesses that would have otherwise been financially vulnerable or had, as one tax agent described it, a poor business model. This might include poor financial management, poor cash flow, high costs, and low demand once the emergency repairs or low skilled work was completed. Several SMEs suggested that they had high expectations of the work and income that would be generated by the rebuild, but they are now disillusioned with the lack of progress and that this has negatively impacted on their income. These SMEs may sustain an extended period of disillusionment.

Other businesses in the construction industry have experienced rapid or sustainable growth that has continued on from the initial repair in residential and infrastructure work. They are now poised to take advantage of the commercial and government work<sup>5</sup>. In business terms (not necessarily in their personal lives), they have had not had a disillusionment phase.

<sup>5</sup> Note, SMEs tends to describe the nature of the work in terms of clients e.g. residential, light commercial, large commercial and government work, rather than the terms horizontal and vertical rebuild. The report uses the SMEs terms.

**Timeline of recovery for construction industry (2011 to 2016 and beyond)**



**Retail and hospitality industry**

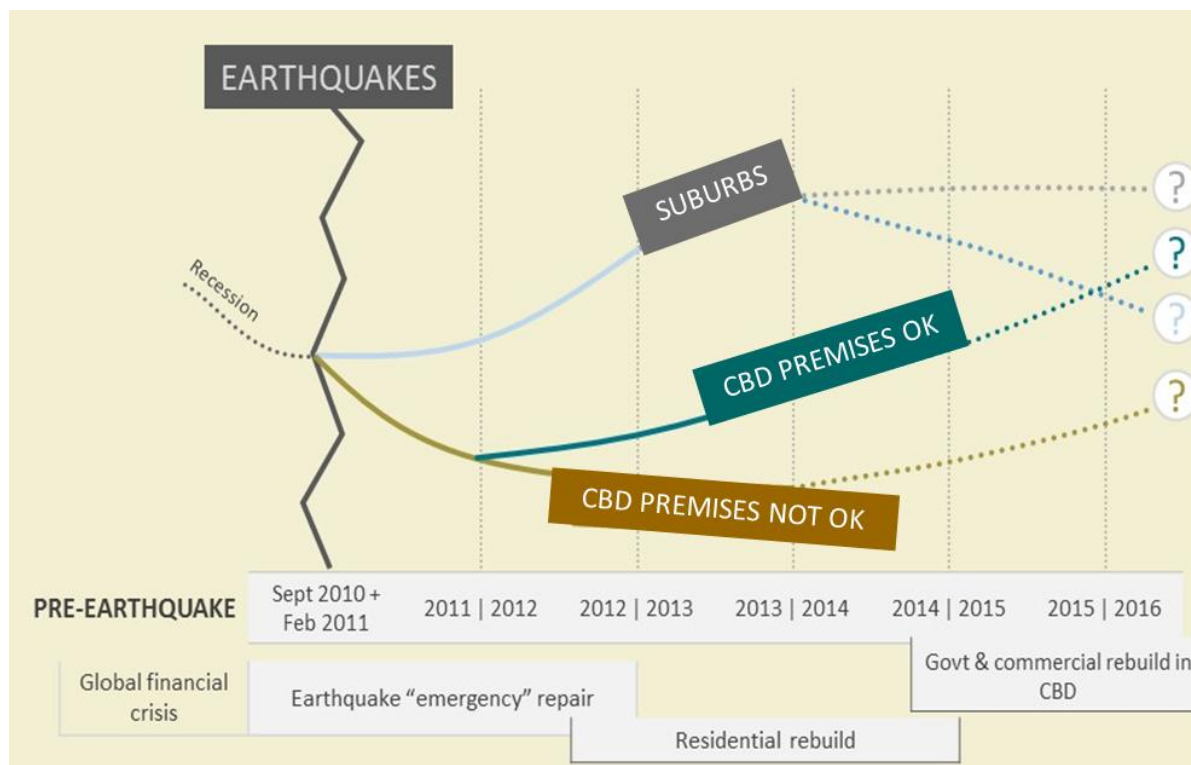
More diverse factors are at work in the retail and hospitality industries' stages of recovery, such as their location, customer foot traffic and damage to premises. Their timelines vary accordingly.

Businesses located in the CBD with damaged premises, loss of customer demand, and ongoing roading and

construction disruption missed the honeymoon period and have had sustained disillusionment.

Many businesses that are located in areas of the CBD where there are still customers, or in the suburbs or outer Christchurch area, have been more able to recover and have not experienced any disillusionment.

**Timeline of recovery for retail and hospitality industry (2011 to 2016 and beyond)**



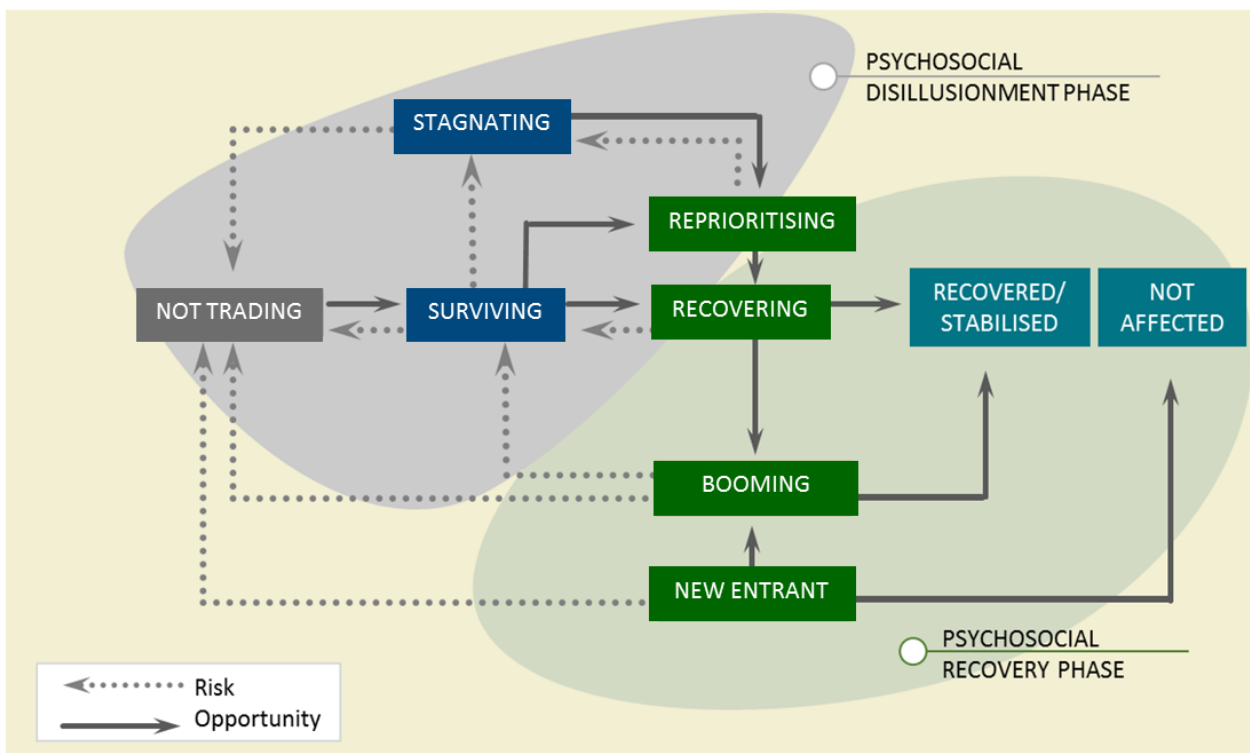
## Section 2. Business stages of recovery

This section of the report outlines the qualitative and quantitative findings for *business* stages of recovery. Factors that hinder and help recovery are covered, along with business owners' and tax agents' observations of changes in businesses. Finally, the impacts of the earthquakes on businesses staff numbers, income levels and location are also explored.

The 2012 and 2013 qualitative research findings identified an evolving model of business stages of recovery. This model has continued to evolve to reflect the Christchurch business context.

The next chart illustrates the model of *business* stages of recovery in 2014 (and the contextual *psychosocial* stage of recovery is overlaid). A description of each stage of business recovery follows the chart.

### 2014 business recovery model overlaid with psychosocial model



A qualitative description of each of these phases is provided next. Later in the section, a quantification of the stages of recovery is provided.



## Not trading

Tax agents describe how some of their clients are no longer trading. This was largely due to major structural damage.

*“They were under capitalised for a start (before the earthquakes), and probably under pressure already. They were probably in sectors where it was affected by the earthquake dramatically. They just stopped, and some of them had major impacts on their businesses through damage to buildings.”*

(Tax agent)

## Reprioritising

Some businesses are taking control and downsizing or closing their business due to personal reasons. These SME owners have perhaps come to decisions about work/life balance due to poor health, stress, a change in family circumstances, getting closer to retirement age, finding it better to work for salary and wages, or having other income sources. They are deliberately slowing down, so we have added ‘reprioritising’ to the 2013 model to differentiate the nature of choice.

*“The earthquakes made you stop and think about working 60 hours a week and in the weekend. Is this all there is to life?”*

(Hospitality (supplier), reprioritising, no employees)

*“I’m down to one staff now (was seven) with a smaller client base... the earthquakes spurred me to change my practice and that’s happened in a lot of businesses too where people have a different outlook on business and a different attitude to life – different priorities so they’re less focussed on business.”*

(Tax agent)

## Surviving

The ability to take control of the current and future financial direction of the business will have a major bearing on whether the business moves towards ceasing trading or recovery. Some SMEs indicate they are proactively moving towards recovery e.g. by moving location. They are hopeful they will recover in time.

*“I’ve had a handful of clients that have been majorly affected. I’m referring to retailers who operated in the CBD. One has shifted just outside the CBD, but operating in a much smaller environment in conjunction with another business, whereas what they had before was quite a major business.”*

(Tax agent)

## Stagnating

Some SMEs indicate they are not able to take control of the financial direction of their business due events outside their control such as the CBD location of their business, loss of customers and/or delays with insurance and local government.

The following quote typifies the SMEs that have financial pressures, compounded by the psychosocial and environmental changes outside of their control. Some of the pressures, e.g. wage increase while holding prices at the same level, may be experienced by businesses in other parts of New Zealand, but these businesses have compounding factors specific to Christchurch.

*“Our cash flow’s good but our profit margin has been squeezed significantly and we are suffering the same pressures that households are suffering with the cost of power, gas. The cost of wages is a huge thing for us, the minimum wage has increased 30% in the last six years but our prices haven’t increased 30%... I think that there are certain things if you’re living in Christchurch that are having really negative effects on people’s budgeting and spend. A lot of our families, they’ve gone well outside the city limits now, they don’t come in to the city to dine. And we used to get a lot of university business, but students scarpered.”*

(Hospitality (restaurants), stagnating, 50+ employees)

There is a view (also expressed in 2013 by IR staff) that businesses that are still surviving or stagnating and have financial issues should now be taking control of their situation and moving forward in some form.

*“If a business is struggling now, it’s probably got some underlying problems with the business as in where it sits physically, its market, what it’s trying to do. If a business is struggling at the moment in Christchurch it’s got an identity crisis. Say you’re in retail and you’re in your old site and everything else has gone around you. The earthquakes did it, but really you should have moved by now. You’re running out of reasons to blame the earthquake.”*

(Tax agent)

## Recovering

Tax agents tend to think that the reason for businesses in the recovering stage not having recovered is due to the stop-start nature of the rebuild and a lack of certainty. This was also evident in the interviews with small businesses in the construction sector.

*“For a lot of businesses there have been insurance payments which have helped cash flow. And not just business insurance payments, personal insurance payments for small business owners have helped as well. With a lot of SMEs the boundary between personal and business is pretty blurred so if there’s cash flow available from personal insurance payments they find their way in to the business. As the economy in Canterbury picks up, which it’s been doing, cash flow is definitely improving.”*

**(Tax agent)**

*“If they’re recovering, but not recovered, they’ll be potentially associated with the construction sector where it’s a bit of a stutter, so they haven’t got that solid flow of work. But it will also be quite geographically driven. It’s a strange place Christchurch, it’s very weird. I can’t work out what’s going on.”*

**(Tax agent)**

## New entrant

Due to the longitudinal methodology, new entrants were not interviewed. However, tax agents and existing SMEs commented that there are noticeably more businesses starting up. Some of the SMEs commented that their employees are leaving to set up by themselves. This is particularly apparent in the construction industry.

*“Ten new clients came through the door with new businesses – joinery, building, a lot of tradespeople.”*

**(Tax agent)**

*“There are a lot of late model utes (utility vehicles) in town. They are living in the now and overcommitted.”*

**(Tax agent)**

## Growth/Booming

SMEs and tax agents comment that some businesses have experienced big increases in demand. The tax agents express concern that the growth may not be sustainable.

*“From February 2011 things started to boom because people came out of Christchurch and immediately needed accommodation and then in 2011-12 it started getting up into the 90% occupancy when EQC was doing a lot of work. And there are a lot more businessmen, engineers, and accommodation was hard to get... There was a demand so that’s why we built six more studio units.”*

**(Accommodation (motel), booming, less than 5 employees)**

## Recovered/Stabilised

- This category of SMEs consists of businesses with a recovered and sustainable business model. Tax agents suggest they pose little compliance risk.

*“Initially after the earthquake no one built houses, so that business ground to a halt. But we were involved reasonably quickly through Fulton Hogan carting silt. It wasn’t a big money maker for us because it was just truck hire, so it was more about keeping everyone working and ensuring that everyone had jobs to go to really... Building did eventually start, but the product changed. We are bigger, we have more trucks. We’ve managed to have a turnover increase every year. We certainly haven’t doubled or tripled, it’s just been a steady growth. It certainly hasn’t been a silver lining.”*

**(Construction, sustainable growth, 20+ employees)**

*“I think probably people are doing as good if not better (than pre-earthquake)... Just the recovery within Canterbury. The market is flowing through the system in terms of rebuild, it’s flowing down to everyone.”*

**(Tax agent)**

## Not affected

There is a category of SMEs that are not affected by the earthquakes. This is 29% in the quantitative survey – see next section. Unaffected SMEs were not interviewed for the qualitative research. However, a few had been relatively unaffected by the earthquakes.

*“The building needs repairs but we were back trading after two months.”*

**(SME, relatively unaffected)**

## Industry-specific differences

Discussions with SMEs and tax agents frame Canterbury as having a two speed economy and with industry-specific issues.

*“It’s quite a strange place to be in business really, Christchurch, because if you get it right there’s people just making fistfuls of money and if they don’t they can fall through these cavernous gaps.”*

**(Tax agent)**

The NZ Contractors’ Federation also suggested contextually that there is a ‘two speed’ economy in Christchurch, particularly in construction with the larger construction companies financially growing and the smaller partnerships and sole traders being potentially financially vulnerable (this was true of some of the smaller construction businesses interviewed).

Retail is considered particularly vulnerable, relative to other industries.

*“In the building sector two years ago (2012), it was pretty scratchy and they were just doing repair work and pretty lightweight work but now it’s really grunting up so construction related sectors are okay or doing quite well. Farming hasn’t changed. Hospitality is definitely on the up. But retail is pretty grim, just ugly, we’ve got this scattered geographic layout.”*

**(Tax agent)**

*“The retailers are struggling, and it’s a combination of the earthquakes and the expansion of the online world. They’re sitting in the middle of the perfect storm. Because of the way the population is scattered now online retail has been accelerated by the earthquake. It’s too hard to go out and get stuff so you just get books posted and groceries delivered. It’s sad because retail and hospitality interconnect as part of the social fabric and that’s been ripped to bits.”*

**(Tax agent)**

## Quantification of the business stages of recovery

The 2014 telephone survey questionnaire used the core business recovery model identified in 2012 so that changes over time could be identified.

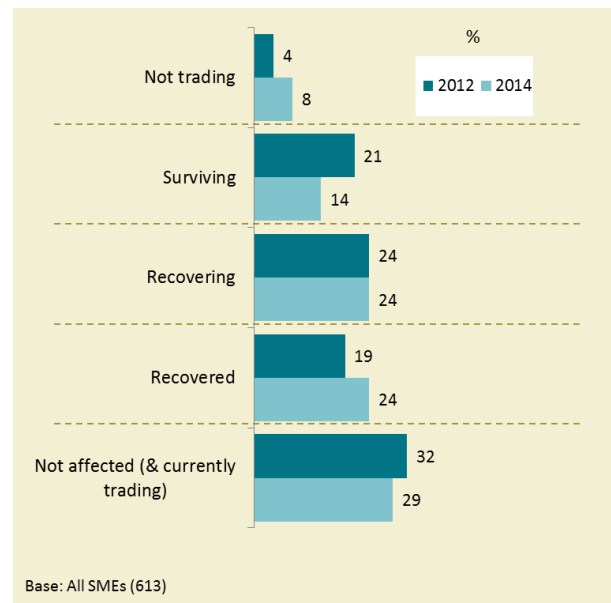
Businesses were asked a series of questions to determine their current stage of recovery from the earthquakes:

- Businesses that were trading in 2012 were asked if they are still trading
- Businesses that had stopped trading in 2012 were asked if they have resumed trading
- Businesses that are currently trading and indicated in 2012 that they had been adversely affected by the earthquakes were asked which of the following best describes their business today:
  - Surviving – that is, your business is focussed on doing what it takes just to survive
  - Recovering – that is, your business has passed the survival stage, but is still focussed on minimising the impacts of the earthquakes
- Recovered – your business is as strong, or stronger, than before the earthquakes.

The following chart shows the proportions of SMEs in each stage of recovery, as well as the proportion that was not adversely affected by the earthquakes.

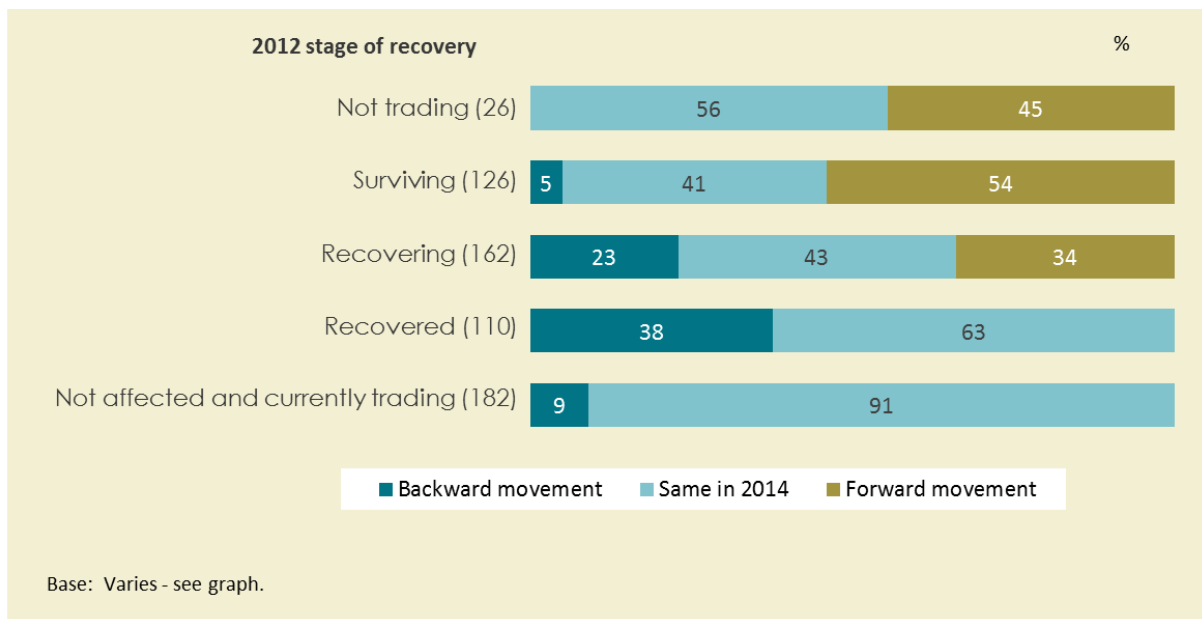
The results show that more businesses are now in the more advanced stages of recovery, with 24% now ‘recovered’ compared to 19% in 2012. Likewise, fewer describe their business as simply ‘surviving’ (14%, down from 21% in 2012).

### Business impact and stages of recovery



The graph below illustrates the movements from 2012 to 2014. For each 2012 stage of recovery, the proportions of businesses that have made a backward movement, forward movement or no movement are shown. For example, 23% of businesses that were ‘recovering’ in 2012 have moved backwards in the stages of recovery.

### Movements in stages of recovery



Key points of interest are:

- Many businesses have progressed – 45% of those not trading in 2012, 54% of those surviving in 2012, and 34% of those recovering in 2012 have moved forward into later stages of recovery.
- Whilst the graph on the previous page showed an increase in the proportion of businesses that are now not trading (up from 4% to 8%), additional analysis shows that that this 8% comes from a range of stages of recovery including 36% that in 2012 indicated they were currently trading, but not affected by the earthquakes. Only 5% of businesses that were surviving in 2012 are now not trading. See Appendix A for details.
- ‘Backward’ movements in the stages of recovery are also evident – 5% of those surviving in 2012, 23% of those recovering in 2012, and 38% of those recovered in 2012 have moved ‘backwards’ in the stages of recovery.
- Qualitatively, some of this ‘backward’ movement could be from choice e.g. reprioritising or ceasing trading in one business to start another. Some of the movement will not be from owner choice and it is not yet known whether this will be permanent or temporary. Given the ‘new’ normal of Christchurch with different cycles of the rebuild, some businesses may have temporarily gone back to ‘surviving’ until the next cycle begins.

#### Sub-group analyses of stages of recovery survey data

The results from additional analyses of the stage of recovery data by debt group, industry, and business size are described next.

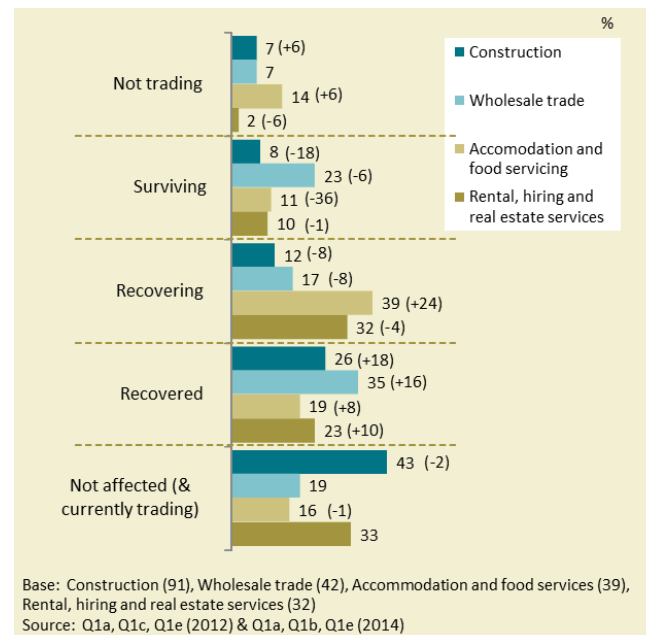
##### Stages of recovery by debt group

There are no marked variations in movements between stages of recovery by debt group.

##### Stages of recovery by industry

Sub-group analysis by industry shows the strongest shifts towards recovery since the June 2012 survey in the construction sector, wholesale trade, and accommodation and food services, as well as rental, hiring and real estate services. These movements are illustrated in the following chart.

#### Industries showing strong shifts towards recovery



Note, the qualitative interviews also suggest that overall businesses in the construction industry have benefited from the rebuild, mainly due to emergency repair and residential repair. There is some concern, however, about the sustainability of these businesses if the commercial and government work doesn't start. There has not been a steady progression of demand; rather it has been typified by stop-start work and delays. The larger commercial and government work will sustain and grow the larger companies, but the smaller sole traders may run out of work. There are reports that a lot of businesses have started up and may not be sustainable, and already there are reports on auctions of repossessed utility vehicles. Some business have already come and gone as it was not the 'gold rush boom' that they thought it would be.

For property based businesses in the suburbs, there are reports that residential and light commercial properties are fully leased and have high rent returns. There is some comment, though, that some business owners have moved out of residential/tenancy property ownership following insurance pay-outs, not wanting the time and cost of repairs and managing tenancies, and the high ongoing costs of insuring property.

In the qualitative interviews, the hospitality sector appears to have had a mixed recovery. Accommodation is in demand, but there are mixed results for cafes and restaurants depending on where they are located.

In 2014, the telephone survey data indicated that the following industry groups have the highest proportions in the early stages of recovery (i.e. surviving or recovery):

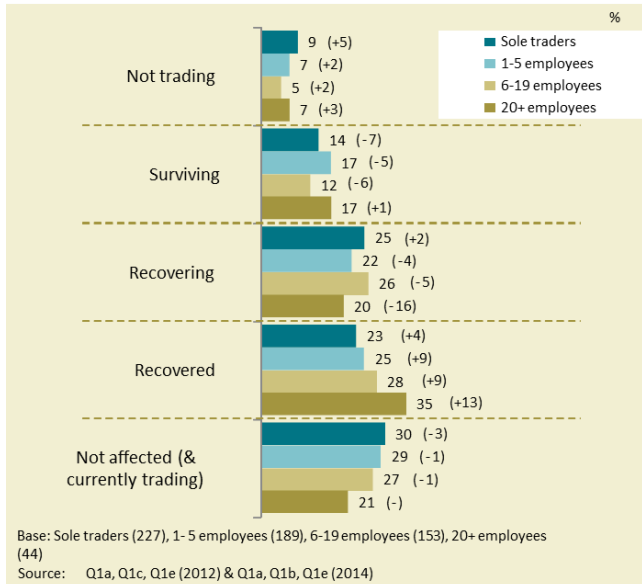
- Manufacturing (61%)
- Retail (56%)
- Administrative and support services (50%).

Note, the qualitative interviews also suggest that retail is an especially challenging industry to be working in because retail businesses' success is most dependent on their premises, as well as foot traffic, parking, ease of access via roading and whether there are other services in proximity to draw people in.

*Stages of recovery by business size*

The following chart shows stages of recovery by business size.

**Stages of recovery by business size**



Strength of recovery is especially strong among larger businesses, with 35% of businesses with 20+ employees now recovered (an increase of 13 points since 2012).

The qualitative interviews support these results, with comments that larger companies in the construction sector have the ability to work on the large scale commercial construction projects through sub-contracting to Fletchers.

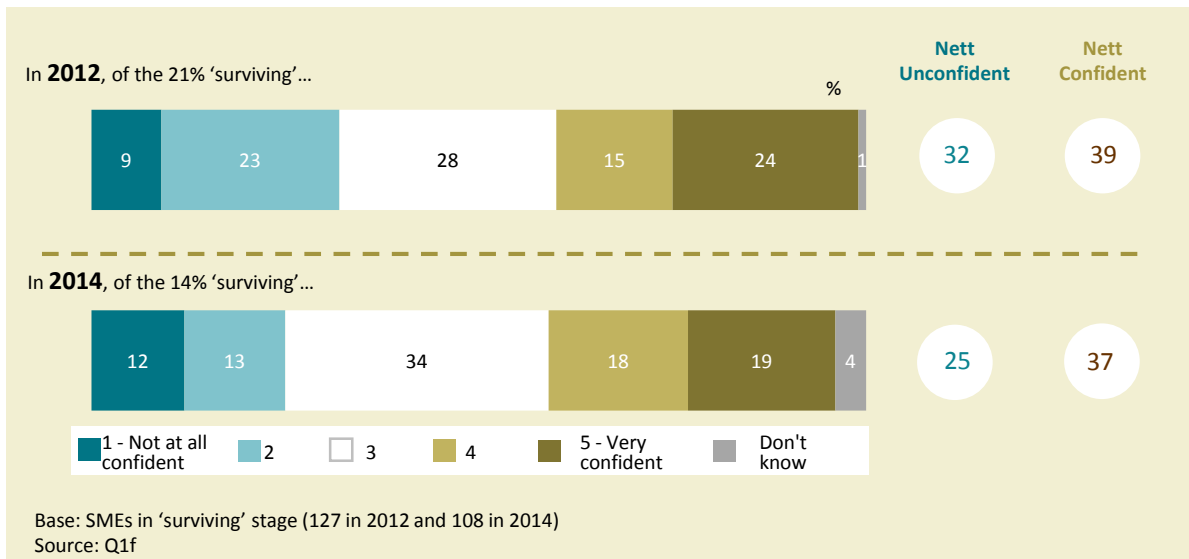
**Confidence about future survival**

In the telephone survey, SMEs in the 'surviving' stage were also asked how confident they are that their business will still be trading in the next two to three years (using a scale of 1 to 5 where 1 is 'not at all confident' and 5 is 'very confident'). Results are presented in the chart below.

In 2014, nearly four in ten (37%) businesses in the 'surviving' stage are confident that they will still be trading in the next two to three years. The 2014 confidence levels of SMEs that are 'surviving' are not markedly different to the confidence of levels of SMEs that were 'surviving' in 2012. There is suggestion that lack of confidence is now somewhat less common (25% rate their confidence only a 1 or 2 in 2014 compared to 32% in 2012).

The qualitative interviews suggest that there is still a lot of waiting for the rebuild to properly start and an inability to plan ahead. Most people that are still just 'surviving' hope they will be in a better situation 'soon'. However, they also thought this in 2012.

**Confidence among 'surviving' SMEs that business will still be trading in 2-3 years**



## Reasons for not currently trading

In the telephone survey, SMEs that are not currently trading were asked about the reasons for this. The results are presented in the following table and are shown separately for:

- Businesses that were trading at the time of the 2012 survey, but are no longer trading
- Businesses that were not trading at the time of the 2012 survey and have not resumed trading.

Respondents could give more than one answer. Categories that are similar to each other have been grouped together and presented as a 'nett score' (see bolded figures) – each nett figure gives the percentage of respondents that gave at least one of the more detailed suggestions (which are listed below the nett score).

### Reasons given by SMEs for not currently trading

	No longer trading (28) %	Not resuming trading (17) %
<b>Personal circumstances</b>	<b>59</b>	<b>5</b>
Retired	28	-
Changed occupations/industry/ took a new job	23	5
Personal reasons e.g. stress/health	8	-
<b>Financial reasons</b>	<b>22</b>	<b>49</b>
Lack of customers/spending/ demand/new contracts/work	18	23
Financial reasons/pay out was not as promised	4	30
<b>Location/premises issues</b>	<b>2</b>	<b>47</b>
Loss/damage of premises	1	43
Moved business to a new location	1	-
Couldn't find suitable premises	-	23
<b>Other</b>	<b>19</b>	<b>22</b>
Sold on	6	-
Still trading at the moment	-	-
Lack of support	-	13
Other	13	22

Base: All businesses that are not currently trading in 2014

Source: Q1ci and Q1ciii

Owners of businesses that have stopped trading since 2012 largely attribute the closure of their business to personal circumstances (59%) – especially retirement and a change in occupation – and to a lesser extent, financial reasons (22%). On the other hand, financial reasons (49%) and issues related to location or the

business's premises (47%) are the main reasons why businesses have not been able to resume trading since the earthquakes.

These findings are consistent with the qualitative research findings that showed some people have 'reprioritised' resulting in people retiring or moving into different industries or occupations.

## Factors that have helped and hindered recovery

In both the 2012 and 2014 telephone surveys, business owners were asked to describe what has made it difficult for them to survive or recover from the earthquakes, and what has helped. Similarly, tax agents were asked to describe the factors that have helped and hindered their clients' recovery. A summary of most common themes are presented in the next two tables.

Respondents could give more than one answer. Figures underlined denote percentages in the stages of recovery subgroups that are statistically significantly higher than percentages in other stages of recovery subgroups.

## Factors that have helped businesses to survive or recover from the earthquakes

	All affected SMEs currently trading		2014			Tax agents	
	2012 (398) %	2014 (398) %	Surviving (91) %	Recovering (147) %	Recovered (156) %	2012 (40) %	2014 (40) %
Positive customer demand	22	38	34	36	44	10	25
Time to recover or rebuild	12	16	10	17	18	8	10
Dedicated attitude	8	13	15	13	11	5	8
New approaches, e.g. diversity, ability to change direction and structure	9	10	13	12	7	2	-
Supportive individuals, e.g. staff, family, friends	5	8	6	8	9	-	2
Reduced costs	6	5	<u>11</u>	<u>5</u>	1	2	-
Earthquakes had limited effect	5	5	-	<u>6</u>	<u>8</u>	-	12
Financial support from insurance company or bank	8	4	2	6	4	18	8
Government assistance and other grants	12	4	6	2	4	40	18
Location issues	8	3	1	4	4	12	2
IR support	2	2	1	2	1	30	12

Base: All businesses affected by the earthquakes and currently trading and all tax agents

Source: Q2a

Note: \* indicates a percentage between 0.0% and 0.5%

Not surprisingly, strong customer demand is the key to businesses recovery and receives greater mention than in 2012 (up 16 points to 38% among SMEs and up 15 points to 25% among tax agents). Businesses also quote time to recover and their determination and flexibility as instrumental in their business still being here and/or recovering.

In 2012, and again in 2014, few SMEs cite the more external factors such as government wage subsidies or IR support as instrumental in their survival or recovery. However, for tax agents in 2012 this assistance was topmost in their minds. In the latest survey, tax agents make less mention of government assistance (down 22 points to 18%). However, in the qualitative interviews both SMEs and tax agents still cite government (including IR) assistance as very instrumental to business survival in the 12 months after the earthquakes.



## Factors that have made it difficult for businesses to survive or recover from the earthquakes

	All affected SMEs currently trading		2014				Tax agents	
	2012 (431) %	2014 (431) %	Not trading (33) %	Surviving (91) %	Recovering (147) %	Recovered (156) %	2012 (40) %	2014 (40) %
Reduced customer demand	43	29	20	<u>56</u>	26	17	42	22
Lack of progress in rebuild	12	17	14	5	<u>20</u>	<u>23</u>	25	15
Infrastructure issues	10	17	7	8	<u>24</u>	17	2	10
Location/premises issues	19	16	16	15	14	19	25	15
Disruption to business	15	11	-	<u>18</u>	13	8	12	15
Insurance – delays, cost, access	16	10	8	4	10	<u>16</u>	32	18
Stress/pressure - personal/physical/emotional	-	7	<u>16</u>	<u>11</u>	4	5	-	8
Uncertainty and lack of confidence	8	5	2	7	5	4	20	2
Staff – stress, unavailability, loss	3	4	7	3	6	3	8	2
Lost access to data	2	2	8	1	4	-	12	10

Base: All businesses affected by the earthquakes and currently trading and all tax agents

Source: Q2b

Note: \* indicates a percentage between 0.0% and 0.5%

Consistent with an overall forward movement towards recovery, a number of the key barriers to recovery have declined since 2012. However, infrastructure issues and the time-frame for the rebuild present ongoing challenges and frustrations (each now mentioned by 17% respectively).

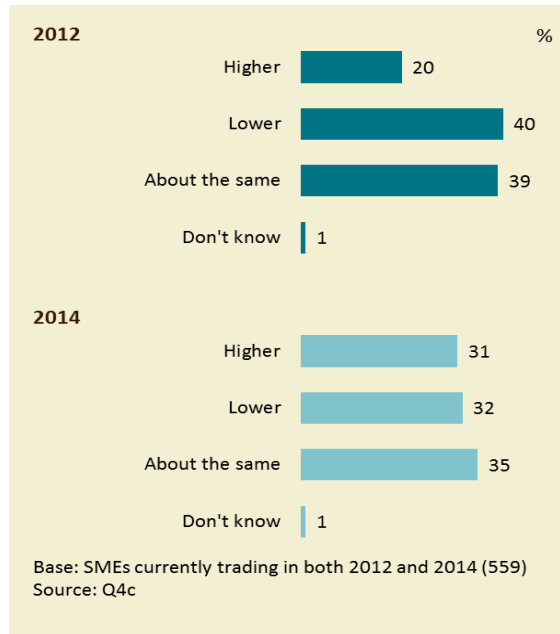
As highlighted in the qualitative interviews, there are indications of disillusionment and frustration among the businesses that are not trading or surviving – they highlight that Christchurch is still a very stressful environment in which to live and work. Businesses that are recovering or recovered highlight infrastructure challenges and delays in the rebuild and insurance as barriers to recovery.

There are also indications of the recovery phase – 21% of those that are unaffected or recovered have 'no problems'.

## Current income

SMEs that are currently trading were asked if their income is higher, lower or about the same as before the earthquakes. Results are presented below for SMEs that were trading in both 2012 and 2014.

### Current income (compared to before the earthquakes)



Business recovery is also evident in these findings, with 31% of SMEs now saying that their income is higher than before the earthquakes (up 11 points from 20% in 2012).

In the qualitative interviews, tax agents pointed out that before the earthquakes there was a recession and that the earthquakes have stimulated the Christchurch economy.

In 2014, the following patterns by industry exist.

Businesses in the agriculture, forestry and fishing sector are more likely to say their current income is 'about the same' as before the earthquakes (64% compared to 35% among the total sample).

Consistent with the qualitative insights, the following industries are more likely than the total sample (31%) to have experienced higher income in 2014 than before the earthquakes:

- Construction (43%)
- Wholesale (47%) – significant at the 90% confidence level.

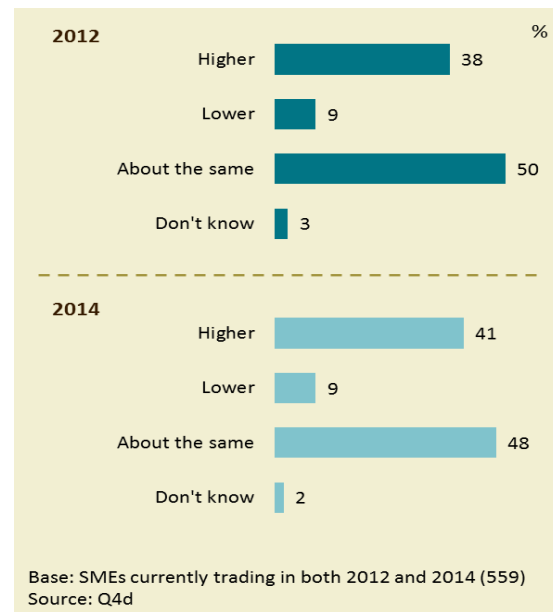
Consistent with the qualitative insights, the following industries are more likely than the total sample (35%) to have experienced lower income in 2014 than before the earthquakes:

- Accommodation and food services (48%)
- Retail (44%).

## Predicted income over next year

SMEs were then asked whether they think their business income over the next year will be higher, lower or about the same as now.

### Predicted income over next year or so



Business owners' confidence in the financial growth of their businesses is similar to the confidence they exhibited in 2012. Around four in ten (41%) say their business income over the next year will be higher than it is now, 48% think it will be about the same, and 9% think it will be lower.

Additional sub-group analysis shows a number of patterns in the 2014 data.

- Larger businesses (6+ employees), and businesses in the wholesale trade, are more likely to expect income growth over the next year (53% and 61% respectively compared to 41% among the total sample).
- Businesses in agriculture, forestry and fishing, and businesses in construction, are more likely to expect that their income will stay 'about the same' over the next year (70% and 61% respectively compared to 48% of all businesses).
- Business owners' confidence in the financial growth of their businesses does not vary significantly by debt status.

Note, in the qualitative interviews, tax agents suggested that larger businesses with sound financial management, systems and processes are poised to take advantage of the next rebuild stages and will have sustainable growth.

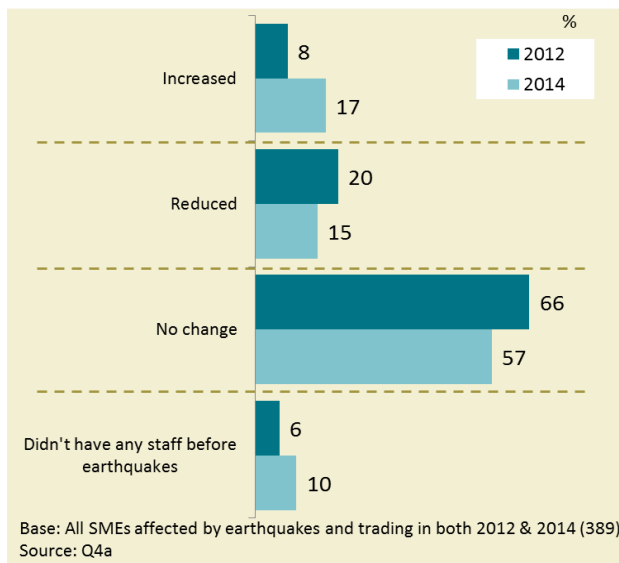
The construction industry is interesting because there is a feeling that growth may plateau (or even decline) as the residential rebuild nears completion and there is a time lag until the commercial and government work (vertical

rebuild) really gets underway. Note also that it is the larger construction businesses that are expected to benefit from the vertical rebuild.

## Impact of earthquakes on number of staff employed

Business owners whose business is still currently trading were asked whether, compared to before the earthquakes, they have increased or reduced their number of staff or whether there has been no real change.

### Impact of earthquakes on number of staff employed



Business growth measured by number of employees is also evident since 2012, with 17% now saying they have increased their number of staff since before the earthquakes (up 9 points since the 2012 survey), slightly fewer (15%) saying they have reduced their number of staff, and over half (57%) saying their staff numbers are about the same as before the earthquakes.

The qualitative research findings indicate that the inability to recruit and retain qualified and skilled staff is an issue across industries. As shown earlier in the report, the quantitative results also highlight that staff recruitment and retention can be a challenge.

In 2014, the following industry patterns are evident. The following businesses are more likely than average (15%) to have reduced staff levels since the earthquakes:

- Business and finance (30%) – significant at the 90% confidence level
- Retail (26%) – significant at the 90% confidence level
- Manufacturing (25%) – significant at the 90% confidence level.

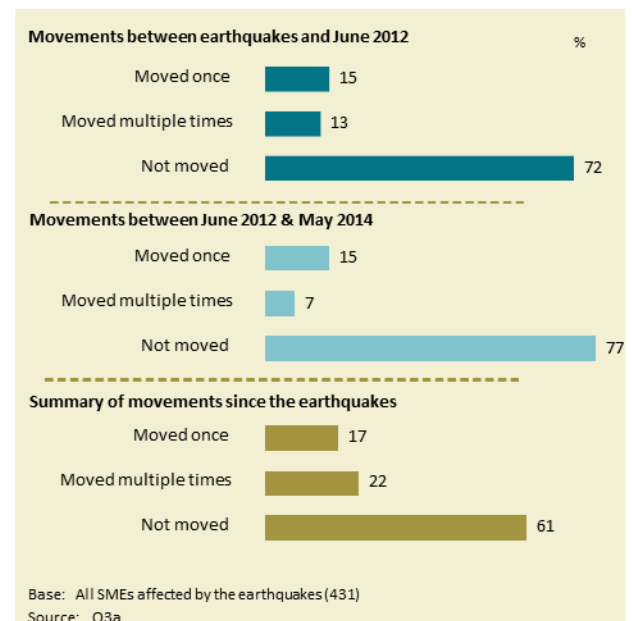
Conversely, businesses in the industrial sector are more likely to have increased staff numbers (26% compared to 17% among the total sample).

## SMEs' location movements and intentions to return to CBD

In both the 2012 and 2014 surveys, business owners were asked a series of questions about their location. Specifically, we asked:

- Whether they have moved location (since the earthquakes and since June 2012) and, if so, how many times.
- Those who had moved, whether they are currently located inside or outside of the CBD (a definition of the CBD was provided).
- Those who are currently located outside of the CBD, whether their business was located in the CBD.
- Those who have moved from inside the CBD to outside the CBD, whether the business has relocated outside of the CBD permanently for the foreseeable future, or whether they plan to move back to the CBD once the rebuild provides an opportunity to do so.
- The next two charts (below and overleaf) summarise the results.

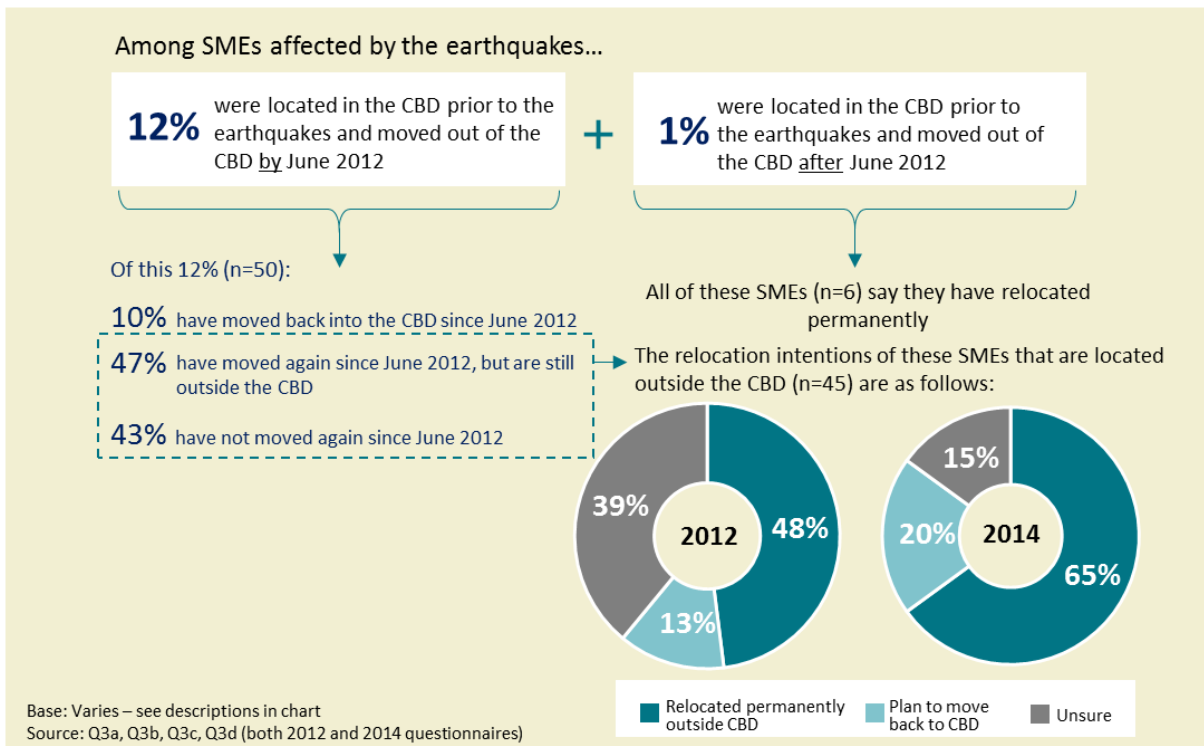
### Moved location since the earthquakes



Since the earthquakes, nearly four in ten businesses (39%) have moved location, with 17% having moved once and 22% having moved multiple times. Businesses are slightly more likely to have moved in the earlier period following the earthquakes (28% moved between the earthquakes and June 2012, and 22% moved since June 2012).

Little variation exists by demographic group. Businesses in the professional, scientific and technical services sector are more likely to have moved multiple times (45% compared to 22% on average).

## Movements in and out of the CBD



Nearly one in seven (13%) SMEs affected by the earthquakes were located in the CBD prior to the earthquakes and have moved out of the CBD since the earthquakes. As expected, most of this movement occurred prior to June 2012. Just one in 10 (10%) of the SMEs that moved out of the CBD prior to June 2012 have moved back into the CBD. The responses of SMEs that moved out prior to June 2012 (the timing of the first survey), and remain outside of the CBD, reveal greater certainty of intentions over time; only 15% of these SMEs are now unsure about whether they will move back to the CBD, compared to 39% in the 2012 survey. The majority (65%) now say they have relocated permanently outside of the CBD and one in five (20%) plan to move back to the CBD.

In the qualitative interviews, many business owners reported that they, their staff and their clients like working in a suburban location. It feels safe from earthquake damage (if there were to be another one), it's easy to walk to or park outside, there are services around them (cafes and retail) and it's 'green and leafy'. They are not sure what will happen when they need to renegotiate their leases, but they would like to stay. In addition they think that the rents in the CBD will be financially unviable for small businesses. They think the CBD will attract government and large corporate tenants such as banks.

The following quote illustrates the general sentiment about the CBD.

*"We had views of the river, the trees, the ducks, the birds, the whole buildings and girls wearing dresses in the summer. Now we have trucks, concrete trucks mostly coming out of there, Allied Concrete, steel, Mainfreight and there's a big pile of rubble which they have now put plastic over to keep the dust down (which doesn't work)."*

**(Tax agent that has relocated)**

## Main business challenges in past 12 months

Businesses were asked to describe the main business challenges they have encountered over the last 12 months. A summary of the most common themes is presented in the table overleaf.

Respondents could give more than one answer. Figures underlined denote percentages in subgroups that are statistically significantly higher than percentages in other subgroups.

## Main business challenges in past 12 months

	Total (315) %	Surviving (47) %	Recovering (63) %	Recovered (91) %	Currently trading, not affected in 2012 (114) %
Change in customer demand, e.g. reduced demand, inconsistency of work, greater competition	26	<u>69</u>	<u>36</u>	19	11
Financial and insurance issues	19	<u>26</u>	<u>37</u>	14	9
Infrastructure issues, e.g. roading, infrastructure	11	10	<u>17</u>	15	6
Lack of progress in rebuild, e.g., issues with EQC	4	7	9	2	2
Location/premises issues/rental costs	6	5	<u>15</u>	<u>8</u>	2
Staff challenges – recruitment and retention	13	4	9	<u>18</u>	16
Weather	10	-	5	3	<u>19</u>
Capacity/too busy/coping with expansion	5	-	3	9	6

Base: All businesses that are currently trading

Source: Q1di

Business challenges vary by stage of recovery. Reduced customer demand (69%) is the predominant challenge for 'surviving' SMEs. The qualitative research findings suggest that this is due to the large amount of relocation around the city. Not only have businesses relocated, but so have people. Due to relocation, businesses have lost their proximity to their customer base.

Both the qualitative and quantitative interviews highlight that many recovering businesses have also experienced a change in customer demand (36% in the survey comment on this). Recovering businesses also comment that infrastructure issues such as roading affect them and their customers (17%). These factors will, of course, have adversely affected their revenue and cash flow (16% specifically mention the latter). They also cite insurance pay-out issues (19%), which the qualitative research findings suggest are causing them to be undercapitalised and preventing them from investing in their business. Once all the insurance has been paid out they may be able to move forward e.g. by relocating.

'Recovered' businesses also face a range of challenges, but are more likely than other businesses to comment on staff challenges (18%). The qualitative research suggests that attracting and retaining qualified and skilled staff has become an issue for all industries. The construction industry reports the 'poaching of staff' and a reluctance to train people if they are then going to move on. Unskilled labour may be attracted into the construction industry for higher rates at the expense of other industries that have traditionally employed unskilled labour e.g. the dairy, hospitality and retail industries.

Those not affected by the earthquakes are most likely to comment on the weather (such as flooding) having been a main business challenge in the past year (19%).

## Observed changes in businesses

Businesses were also asked to describe any changes they have noticed in the businesses they now deal with (compared to before the earthquakes). They were told that this could include the types of businesses or the way businesses transact with them. Respondents could give more than one answer.

A summary of the main themes is presented in the table overleaf.

Figures underlined denote percentages in business size subgroups that are statistically significantly higher than percentages in other subgroups.

## Observed changes in businesses

	Total (295) %	Sole traders (128) %	1-5 (69) %	6-19 (78) %	20+ (20) %
Higher or lower demand for business services/products	26	23	32	29	44
Business challenges associated with physical impacts of earthquakes, e.g. relocation, infrastructure, roading	16	<u>20</u>	5	1	<u>24</u>
Change in attitude, e.g. more accommodating and helpful, more wary, less tolerant	8	9	3	7	13
Different types of business and customers, e.g. – larger businesses, construction	10	8	11	<u>21</u>	3
Lack of, or rising cost of, products/ suppliers	8	8	10	6	6
Struggling businesses	8	8	10	7	-
More people using the internet for payments/purchasing/communication/networking	8	8	7	16	6
Type of business changed/diversified/structured to suit environment	7	8	6	5	6
Speed of paying, e.g. slower/faster, more demanding	7	6	7	8	11
Regulation changes	5	6	2	4	6

Base: All businesses that have noticed changes (since before the earthquakes) in the businesses they deal with

Source: Q1dii

In the qualitative research, both SMEs and tax agents report that Christchurch is constantly evolving and changing. This creates both challenges and opportunities, as reflected in the quantitative results displayed in the above table. On the one hand, business owners say that some of their greatest *challenges* are the changes in business, demand, product, and customer base. On the other hand, there are also business owners saying that some of their greatest *opportunities* are the changes in business, demand, product, and customer base. Of note, it is the larger businesses that are more likely to experience the changes as opportunities.

## Tax agents' perceptions of changes in volume or types of clients

Tax agents were asked to describe any changes in the volume or types of clients they have noticed (compared to before the earthquakes). Respondents could give more than one answer.

Results are presented in the table to the right. Categories that are similar to each other have been grouped together and presented as a 'nett score' (see bolded figures).

## Tax agents' perceived changes in volume or types of clients

	Tax agents (21)* %
<b>Change in demand for business services/products</b>	<b>52</b>
We have a lot more business/clients coming our way	33
Fewer customers/business slower/people not spending	19
<b>Different types of business and customers</b>	<b>19</b>
Dealing with more construction type people/businesses	19
<b>Challenges associated with physical impacts of earthquakes</b>	<b>5</b>
Infrastructure damage has caused problems	5
<b>Change in attitude</b>	<b>5</b>
People's state of mind/less tolerant/patient	5
<b>Other</b>	<b>19</b>
Nothing	14

Base: All tax agents who have noticed changes (since before the earthquakes) in the type/volume of their clients

Source: Q1diii

\*Caution: small sample size

Tax agents most commonly comment on a change in the demand for their services – with increased demand being more common (33%) than reduced demand (19%). Nearly one in five (19%) also commented on the higher number of construction sector clients using their services.

## Section 3. Contextual compliance issues

This section of the report highlights some of the government and private sector contextual compliance issues that may impact on tax compliance attitudes and behaviours.

In the qualitative interviews there was discussion about the increased administration and compliance requirements that people are experiencing in both their professional and personal lives. People are still working their way through insurance, council and repairs/rebuild of buildings and homes.

There are the 'business as usual' compliance issues such as tax, health and safety, and ACC levy payments. However, there are new and/or expanded compliance requirements that are impacting on business resources (time and cost) and are competing for priority with financial management and tax compliance. The extraordinary compliance issues are:

- immigration and recruitment requirements for a new immigrant workforce e.g. approved employer status, employment law and work permits
- recruitment requirements for new New Zealand staff e.g. police checks and drug tests
- new health and safety requirements and changes introduced by SCIRT (Stronger Christchurch Infrastructure Rebuild Team) and WorkSafe NZ that impact on productivity and costs
- insurance requirements.

There were comments made that reflect the 'disillusionment' phase of psychosocial disaster recovery e.g. frustration with bureaucracy, lack of flexibility, delays and requirements for 'ticking boxes' associated with large organisations (such as insurance companies, EQC, Fletchers, WorkSafe NZ and local government) that SMEs may be interacting with.

*"I have little respect for the insurance industry. It took them three years to settle. It's guerrilla warfare against bureaucratic stupidity. I don't suffer stupidity of bureaucracy. They don't look at the big picture. Canterbury Recovery had no idea. They need to be sharp, intuitive."*

**(Retail in CBD, recovering, 10 staff)**

Overall SMEs and tax agents comment favourably on IR's response, particularly in the year or so after the earthquakes. However, now with constant change and increased compliance processes and time lags across government, insurance companies and the large lead contractors, there is some indication of less tolerance for standard practices and higher demand for quick and flexible responses.

*"People are stretched with work demands and then red tape processes makes it too hard. The dynamics of work are changing all the time with different transitions and the need to get up to speed. Inland Revenue can improve services, e.g. wait times. No computerised letters – they are overkill. When you don't tick the boxes, why don't they ring to ask what's happening?"*

**(SME, multiple businesses)**

## Section 4. Tax compliance attitudes 2012-2014

This section explores SMEs' general attitudes towards tax as well as earthquake-specific attitudes towards tax.

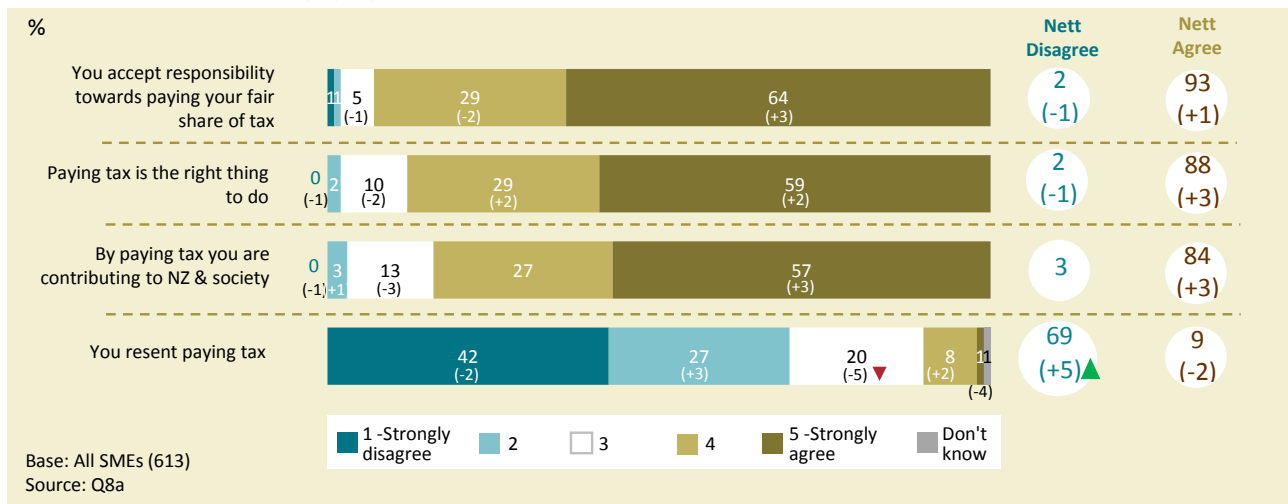
### General attitudes towards tax

In the qualitative research, SMEs claim their general attitudes towards tax compliance are much the same as before the earthquakes. (Note, their attitudes are also explored further in the section on the hidden economy).

To measure SMEs' attitudes towards tax compliance in the telephone survey, respondents were asked to indicate how much they agree or disagree with a series of statements. The chart below depicts general attitudes towards tax (not specifically related to the earthquakes). These statements were also asked in IR's Customer Satisfaction and Perceptions (CS&P) survey. Comparison are therefore also made with the CS&P survey later in this section.

Upward and downward pointing triangles have been used to denote changes since 2012 (shown in brackets) of at least five percentage points.

### General attitudes towards paying tax





Business owners' current attitudes towards tax as depicted by the first three statements are very similar to their attitudes in 2012. Very large majorities continue to agree that they should accept responsibility towards paying their fair share of tax (93%), that paying tax is the right thing to do (88%), and that by paying tax they are contributing to New Zealand and society (84%). Less resentment towards paying tax is evident, with nearly seven in ten (69%) now disagreeing that they resent paying tax (up five points since 2012) and only 1% strongly agreeing with this statement (down four points since 2012).

Additional analysis provides insights into where this weakening in resentment stems from. Most noticeably, less resentment (i.e. increased levels of disagreement with the statement 'You resent paying tax') is evident among:

- Sole traders – disagreement is up 9 points to 72%
- Large businesses (20+employees) – disagreement is up 11 points to 68%. However, agreement is also up 7 points which suggests views are more polarised than in 2012.

Less resentment (i.e. increased levels of disagreement with the statement 'You resent paying tax') is evident among the following industry groups:

- Construction (up 11 points to 73%)
- Administration and support services (up 21 points to 77%)
- Distribution sector (up 18 points to 76%).

Conversely, resentment is now more common among businesses in the accommodation and food services sector (agreement with the statement is up 14 points to 22%).

### Comparison with CS&P survey results

The following table compares the results for three of the attitudinal statements with those from IR's Customer Satisfaction and Perceptions survey (CS&P survey).

#### Comparison between surveys

	CS&P survey (927)	Canterbury survey (613)
<i>You accept responsibility for paying your fair share of tax</i>	64% strongly agree (92% nett agree)	64% strongly agree (93% nett agree)
<i>By paying tax you are contributing to NZ society</i>	59% strongly agree (88% nett agree)	57% strongly agree (84% nett agree)
<i>You resent paying tax</i>	39% strongly disagree (58% nett disagree)	42% strongly disagree (69% nett disagree)

Base: All SMEs. Note, CS&P data covers SMEs who had recent contact (voice, e-channel, or correspondence) with IR and were surveyed in the 2013/2014 year.

Source: Q8a

Results between the telephone survey of Canterbury SMEs and the CS&P survey are now very similar for two of the statements. However, SMEs in the Canterbury survey are significantly more likely than SMEs in the CS&P survey to disagree that they resent paying tax.

## Reasons for resenting paying tax

Respondents who agreed that they resent paying tax were asked for their reasons for feeling this way. Results are presented in the table below. Respondents could give more than one answer. Categories that are similar to each other have been grouped together and presented as a 'nett score' (see bolded figures).

### Reasons for resenting paying tax

	2012 (78) %	2014 (71) %
<b>Unfair</b>	<b>31</b>	<b>11</b>
Unfair/unfairly assessed/not everyone pays their fair share	19	9
Feel that the harder you work/the more you earn, the more you are taxed	11	2
<b>Dislike how tax money is spent</b>	<b>25</b>	<b>33</b>
Too much tax payer money is spent on benefits/beneficiaries/encourages people not to work	13	7
Tax payer money is wasted/wasteful projects	11	3
Do not agree with where tax money is spent	6	25
<b>Pay too much tax</b>	<b>17</b>	<b>32</b>
Too many taxes/continually paying tax/ large part of business is spent on tax matters	8	10
Tax rate is too high/always going up	6	11
Businesses are struggling to pay tax/struggling to stay in business	5	12
<b>Don't mind paying tax</b>	<b>6</b>	<b>18</b>
Don't mind paying tax/understand I have to pay tax/contribute towards running the country	5	6
Do not resent paying tax	1	13
<b>Other</b>	<b>34</b>	<b>40</b>
You have to pay tax/tax is not voluntary/ tax is theft	15	2
Don't like paying tax/everyone resents paying tax	5	8
Issues with provisional tax payments	2	-
More support for small businesses from IR	1	6
Prefer to spend money on myself/my business	-	4
Resent paying indirect taxes	-	-
Other	13	20
No reason/nothing/none/no comment/ N/A	7	-

Base: All respondents who agreed to resenting tax (2012 n=78, 2014 n=71)

Source: Q8b

In 2014, business owners who resent paying tax most commonly attribute their resentment to disliking how the money is spent (33%) and a sense that they are paying too much tax (32%). The latter sentiment has increased since 2012 (up 15 points).

In the qualitative interviews with SMEs there are contextual insights that may explain the increase in comments about paying too much tax:

- Businesses that are surviving or stagnating may feel they have too much tax to pay if they are in a poor financial situation to pay tax out of cash flow and/or have existing tax debt that they can't address
- The businesses that have experienced rapid growth also had increased costs, so their growth wasn't necessarily reflected in an increase in tax. However, now with increased profit they are seeing a corresponding increase in provisional and terminal income tax to pay. They have also noticed that GST and PAYE has increased. The following quote illustrates several issues about growth – in particular, lack of knowledge of the tax implications of growth and thinking that they are paying too much in tax.

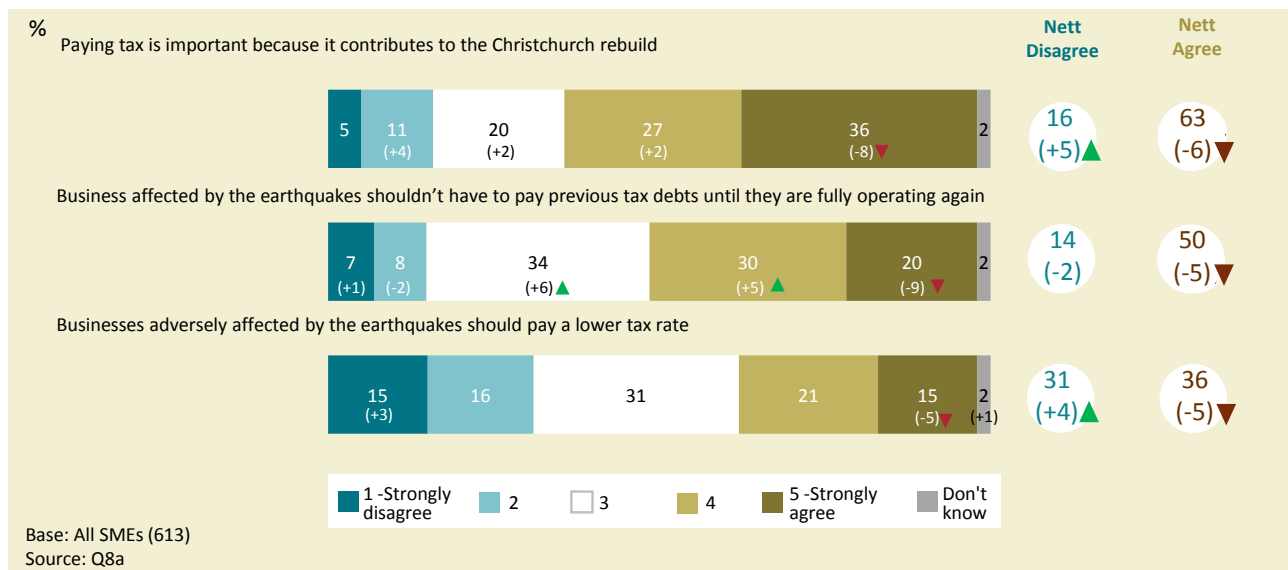
*"As we were building the motels we had a lot of costs and expenses so we weren't paying a lot of tax. And we were never really in a position to pay provisional tax. But then as the income increased and the occupancy went up now we're having to pay quite large provisional tax because if you don't, at the end of the year if you owe them a lot they can charge you interest. Whenever the accountant has told us that we have a tax obligation coming up we've generally been in a position to be able to pay it and avoid any penalty tax interest... We've most probably done very well, but at times you do feel as though you're working for the government firstly with the amount of tax you have to pay. When you work out you're paying PAYE every month and then you're paying GST every month and then quarterly or four monthly you're paying provisional tax and they are the large sums that are coming out of your business... Tax is the largest amount of money that you pay out of your business. Running expenses, rates, insurance and power they're all small accounts."*

**(Accommodation (motel), growth, less than 5 employees)**

## Christchurch-specific attitudes towards tax

The next graph provides the quantitative results depicting attitudes towards tax that are specifically related to the Christchurch earthquakes.

### Christchurch-specific attitudes towards tax



There have been some small but notable movements in business owners' attitudes towards tax that are specifically related to the Christchurch earthquakes.

#### *Paying tax is important because it contributes to the Christchurch rebuild*

Nearly two thirds (63%) agree that paying tax is important because it contributes to the Christchurch rebuild, but the proportion who 'strongly agree' with this statement has dropped eight points since 2012.

Qualitatively, this may be because the rebuild is slow and/or because there is weak correlation between Christchurch tax revenue and Christchurch spend.

*"I know the Government is buying out red zones, but I hadn't thought about my tax necessarily going towards that. Auckland roads have been a bit of an issue in the past and I don't want to be paying for that, but the Government is the Government and they're going to spend money on roads in Auckland or the hospital in Christchurch."*

**(Construction, sustainable growth, 20+ employees)**

On the other hand, some people do still make the tax/rebuild connection.

*"The only reason we're going to come out of the earthquakes with a reasonable city and people in a reasonable state of mind is because we've had government support and I'd like to think that businesses do their bit in returning that through taxes that they have to pay. I feel that the Government are*

*relying on getting their share out of the economy as it progresses, to fund the rebuild."*

**(Tax agent)**

Weakening of support for the notion that 'paying tax is important because it contributes to the Christchurch rebuild' (either through reduced agreement, or increased disagreement, with the statement) is particularly strong among:

- Agriculture, forestry and fishing (agreement down 14 points to 57% and disagreement up 7 points to 14%)
- Accommodation and food services (agreement down 19 points to 40% and disagreement up 14 points to 26%)
- Rental, hiring and real estate services (agreement down 13 points to 60% and disagreement up 15 points to 24%)

Support for this statement is down among all debt groups (never in debt, used to be in debt, and those currently in debt), but the movement is strongest among the latter (agreement down 9 points to 49% and disagreement up 7 points to 22%).

In terms of business size, weakening of support for this statement is more marked among sole traders (agreement down 8 points to 63% and disagreement up 5 points to 16%). Large businesses (20+ employees) appear to be more polarised in their views; agreement has increased by 6 points to 63% and disagreement has increased by 8 points to 22%.

*Businesses affected by the earthquakes shouldn't have to pay previous tax debts until they are fully operating again*

Less support is now evident for businesses affected by the earthquakes not having to pay previous tax debts until they are fully operating again, with 50% agreeing with this statement (a drop of five points since 2012). Further, the proportion who 'strongly agree' with this statement has decreased by nine points since 2012.

The qualitative interviews suggest that recovered businesses should be fully compliant. There is also an opinion that all businesses *should* have recovered by now (if they are ever going to) and that there is no need for tax leniency.

Tax agents with financially vulnerable clients, and SMEs themselves that are surviving or recovering, continue to suggest that IR takes a case by case approach.

Weakening of support for the notion that 'businesses affected by earthquakes shouldn't have to pay previous tax debts until they are fully operating again' is particularly strong among:

- Agriculture, forestry and fishing (agreement down 12 points to 58%)
- Manufacturing (agreement down 13 points to 38%)
- Construction (agreement down 16 points to 44%)
- Wholesale trade (agreement down 25 points to 41%)
- Rental, hiring and real estate services (disagreement up 11 points to 24%)
- Businesses that have never in debt (agreement down 12 points to 47% and disagreement up 7 points to 18%).
- Conversely, strengthening of support for the notion that 'businesses affected by the earthquakes shouldn't have to pay previous tax debts until they are fully operating again' (either through increased agreement, or reduced disagreement, with the statement) is particularly strong among:
  - Retail trade (disagreement down 18 points to 10%)
  - Those currently in debt (agreement up 8 points to 65% and disagreement down 5 points to 10%).

*Businesses adversely affected by the earthquakes should pay a lower tax rate*

Only around a third (36%) now believe that businesses adversely affected by the earthquakes should pay a lower tax rate (down five points since 2012).

Weakening of support for the notion that 'businesses adversely affected by the earthquakes should pay a lower tax rate' is most evident among:

- Agriculture, forestry and fishing (agreement down 16 points to 36% and disagreement up 9 points to 30%)
- Construction (agreement down 6 points to 44% and disagreement up 10 points to 33%)
- Wholesale trade (agreement down 9 points to 24% and disagreement up 20 points to 45%)
- Accommodation and food services (agreement down 18 points to 41% and disagreement up 12 points to 23%)
- Businesses that have never been in debt (agreement down 13 points to 33% and disagreement up 11 points to 36%)
- Businesses with 6 to 19 employees (agreement down 10 points to 34% and disagreement up 8 points to 39%).

Conversely, strengthening of support for the notion that 'businesses adversely affected by the earthquakes should pay a lower tax rate' is most evident among:

- Manufacturing (disagreement down 11 points to 25%)
- Professional, scientific and technical services (agreement up 11 points to 38% and disagreement down 11 points to 30%)
- Businesses with more than 20 employees (agreement up 20 points to 34% and disagreement down 6 points to 46%).

## Section 5. Tax compliance behaviour

### This section discusses SMEs' tax compliance behaviour.

In 2012 some SMEs' tax compliance behaviour had worsened, and in 2013 there was suggestion from stakeholders of a worsening of the relative priority of tax payments versus other payments.

The 2014 qualitative research findings suggest that external environmental factors, psychosocial stage of recovery and financial management of the business all contribute to compliance or compliance risk.

Businesses that can control their environment, have recovered personally, have a strong business model, are well resourced, and have strong financial management skills and resources are highly likely to be tax compliant. Conversely, businesses that have less control of their environment, are disillusioned, have a poor business model, are poorly resourced, and have poor financial management skills and resources are likely to be a compliance risk.

The external *environmental* factors which may impact on the financial viability of the business are:

- whether their business is premises and location based e.g. retail and hospitality
- where the business is located – CBD or suburbs (and where their customers are located)
- the extent of damage to work premises and houses, repair work, as well as timeliness and amount of insurance pay out
- the amount of disruption (rebuild work) that is taking place in their location
- compliance and 'paperwork' associated with other organisations e.g. insurance, EQC, local government or Work Safe NZ taking precedence
- the industry they work in (and whether that industry is in demand)
- whether their skills are in demand consistently through the different cycles of the rebuild

There are *psychosocial* factors that will impact on a SME's ability to manage their business and tax compliance (see discussion of these factors earlier in this report).

Potential *business* risk factors are the same as in any other region of New Zealand, but amplified in Christchurch. SMEs and tax agents perceive the main business risk factors as:

- rapid (and unsustainable) business growth

*"There's a lot of growth out there, but it's (compliance risk) through people not budgeting. There's a lot of trades people out there who've got all this bloody work on, and there's this big wall of debt building up sometimes and they're not budgeting for those sorts of things. People are not getting paid out from insurance companies, there's a long time to insurance coming out sometimes, which delays them paying out subcontractors and some people have gone under already. It's in the papers. They're growing too quick and they're under-capitalised."*

(Tax agent)

- new start-up businesses that are not financially experienced
- business owners being over committed and under-capitalised
- an over-reliance on one source of income
- poor financial management knowledge, skills and resources

*"A friend of ours who's been in business for a lot of years was completely obsessed with negative gearing which means you're actually spending more than you're earning. He said 'that's okay if I'm spending it on things that are for me and if I don't have to pay any tax that's always going to be good'. Correspondingly they went bankrupt and lost everything."*

(SME)

- fluctuating cash flow and an over-reliance on cash flow to pay tax.

*“We’re always talking about the ramping up of building, but for some builders that hasn’t come, so some of them don’t have any work so I’d imagine their tax compliance must be struggling...(and for growth) there’s an issue with cash flow, everything is happening so quickly and so big, that you might not always have money put aside to pay tax.”*

**(Construction, sustainable growth, 20+ employees)**

On the subject of cash flow, and consistent with other research we have conducted for IR, SMEs express a view that when cash flow is tight they prioritise paying staff and creditors/suppliers over paying tax so that they can keep trading, meet customers’ requirements, invoice customers and generate revenue. Personal and business relationships are also cited as influential in prioritising supplier payments over tax payments. These relationships may have strengthened in Christchurch due to the adversity they have all experienced.

*“I don’t have a relationship with Inland Revenue. They are a government department. They don’t need the money. They won’t run out of money. I have a relationship with my coffee supplier, I hang out with them. I will run out of goodwill (if I don’t pay).”*

**(Hospitality (Café relocated to outskirts of CBD), recovering, tax compliance worse, less than 20 staff)**

Other business factors that may be unique to Christchurch (and which may impact on people’s ability to manage their business and tax compliance) are:

- an inability to recruit and retain qualified, skilled and experienced staff
- immigrants employed as contractors and not understanding the tax implications of this versus employee obligations
- self-employed immigrants with limited knowledge of New Zealand’s tax system and social norms
- people not understanding that income protection insurance pay out can be taxable income.

## Tax agents’ views on the scale of the impact on tax compliance

In the telephone survey, tax agents’ views on how well businesses have been able to meet their tax obligations were obtained. We asked tax agents to tell us what percentage of their clients they think have been better at meeting their tax obligations during the 2013/2014 tax year compared to before the earthquakes; what percentage have been worse and what percentage have stayed the same. In the 2012 survey, the same question was asked, but in the context of the 2011/2012 year. Results are shown in the following table.

### Tax agents’ perceptions of how well their clients have been able to meet their tax obligations

	Better %	Worse %	About the same %
<b>2012</b>			
0%	85	25	-
1%-25%	15	65	2
26%-50%	-	5	8
51%-75%	-	2	8
76%-100%	-	2	82
<b>2014</b>			
0%	72	58	2
1%-25%	8	35	10
26%-50%	8	8	8
51%-75%	-	-	8
76%-100%	12	-	72

Base: All tax agents (40)  
Source: Q5cii

These results indicate that tax agents perceive business compliance has improved. Of note:

- 20% of tax agents say that more than a quarter (26% to 100%) of their client base were better in the 2013/2014 tax year at meeting their tax obligations compared to before the earthquakes (in the 2012 survey, no tax agents thought more than a quarter of their client base were better).
- 42% of tax agents say that at least some of their client base were worse in the 2013/2014 tax year at meeting their tax obligations compared to before the earthquakes (this is a marked drop from the 75% evident in the 2012 survey).

## Tax compliance in 2013/2014 (compared to before the earthquakes)

In the telephone survey, we also explored with SMEs how well they have been able to meet their tax

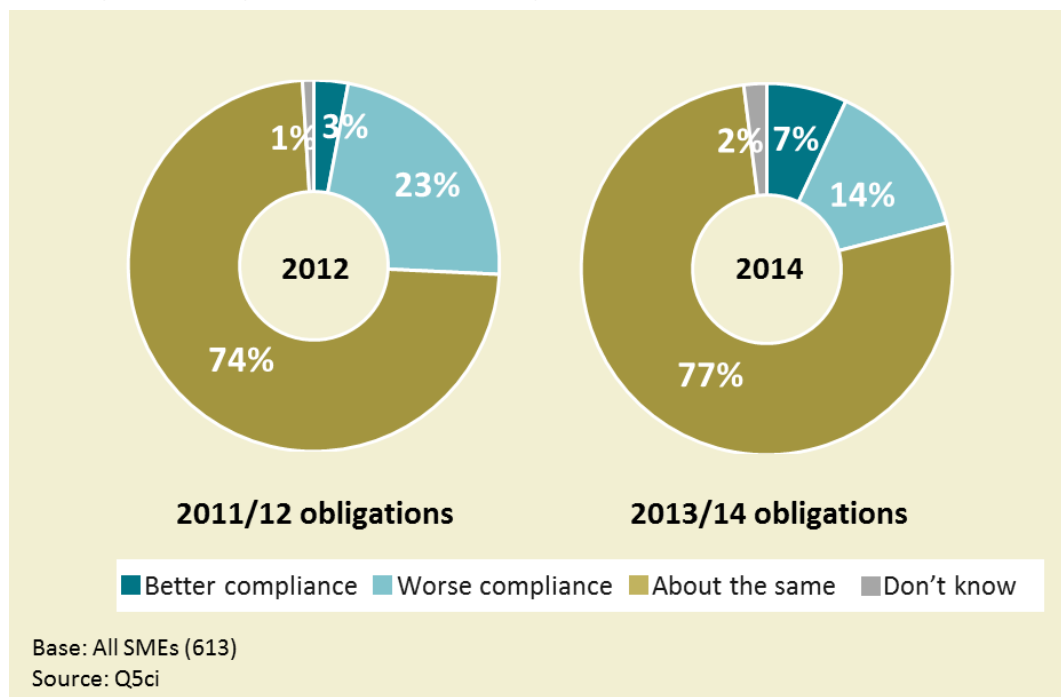
obligations during the 2013/2014 tax year. 'Meeting tax obligations' was defined for respondents as whether the business filed its tax returns and paid its tax on time (or within any extensions of time given) and paid the correct amount (including any amounts agreed to as part of a payment arrangement). Respondents were then asked whether during the period of April 2013 to March 2014 their business was better, worse or about the same in meeting its tax obligations compared to before the earthquakes.

The same question was asked in the benchmark survey, but in the context of the 2011/2012 period.

The reader should note that this question is not measuring whether the business found it more difficult to meet their tax obligations. Rather, the focus was on their end success or otherwise of filing and paying the correct amount on time.

Results to this question are presented in the next chart.

### Tax compliance (compared to before the earthquakes)



Consistent with the tax agent results, some SMEs believe their tax compliance has improved; 7% believe it is better than before the earthquakes (up four points since the 2012 survey) and only 14% believe it is worse than before the earthquakes (down 9 points since the 2012 survey). Most SMEs (77%) continue to believe that their tax compliance is about the same as before the earthquakes.

Sub-group analysis shows that SMEs in retail are more likely to feel their tax compliance was worse for the 2013/2014 tax year compared to before the earthquakes (27% versus 14% of all SMEs). Likewise, and as expected, SMEs currently in tax debt are most likely to say their tax compliance has worsened (38% compared to 10% without current tax debt).

In the qualitative interviews, SMEs with tax debt (since the earthquakes) indicate that it takes several years to re-establish their business and clear their tax debt. SMEs themselves have underestimated how long it will take. The following quote is from 2012. When we interviewed this business owner again in 2014, they still weren't re-established and still had tax debt. They were about to relocate premises, however, and were hopeful their financial situation would now improve.

*“We had made the assumption that we were going to re-establish, at least within the first year. We weren't too worried in the first year and then unfortunately the middle of the second year we were panicking, towards the end of the second year we knew we were in a little bit of trouble with the burden of quite a bit of tax. We know we will re-establish, we'll get material damages settlement and bank loans.”*

(SME, currently in debt)

### Reasons for improved and worsened compliance

Without prompting with possible reasons, businesses and tax agents who believe their (or their clients') tax compliance has improved since before the earthquakes were asked for the reasons for this.

Respondents could give more than one answer. A summary of the main themes is presented in the table below. More detailed responses are provided in Appendix A.

#### Reasons for improved compliance

	SME		Tax agents	
	2012 (27) %	2014 (54) %	2012 (6) %	2014 (11) %
Improved financial position, e.g. stronger business, better cashflow	81	68	67	55
Changes to business structure/staff/overheads/approach	6	15	17	18
Influx of people	6	6	-	-
IR has been helpful/supportive with payment options	-	7	17	9

Base: Businesses and tax agents who believe their (or their clients) tax compliance has improved since before the earthquake  
Source: Q5d

Both business owners and tax agents most commonly attribute improved compliance to an improved financial position including better cash flow (68% of business owners and 55% of tax agents).

Some also attribute better organisation and systems in place (15% of business owners and 18% of tax agents).

In the qualitative research, tax agents spoke about improved compliance resulting from businesses having good business structures and having financial systems and processes (rather than the 'kitchen table manual approach' late at night).

Without prompting with possible reasons, businesses and tax agents who believe their (or their clients) tax compliance has worsened since before the earthquake were asked for the reasons for this. A summary of the main themes is presented in the next table. More detailed responses are provided in Appendix A.

A worsened financial position (69% of business owners and 65% of tax agents) – especially worsened cash flow – is the factor most commonly cited as causing worsened tax compliance. There are also other factors such as 'uncertainty' that are unique to the Christchurch environment. These results are consistent with the qualitative research findings.

#### Reasons for worsened compliance

	SME		Tax agents	
	2012 (159) %	2014 (99) %	2012 (30) %	2014 (17) %
Worsened financial position, e.g. lack of income or cashflow	68	69	70	65
Stress e.g. personal/financial/business related	8	10	3	-
Focus on business survival and growth, e.g. finding new contracts, getting business up and running	3	7	7	-
Accountant affected/delayed filing of returns	3	5	-	-
Got busy/focussed on other matters/was an oversight	5	3	7	6
Premises damaged/destroyed	11	2	7	6
Uncertainty, e.g. insurance company issues	4	2	7	12
Shifting premises	4	1	-	-
No tax arrangements/provisions	2	-	-	6

Base: Businesses and tax agents who believe their (or their clients) tax compliance has worsened since before the earthquakes.  
Source: Q5d



### Factors that helped SMEs meet their tax obligations

Without prompting with possible answers, respondents were asked what things helped them meet their tax obligations during the period April 2013 to March 2014. A summary of the main themes is presented in the next table. More detailed responses are provided in Appendix A.

### Factors that helped businesses to meet their tax obligations

	SME		Tax agents	
	2012 (613) %	2014 (613) %	2012 (40) %	2014 (40) %
Savings/cash flow/loans/cost-cutting/good financial management	32	33	12	15
No/limited effect of earthquakes	21	16	8	18
Advice/support from accountant/tax agent	4	7	8	15
IR actions/support	10	6	40	18
No/minimal tax to pay	6	6	2	5
Financial assistance from other organisations, e.g. bank, insurance company, government	4	2	8	5

Base: All businesses and tax agents Source: Q6a

Note: \* indicates a percentage between 0.0% and 0.5%

SMEs cited a range of reasons that helped them meet their tax obligations in the 2013/2014 tax year. The most common reasons relate to having sufficient finances to make the payments, either through the use of personal savings/loans, better financial management of the business and/or improved cash flow (33% in 2014). Tax agents place less emphasis on IR support than they did in 2012 (down from 40% to 18%).

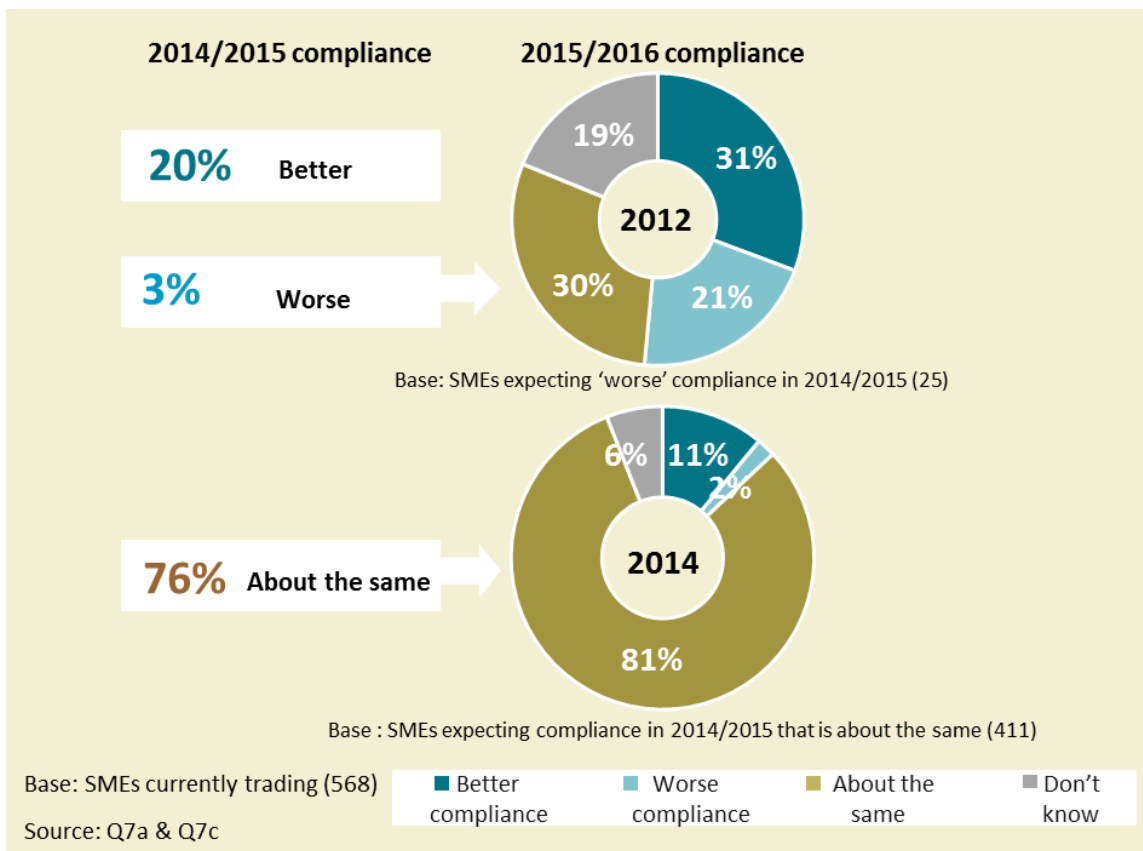
## Expected ability to meet tax obligations

SMEs were asked two questions about their ability to meet future tax obligations. They were asked:

- whether, compared to last year, their business will be better, worse or the same in meeting its tax obligations this tax year, that is, during the period of April 2014 to March 2015
- looking further ahead, whether their business will be better, worse or the same in meeting its tax obligations next tax year, that is, during the period of April 2015 to March 2016.

Responses to these two questions are illustrated below.

### Expected ability to meet tax obligations – All SMEs

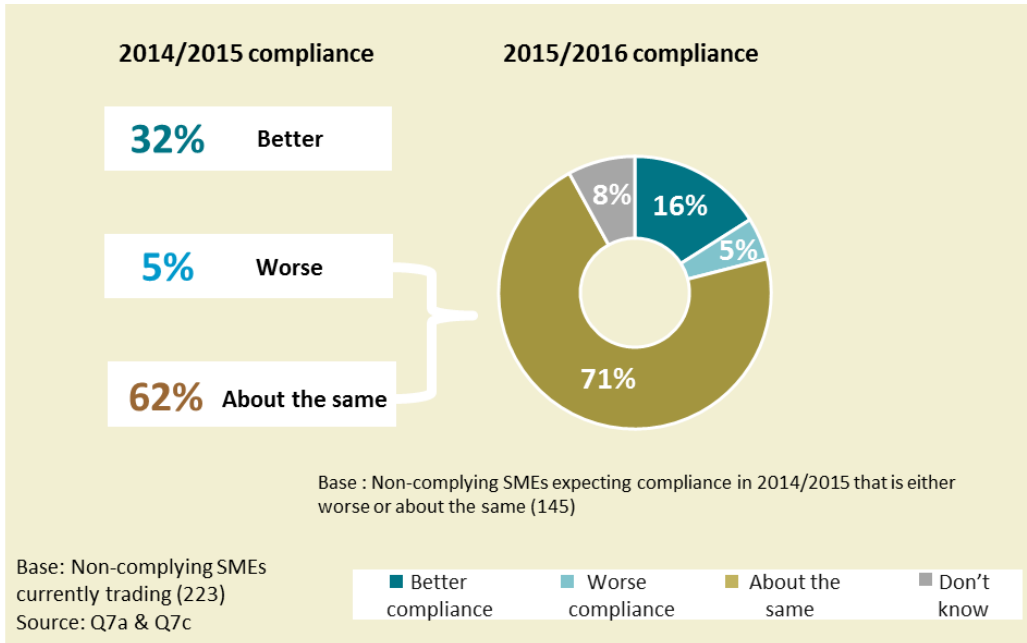


SMEs' views on their abilities to meet future tax obligations are generally positive or neutral compared to the last tax year. The vast majority (96%) say their tax compliance will either be better (20%) or about the same (76%). Of the 3% who say it will be worse, around a third (31%) say they expect it to improve for the 2015/2016 tax year.

### Expected ability to meet tax obligations – SMEs with poor compliance

The following chart presents the same results, but for non-complying SMEs (as defined by IR administrative data).

#### Expected ability to meet tax obligations – Non-complying SMEs



Among non-compliers<sup>6</sup>, around one third (32%) expect their tax compliance to be better for the 2014/2015 tax year. Of those who say it will be 'worse' or 'about the same' in 2014/2015, around one in six (16%) expect it to be better in 2015/2016. These results equate to around four in ten (43%) non-complying SMEs saying their tax compliance will be better by the 2015/2016 tax year.

Respondents were asked why they expected their tax compliance to improve or worsen in the 2014/2015 tax year. Responses are detailed in Appendix A and are very similar to those provided in relation to why tax compliance has improved or worsened since the earthquakes (covered earlier in this section).

<sup>6</sup> For the purpose of this analysis, non-complying SMEs are defined as SMEs that according to 2014 IR administrative data were 'non-compliant' or had 'very poor', 'poor', or 'less than good' compliance in regard to either PAYE, GST or income tax payments.

## Section 6. Perceptions of hidden economy

This section explores *perceptions* of the hidden economy.

### Perceived change in hidden economy activities

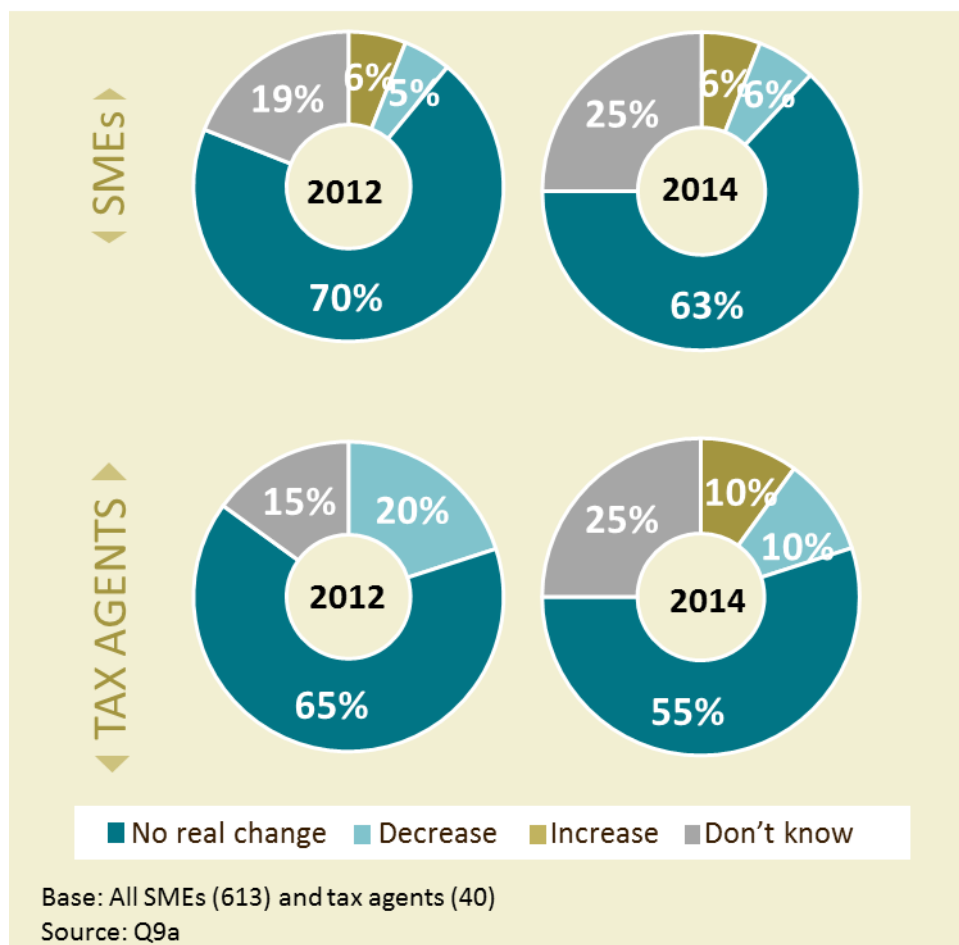
In the telephone survey, hidden economy activity was described to respondents as payments businesses receive for work completed that they do not declare for tax purposes. Respondents were further told that this included cash payments which are sometimes referred to as payments made ‘under the table’.

SMEs were asked whether they think that in their own industry these types of payments have increased since the earthquakes, decreased or if there has been no real change.

Likewise, tax agents were asked whether among their own business clients, they think these types of payments have increased since the earthquakes, decreased or if there has been no real change.

The results to both of these questions are displayed in the chart below.

### Perceived changes in incidence of hidden economy activities



Among SMEs, a majority (63%) still believe there has been no real change in hidden economy activity. There has been a small increase in the level of uncertainty (25% in 2014 compared to only 19% in 2012).

Sub-group analysis of the quantitative data by industry group reveals there are no significant differences in the proportion of businesses who now feel there has been an increase in hidden economy activities since the earthquakes.

Tax agents exhibit greater shifts in their views on the incidence of hidden economy activities. One in ten (10%) tax agents now believe there has been an increase (no tax agents thought this in 2012). Further, one quarter are now unsure about what changes have occurred (25% compared to 15% in 2012). Fewer tax agents now believe there has been a decrease in such activities (10% compared to 20% in 2012) or no real change (55% compared to 65% in 2012).

These findings should be interpreted within the context of the qualitative research findings. In particular, both business owners and tax agents tend to quote what they have seen in the media, heard anecdotally, or what they perceive as the likely opportunities for cash, rather than from personal experience. None of the SMEs interviewed in the qualitative research had personal exposure or knowledge of the hidden economy in their own business.

Tax agents interviewed in the qualitative research generally did not know what their clients might be doing in regards to cash because it is not something that clients would disclose to their tax agent. They do not see evidence of expense claims being out of balance with income. If there was any indication of under-declaring, tax agents would stop doing work for those clients.

There was some minimising of the extent of the 'problem' with most people thinking that even if it was widespread (and they don't think it is) it will be very small amounts and not significant in terms of government source of income.

*"No one's going to build a house for cash, so it's generally looking at fairly small jobs, plumb a toilet, fix a tap, or plaster a kid's room. There's plenty of income coming in to the Government through the rebuild, and a lot of that money is coming in from insurance companies and offshore, the Government's going to do okay out of the rebuild."*

**(Hospitality (restaurant), recovered, 20+ employees)**

### Reasons for perceived increase in hidden economy activity

In the telephone survey, business owners who thought there had been an increase in hidden economy activity were asked why they held that perception. Results are presented in the following table.

Respondents could give more than one answer. Categories that are similar to each other have been grouped together and presented as a 'nett score' (see bolded figures).

#### Reasons for perceived increase in hidden economy

	2012 (34) %	2014 (39) %
<b>Quicker process</b>	<b>32</b>	<b>21</b>
Get job done quicker/easier	19	18
Disorganised/busy/no time for paperwork	13	3
<b>More smaller contracts</b>	<b>21</b>	<b>18</b>
More small/cowboy operators	13	18
Small work contracts are not monitored closely	9	-
<b>Financial pressures/competition</b>	<b>33</b>	<b>16</b>
Competition to win/get work	-	13
Labour shortage/competition	2	3
Tough/hard times/less cash/need cash	31	-
<b>Other</b>	<b>31</b>	<b>55</b>
More work/opportunity for cash jobs	-	31
Opportunities for it not to be noticed/slip through the cracks	21	6
Cheaper	2	6
People wanting to help each other	1	-
Mistakes/accountant too busy to look at books	-	2
Other	13	16
Don't know	-	7

Base: All businesses who believe that there has been an increase in hidden economy (2012 n=34, 2014 n=39)  
Source: Q9b

Many of the reasons are consistent between 2012 and 2014. Increases in hidden economy activities stem from competition to get work, an ability to get the job done more quickly, and smaller contracts. Since 2012, there is less mention of the need for cash in tough times and more mention of the greater opportunities for work and cash jobs.

These reasons were also given in the qualitative research. Further, it was evident that some people focus on the amount of physical cash that is circulating – some say that people are spending more and have more in their pocket since they had their insurance pay outs. Others say there is less cash as nearly all payment

transactions are electronic (and therefore recorded and accounted for).

*“In the construction sector there could be labour only work, but with bigger construction companies there’s less opportunity for it.”*

**(Tax agent)**

In 2014 the high risk trades are the same, but there is more opportunity in construction because of the nature of the residential rebuild – people think there will have been an increase in cash exchanges between home-owners and sole traders doing non-insurance repairs, maintenance and renovations, albeit they think this work is coming to an end.

The qualitative research suggests that other significant changes in Christchurch that may contribute to an increase in hidden economy activity are:

- an increase in sole trader start-ups which increases the number of small construction businesses that (historically) may do cash transactions
- the demand for staff outweighing the supply – possibly prompting cash payments
- the illegal employment of people from overseas (and paying them ‘under the table’)
- international employers and employees coming from economies with different social norms and tax requirements
- an increase in people hiring out rooms for accommodation and/or increasing rents without declaring income.

Possible justifications for cash include:

- time and cost benefits to get non-insurance work done. (This ‘tag on’ work to the insurance work has come out through higher demand and lower supply for repair work.)

*“As a result of the earthquakes and supply and demand all the material costs and wages have gone up hugely. While we had EQC do work in our house we took the opportunity to do other work. They would say ‘we’re going to paint all the walls and ceilings, architraves and the door jams’. And I would say ‘are you going to do the door? If you paint the jams it won’t match the colour of the doors’. They wouldn’t do it so I negotiated with the painter, ‘I’ll pay you directly to paint all the doors’.”*

**(SME)**

- redressing some of the costs imposed by the earthquakes
- unlikely to be detected
- social norms.

*“They would be thinking that everyone does it and it’s like a sport. And unless it’s done then you’re going backwards.”*

**(Tax agent)**

- It’s small scale and small amounts.

*“Businesses are pretty good, they do have responsibility, they know they can’t rip the whole system off and they don’t, and if they only take small amounts every so often, that’s what normally happens, then, yes people do miss out, I agree. We don’t get to see it and we can’t quantify it, but I think they take the view that it doesn’t really hurt anyone.”*

**(Tax agent)**

There is some suggestion that having been through a stressful event, the subsequent frustration with bureaucracy in general and constant delays may be a justification to ‘look after myself now’ i.e. it’s acceptable to pay and receive cash and not pay tax.

#### *Reasons for perceived decrease in hidden economy activity*

Business owners who thought there had been a decrease in hidden economy activity were asked why they held that perception. Results are presented in the next table.

Respondents could give more than one answer. Categories that are similar to each other have been grouped together and presented as a ‘nett score’ (see bolded figures).

**Reasons for perceived decrease in hidden economy**

	2012 (35) %	2014 (45) %
<b>Electronic transactions</b>	<b>33</b>	<b>54</b>
More electronic transactions/online banking	23	38
Less cash available/not wanting to release cash	13	26
<b>Larger contracts/personal involvement</b>	<b>44</b>	<b>26</b>
Involvement of professional organisations (e.g. CERA, EQC, HANZ)	25	16
Large companies winning tenders need correct paperwork	13	6
More bureaucracy/red tape in place	9	4
Large contracts/business to business contracts/not cash	15	1
<b>Fewer opportunities</b>	<b>16</b>	<b>8</b>
Economy/business is down	15	7
Due to earthquake businesses/people have left Christchurch	7	-
Less 'under the table' work offered	-	-
<b>Other</b>	<b>12</b>	<b>25</b>
IR takes action/IR visible	-	8
Growing businesses don't want to risk it/want to do the right thing	1	1
Logistics of making insurance claims	3	-
Other	8	19
Don't know	1	7

Base: All businesses who believe that there has been a decrease in hidden economy (2012 n=35, 2014 n=45).

Source: Q9c

The reasons given for reductions in the hidden economy in 2012 and 2014 are very similar. However, more mention of electronic transactions (54%) is now given. Although less commonly mentioned than in 2012, significant mention is still made of larger contracts and the involvement of professional bodies (and the associated red tape) (26%).

The qualitative research findings support the above findings. Further, the arguments against the cash economy are considered to be:

- less government revenue for the rebuild
- poor quality work.

*“For the rebuild the concern for me is that you’ve got these cowboys running around the village not doing a good job, that’s a big worry, because it’s not being signed off.”*

**(Tax agent)**

For new business start-ups there is some suggestion that when people first start a business they may erroneously pay people cash when they shouldn't. Usually this is because it seems easier or they don't know how to account for it. As they get more experienced they will realise how it should be accounted for and/or they move to fully computerised accounting packages and electronic transactions.

The following quote illustrates how business management may evolve to eventually minimise unrecorded cash payments.

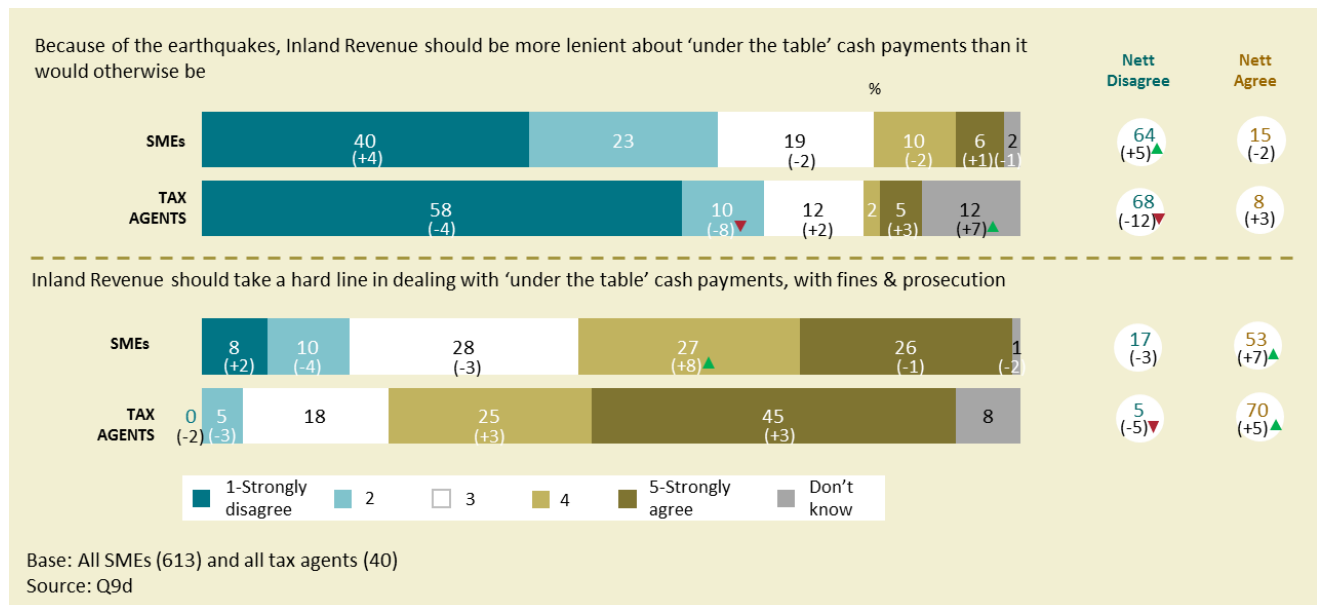
*“When we started to get a staff member the weekly wages were minimal, I thought how am I going to get the money out? I thought I’ll just take out \$100 a fortnight and I had petty cash there and when I do the wages I’ll just pay it out of there. So I would take out petty cash and just record it in the book as petty cash wages and pay it all out. You’d get the tax return and ACC comes out with the wages and there was a discrepancy. The accountant said ‘you’re meant to separate that out’. It was mixed in with the petty cash. And now because we’ve got more staff we draw a cheque for the exact amount of the wages and coded to the wages and so now the financial report should be exact with the PAYE and ACC.”*

**Accommodation (motel, growth, less than 5 employees)**

## IR actions to address hidden economy activities

To measure SMEs' and tax agents' attitudes towards IR's approach to addressing hidden economy activities, respondents in the telephone survey were asked how much they agreed or disagreed with two statements. These statements along with the results are presented in the following chart.

### Attitudes towards hidden economy activities



There have been some attitudinal shifts related to hidden economy activities, with greater support for IR taking a hard line in dealing with 'under the table' cash payments (agreement has increased by seven points to 53% among SMEs and five points to 70% among tax agents). Consistent with this, SMEs demonstrate less support for IR being more lenient about cash payments because of the earthquakes (disagreement has increased five points to 64% since 2012). Interestingly, however, tax agents are less sure about their views on this, with more saying they 'don't know' (up 7 points to 12%) and fewer disagreeing with the notion (down 12 points to 68%).

*Because of the earthquakes, IR should be more lenient about 'under the table' cash payments than it would otherwise be*

The strengthening of opposition to this notion among SMEs appears to be strongest among:

- Agriculture, forestry and fishing (disagreement up 20 points to 64%)
- Retail trade (disagreement up 14 points to 71%).

Conversely, there is now greater support among:

- Accommodation and food services (agreement up 17 points to 30% and disagreement down 10 points to 50%)
- Administrative and support services (disagreement down 18 points to 48%)



*IR should take a hard line in dealing with ‘under the table’ cash payments*

The strengthening of support among SMEs for this statement is strongest among:

- Agriculture, forestry and fishing (agreement up 16 points to 56%)
- Wholesale trade (agreement up 21 points to 71% and disagreement down 15 points to 11%)
- Accommodation and food services (agreement up 14 points to 57%)
- Professional, scientific and technical services (agreement up 16 points to 62%)
- Businesses currently in debt (agreement up 18 points to 50% and disagreement down 10 points to 15%)
- Although all business size groupings exhibit greater support for this notion, it has especially strengthened among businesses with 6 to 19 employees (agreement up 20 points to 66%), and to a lesser extent businesses with 20 or more employees (agreement up 8 points to 68%).
- There is now weaker support for the notion that IR should take a hard line in dealing with the under the table cash payments among:
  - Manufacturing (disagreement up 13 points to 27%)
  - Administrative and support services (agreement down 15 points to 34% and disagreement up 10 points to 34%).

In the qualitative interviews (in all years 2012-2014) there were suggestions for IR to increase audit activity. However, some tax agents doubt that it is cost effective in terms of IR's time and resources to audit small businesses that might have some cash dealings.

*“Joe plumber – if they opened up all his bank accounts and looked at how he’s been spending his money, it’s just not worth the time. For the people that we’ve come across, you might be getting 1% or 2% of the sales a year in cash, and that’s not a lot of money for the IRD spend when you add it up.”*

**(Tax agent)**

There are suggestions, however, that IR could have more of a deterrent presence in terms of discussion about the cash economy e.g. in the media and taking a hard line if cash dealings are uncovered.

*“Inland Revenue need to have more people on the ground looking at things, asking questions. Deterrence goes a long way. Conversely, if businesses know that the questions are not being asked, there’s not a reasonable chance of being caught out then they’re going to do it.”*

**(Tax agent)**

The NZ Contractors’ Federation suggest that IR work with organisations such as themselves to target businesses and homeowners with preventative communications messages. Leverage may be achieved through messages such as:

- homeowners who accept a ‘cash’ price may find that this is not necessarily the cheapest price had they gone to reputable companies for quotes
- written paperwork (in the form of scope of work, quote for work, invoice or receipt) will be critical if there is any dispute over the standard of work.

For business people, a key message is that if they seek bank finance or want to sell the business it is in their interests to have full records of revenue.

## Section 7. Inland Revenue's role in assisting tax compliance

This section examines IR's role in assisting SMEs' tax compliance.

In 2012, key points from the qualitative research were that:

- IR was approachable, available, flexible and lenient, but could have had a more 'extraordinary response' with heightened visibility in Christchurch, proactivity and individualised approach for an extended period of time.
- IR needed to recognise the different recovery phases that SMEs were in and respond accordingly: in the survival phase IR was required to provide close debt management; in the recovering phase IR was required to ensure that tax management was a high priority; and in the recovered phase IR was required to use enforcement strategies for outstanding debt and provisional tax payments. Growth industries needed to be encouraged to closely monitor their financial position and IR needed to closely monitor their tax position.

As discussed earlier in this report, in 2014, the environmental factors, psychosocial phase and business factors are all predictors of tax compliance and also have associated responses from IR.

### Pre-earthquake

Before the earthquakes (the old 'business as usual' customer model) IR's role was perceived as a mix of tax collection and tax advisor/consultant with less weighting on the latter. There was also a reactive versus proactive component, with IR being seen as more reactive – imposing penalties and interest charges – than providing proactive advice and help.

### Heroic and honeymoon response

As with other government agencies, IR changed their service model during the heroic and honeymoon phases when businesses were not trading at all or just surviving. Both SMEs and tax agents commend IR's response for the first year or so. IR was helpful, supportive and flexible and had a high profile in the community. In this phase there was less emphasis on tax collection, penalties and interest and more emphasis on help, advice and consultancy than at any time previously.

### 2014 response

Some agents suggest that IR's 2012 response may have introduced a degree of deprioritising of tax payment that has carried through to the current environment.

*"The IRD were very lenient post-earthquake and I think they caused themselves a few problems by being possibly too lenient. Just pay us when you're ready. They must have been told 'don't put any pressure on' but I suspect that possibly lulled some clients into a false sense of security."*

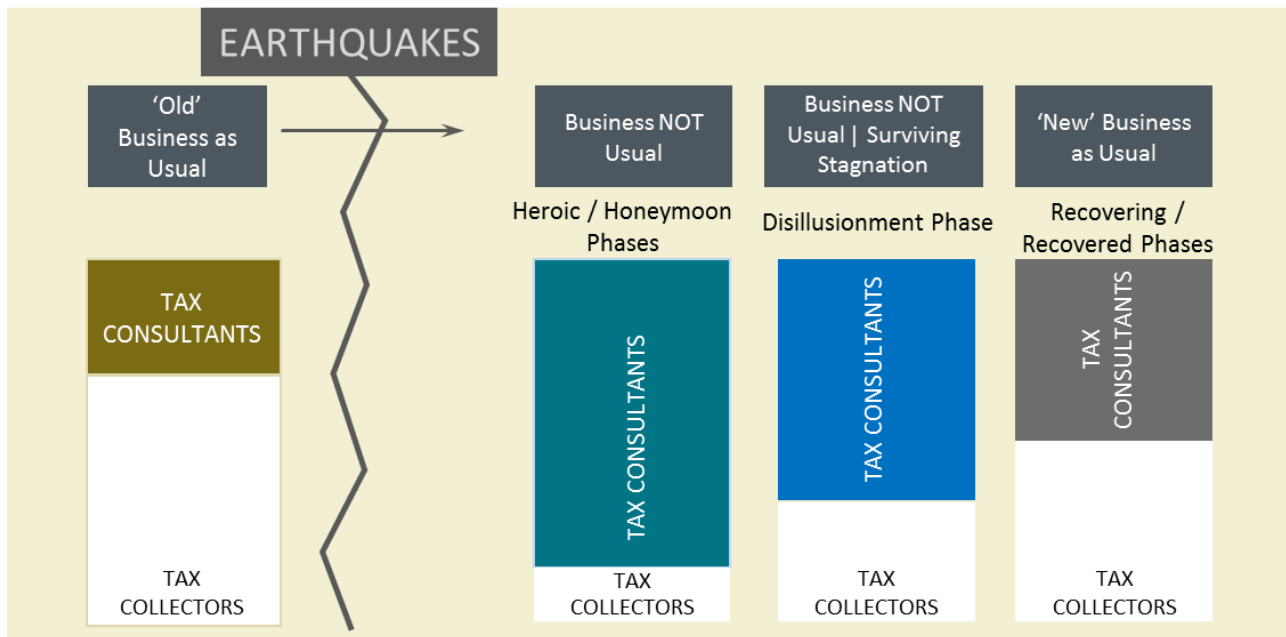
(Tax agent)

Some businesses have rapidly grown or recovered and SMEs and tax agents tend to perceive that it is appropriate for IR to implement (a new) 'business as usual'. However, there is an emphasis on the fact that it should be a new business model that has more flexibility, advice and help on a case by case basis than the 'old' tax collection model, to reflect the still constantly evolving business environment in Christchurch. There are also risks inherent in growth, and tax agents suggest that these businesses may need mentoring and advice.

For businesses that are still surviving, stagnating and/or just beginning recovery (and if it is compounded by disillusionment), there is still a requirement for IR to respond more as it did in the first year or so, with the appropriate response determined on a case by case approach in conjunction with the business and the tax agent. There is emphasis from tax agents that those with a good business model will eventually recover once the environmental factors have worked through. They also warn that there are SMEs with poor business models that are financially vulnerable.

The following chart illustrates what SMEs and tax agents perceive as the appropriate balance for IR's role as tax 'collector' versus tax 'consultant' at the various stages of psychosocial and business recovery. The new 'business as usual' has more emphasis on tax consultancy than the pre-earthquake model. This is because there is still (and will be for the foreseeable future) uncertainty around the Christchurch economy.

## Inland Revenue's role through the phases



In terms of the tax collection role, tax agents suggested that IR acted appropriately in the early phases of the disaster (with minimal tax collection pursuit), but as businesses recover, IR needs to more actively manage tax collection so that debt does not compound.

*“After a disaster like that, you do need to have a period where you are relaxed and a bit more lenient, to support those businesses through – because in the long term it’s going to be better off having the businesses there, but there’s also the problem that if you put taxes back, it creates a wave then that they have to catch up. All of a sudden they’ve got to make that current payment and catch up on previous ones. There needs to be a timeframe and very managed to get back into the normal process – a staggered approach.”*

**(Tax agent)**

There are still businesses that are not yet recovered and they still need targeted assistance. A tax agent in the qualitative research had just had a visit from the Community Compliance team who are locally based in Christchurch. He thought it was appropriate that IR should be offering practical assistance to help people trade their way through financial and tax problems.

Tax agents feel that IR has too quickly gone back to the (old) business as usual model of tax collection.

*“I think the IRD were very lenient for two years after the earthquakes and pretty much to the day once those two years were up all bets were off and they’ve raised the bar dramatically since then. Definitely, there is a tightening going on that we’re picking up on.”*

**(Tax agent)**

*“They snapped back quite hard and I can understand why, powers up the food chain would have said ‘enough’s enough; we’ve got to get the money in’.”*

**(Tax agent)**

#### Compliance risks identified by tax agents

In the current phase of recovery ('new' business as usual), tax agents perceive there to be two main compliance risks – start-up businesses and rapid growth businesses, and both need targeted assistance from IR.

#### Start-up/new entrant business

The new business start-up risks include businesses started by New Zealanders (who were previously salary and wage employees) and new immigrants who have less knowledge of New Zealand business tax compliance requirements. Both groups need targeted advice from IR.

*“In the past IRD have been very helpful with start-up businesses. There’s a lot of businesses starting up in Canterbury and they can go to accountants and the Chamber of Commerce for advice but that costs money. IRD have become very low profile. They could be offering seminars and advertising for people who are starting up... There’s a lot of younger people in Canterbury starting businesses and there’s also a lot of people coming in from offshore that know very little about tax compliance in New Zealand.”*

**(Tax agent)**

*“Inland Revenue should get in front of them straight away. I don’t think Joe Bloggs is going to sit down and read something out of the IRD, or a hand out, or look on the net and see a video of it, or a YouTube clip on budgeting for tax. It’s too costly to have an IRD rep come out and talk to someone. IRD have got GST registration, email address, cell phone. Use that technology – maybe for the first year tweeting or emailing, saying ‘you’ve got PAYE due on the 20<sup>th</sup> of the month, you’ve got GST due, make sure you budget, if you have issues go and see your accountant’.”*

**(Tax agent)**

#### Rapid growth/booming business

Tax compliance risks are presented by businesses in rapid growth phases and tax agents recommend that these businesses be targeted with preventative messages.

*“(Inland Revenue) should be monitoring businesses compliance and immediately liaising with businesses (if they get behind in returns and taxes). Rather than a stick approach, it needs to be a liaison system where they try to help businesses to comply and pay, a solution-based approach.”*

**(Tax agent)**

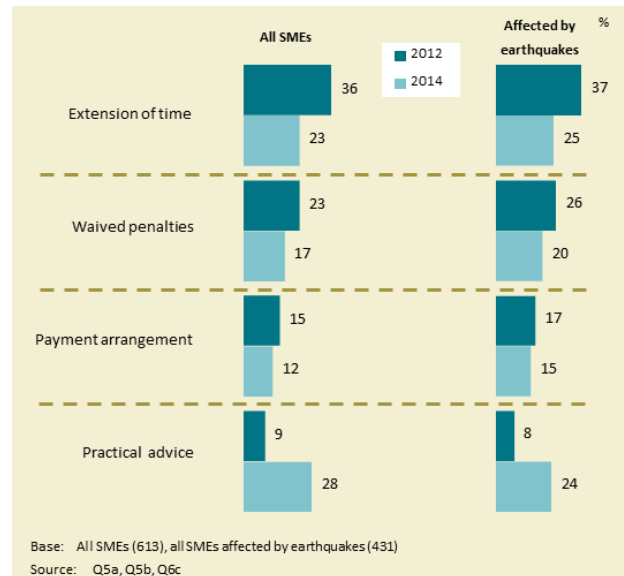
## The extent of SMEs’ take up of IR assistance

To measure the extent to which SMEs took up IR assistance, all SMEs in the telephone survey were asked whether they:

- or their accountant received an extension of time for their business to file a tax return or pay tax (in the 2013/2014 tax year)

- had a payment arrangement with IR whereby they agreed to pay off a tax debt in instalments over time (in the 2013/2014 tax year)
- had IR waive penalties for the late payment of tax (in the last 12 months)
- were provided with any practical advice by IR – such as information on the importance of backing up or saving records off site, or tax software packages (in the last 12 months).

### SMEs’ take up of IR assistance



A quarter or less of SMEs received each of the different types of assistance in the 2013/2014 tax year (or last 12 months).

Receipt of an extension of time, waived penalties and a payment arrangement are less common than in the 2012 survey. Businesses affected by the earthquakes continue to be somewhat more likely to receive each of these forms of assistance.

Receipt of practical advice from IR has increased markedly since the 2012 survey (from 9% to 28% among all SMEs).

Sub-group analysis shows the following patterns in the 2014 data:

- Receipt of an extension of time is highest among businesses currently in debt (41% compared to 21% of those without current debt)
- Waived penalties are also most common among businesses currently in debt (34% compared to 15% of those without current debt)
- Payment arrangements are most common among businesses currently in debt (45% compared to 8% of those without current debt), businesses with 20+ employees (26% compared to 12% of smaller businesses), and businesses in the retail trade (22%)

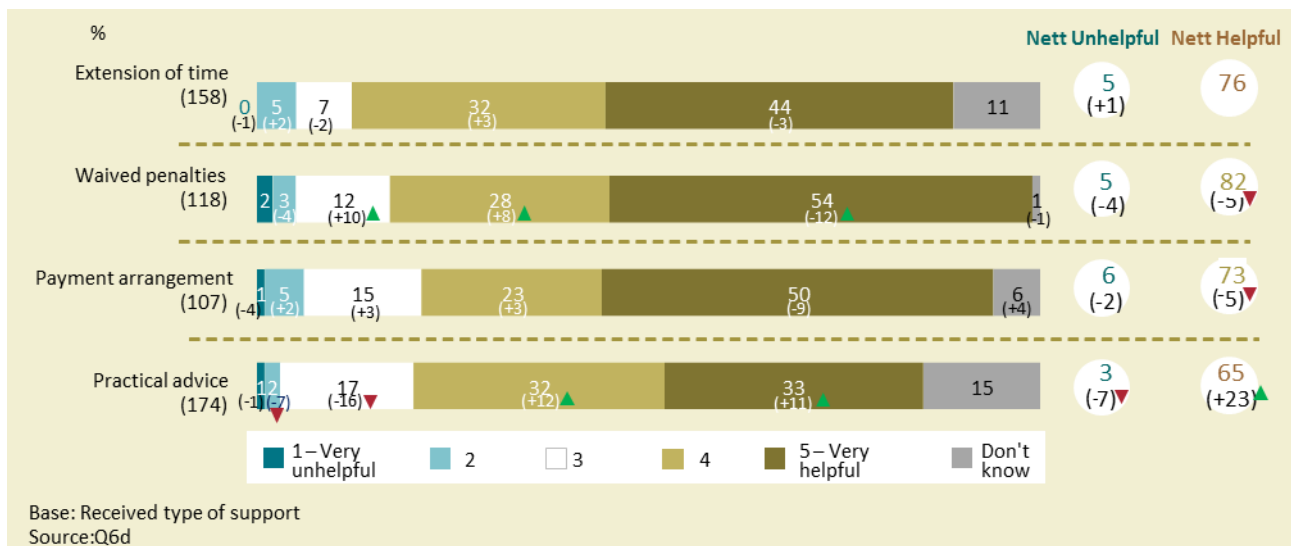
- Practical advice from IR is most common among businesses in the wholesale trade (50%) and businesses with 6-19 employees (39%).

## Perceived helpfulness of IR assistance

Business owners in the telephone survey were asked to rate each of the types of assistance they received by IR on a five point scale where 1 is 'very unhelpful' and 5 is very 'helpful'.

Note, for each type of assistance, the base sizes in 2012 and 2014 are different because different numbers of businesses accessed assistance in the 12 months prior to the 2014 survey than in the 12 months prior to the 2012 survey. Therefore, changes observed between the two surveys may in part be due to the different bases.

### Perceived helpfulness of IR assistance



Businesses continue to rate each type of assistance favourably. Waived penalties are rated most positively (82% consider these to be helpful), followed by extensions of time (76%) and payment arrangements (73%). Waived penalties and payment arrangements are not viewed quite as positively as they were in 2012 (down five points respectively). While only two thirds (65%) of businesses that received practical advice from IR regard it as helpful, this is markedly higher than in 2012 (up 23 points).

As already discussed, the qualitative research findings indicate that IR has a reputation among Christchurch SMEs and tax agents for being helpful, approachable, lenient, flexible and offering assistance on an individualised case by case basis. There is an argument that this should continue for SMEs who have not been able to recover, but are still financially viable.

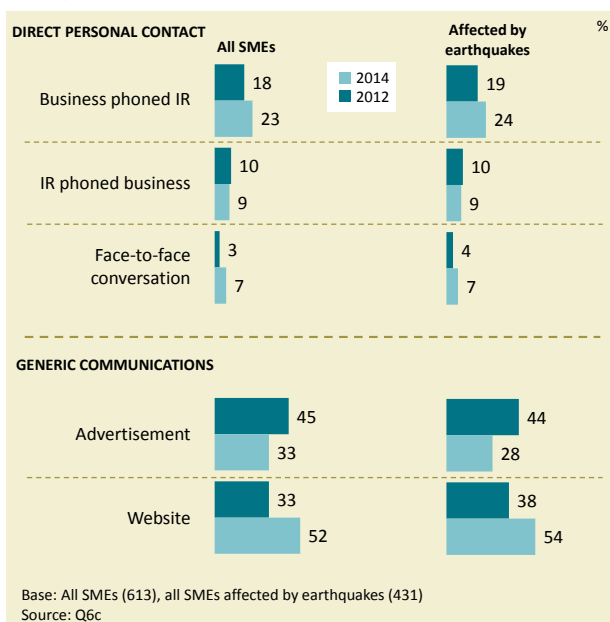
## Prompted recall of IR contact and communications

Respondents were asked in the telephone survey whether or not in the last 12 months:

- they phoned IR to ask for advice and assistance
- IR phoned them to ask how they were getting on and see how they could help
- they spoke to an IR person face-to-face
- they saw an advertisement from IR offering help and a phone number to call
- they visited IR's website.

- Outbound phone calls from IR are most common among those currently in debt (22%)
- Face-to-face conversations with IR are more common among the accommodation and food services industry (20% compared to 7% of all SMEs)
- Recall of an IR advertisement (33% of all businesses) is higher among those in agriculture, forestry and fishing (53%) and the wholesale trade (50%)
- Visiting IR's website (52% of all businesses) is more common among businesses in the services sector (64%) and businesses with 6-19 employees (65%).

### Prompted recall of IR contact and communications



A small minority of SMEs had direct contact with IR in the last 12 months; the business phoning IR is the most common with nearly one in five (23%) doing this (up five points since 2012). Outbound calls by IR (9%) and face-to-face conversations with IR (7%) continue to be less common, although the latter has increased by four points since 2012.

Qualitatively, tax agents suggest that SME compliance will be assisted if IR (continue to) have a face-to-face community presence in Christchurch.

In terms of the more generic channels of communication, businesses are less likely to have seen an IR advertisement in 2014 (33%, down 12 points since 2012) but markedly more likely to have visited IR's website (52%, up 19 points since 2012).

Sub-group analysis of the 2014 survey data shows:

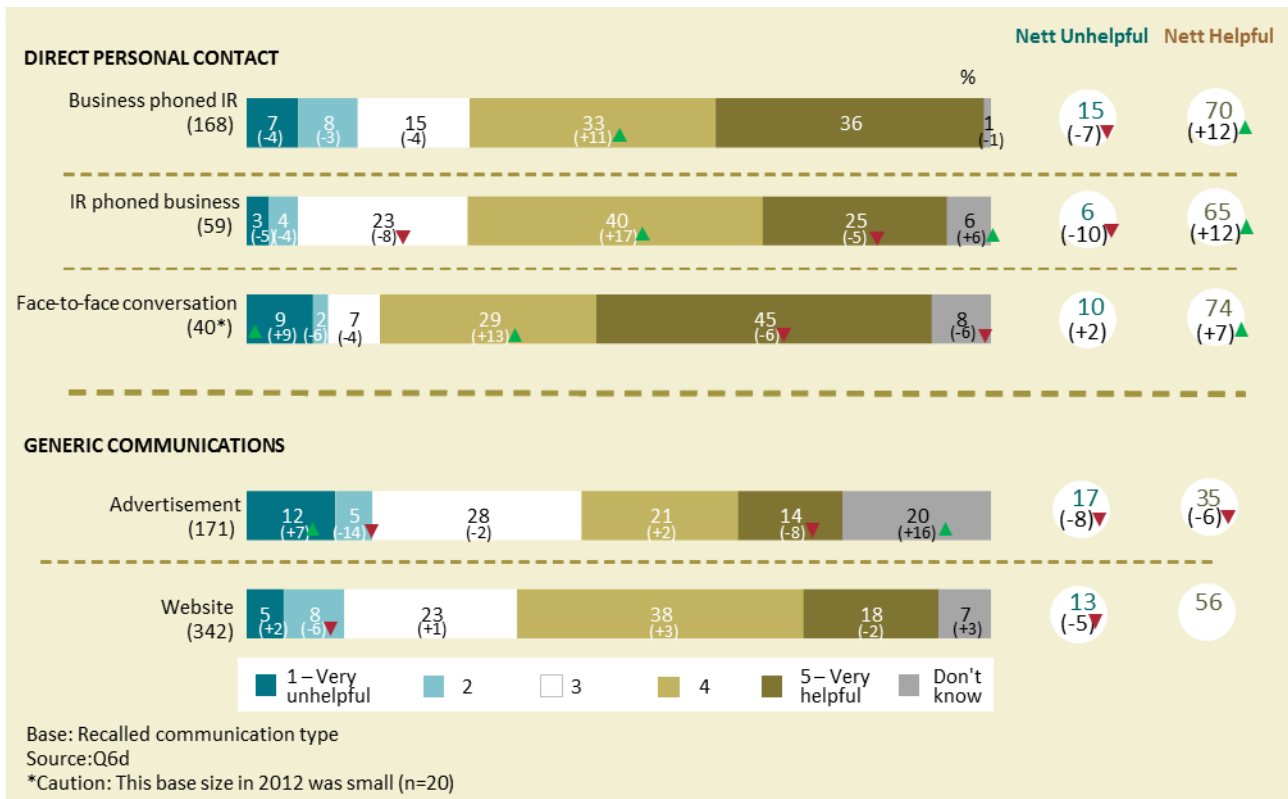
- Phone calls to IR (23% of all SMEs) are more common among the business and finance sector (39%) and businesses currently in debt (37%)

## Perceived helpfulness of IR contact and communications

Business owners were asked to rate each of the communications they recalled using a five point scale where 1 is very unhelpful and 5 is very helpful.

Results are presented in the graph overleaf. Note, for each type of assistance, the base sizes in 2012 and 2014 are different because different numbers of businesses accessed assistance in the 12 months prior to the 2014 survey than in the 12 months prior to the 2012 survey. Therefore, changes observed between the two surveys may in part be due to the different bases.

**Perceived helpfulness of IR contact and communications**



Business owners rate direct communications with IR more highly than in 2012; three quarters (74%) rate face-to-face conversations as helpful (up seven points), 70% rate their phone calls to IR as helpful (up 12 points) and 65% rate outbound calls from IR as helpful (up 12 points).

The qualitative interviews identified a level of frustration with bureaucratic delays and people. Therefore, they have a heightened need for personal, individualised and efficient response. The quantitative results suggest that IR is delivering on personalised service.

IR advertisements are viewed as less helpful than in 2012 (down six points to 35%). A small majority (56%) continue to rate IR’s website as helpful.

## Suggested improvements for the recovery phase

In the telephone survey, tax agents were asked (without prompting) what would be most helpful in helping their business clients that have been affected by the earthquakes meet their tax obligations in the next 12 months. Responses to this question are detailed in the next table.

Respondents could give more than one answer. Categories that are similar to each other have been grouped together and presented as a 'nett score' (see bolded figures).

### Factors that would aid businesses in meeting their tax obligations

	2012 (40) %	2014 (40) %
<b>IR actions</b>	<b>40</b>	<b>20</b>
Extension of time from IR to file a return or make payment	18	12
IR waiving penalties for late tax payments	22	10
Payment arrangements/instalment arrangements with IR	22	8
Flexibility in filing/payment of returns/overdue returns	2	2
Waive interest rates	2	-
<b>IR contact and information</b>	<b>2</b>	<b>5</b>
Face-to-face visit with IR staff member	2	-
Phone calls from IR to see how you're getting on/provide help	-	2
Practical advice from IR, e.g. information on backing up records off-site, tax software packages	-	2
<b>Other</b>	<b>60</b>	<b>60</b>
Clients able to meet obligations/nothing they require	15	12
Offer help/support/understand client's situation	12	8
Improve trading conditions	5	5
Insurance companies to settle on time/quicker	2	5
Assistance/support in the building industry	-	2
General business mentoring	5	-
Get on with the recovery/repairs	5	-
Other	15	32
Don't know	8	25

Base: All tax agents (n=40).

Source: Q6e

Both these results and those from the qualitative interviews with tax agents suggest that assistance is less obvious now that the immediate crisis has passed.

Suggestions still most commonly centre on types of IR assistance that give financial relief, namely extensions of time to file a return or make a payment, the waiving of penalties, and payment arrangements (20% commented on these types of actions compared to 40% in 2012).

In the qualitative interviews, tax agents spoke about IR being aware of where the compliance risks are and acting on those, while still continuing to support individual SMEs.



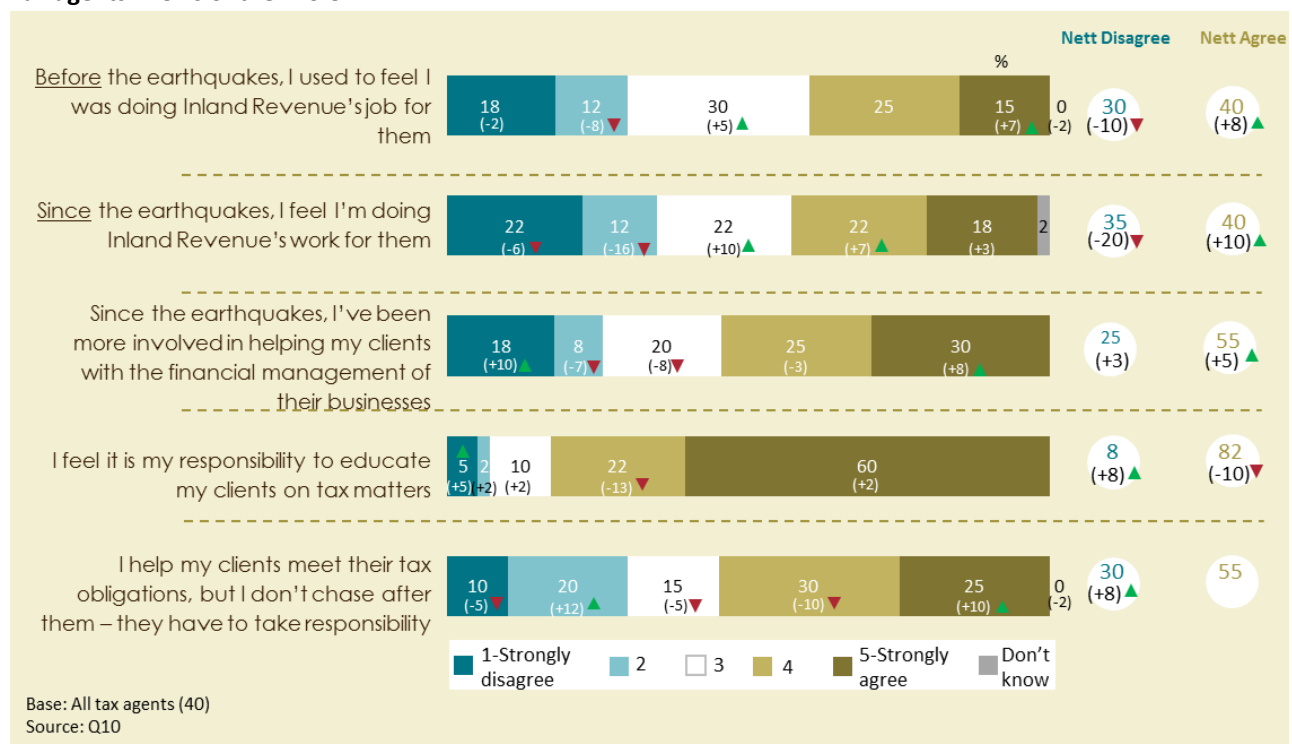
## Section 8. Tax agents' and other agencies' support of SMEs

This section discusses how SMEs are supported and assisted in their tax compliance.

### The role of tax agents

In the telephone survey, tax agents were asked to describe their views of their role by indicating the extent to which they agreed or disagreed with a series of statements.

#### Tax agents' views of their role



There appear to be a number of shifts in how tax agents view their roles. A sizeable majority (82%) of tax agents continue to feel that it is their responsibility to educate their clients on tax matters, but agreement with this notion has dropped 10 points since 2012. Conversely, more tax agents now agree that since the earthquakes they feel they have been doing IR's work for them (up 10 points to 40%) and that before the earthquakes they used to feel they were doing IR's work for them (up 8 points to 40%).

Tax agents' views on whether they have been more involved in helping their clients with the financial management of their business since the earthquakes are now more polarised; the proportion who strongly disagree (18%) and the proportion who strongly agree (30%) both reflect increases on 2012 (up 10 points and 8 points, respectively).

Tax agents are also more polarised on the viewpoint that they help their clients meet their tax obligations, but don't chase after them as their clients have to take responsibility; strong agreement has increased by 10 points to 25% and nett disagreement has increased by 8 points to 30%. Overall, just over half (55%) agree with this notion.

In the qualitative research, tax agents suggested that their role as business advisors (not solely tax advisors) has expanded.

*“After the earthquake a lot of businesses looked to their accountants for advice such as information for insurance claims, relocation, a whole raft of things. And some of that has continued. So a lot of accountants now see their primary role as being business advisors.”*

**(Tax agent)**

Tax agents also support IR having more of an ‘on the ground’, high profile role providing consultancy, information and education (in conjunction with the agent).

*“Inland Revenue have got to keep people more aware, keep it in the front of their minds about when payments are due, how to budget for it. Inland Revenue should be saying that they should be putting a certain percentage aside of their sales. While it’s not necessarily their (IR’s) job it’s part of the way that they can improve payments, and then they should be saying ‘go and seek advice of a professional’... People have got to run their businesses responsibly, if you do that then there’s always going to be money there to pay your bills.”*

**(Tax agent)**

Tax agents want an efficient, timely service from IR for any interactions between IR and SMEs or agents contacting IR on behalf of their clients, with recognition of tax agents’ costs in terms of time. They can be frustrated with telephone contact and administrative systems. Note, many tax agents have been affected by the earthquakes both professionally and personally, and some of them expressed similar disillusionment sentiments as the SMEs they are acting for.

*“We’re finding Inland Revenue very, very hard to make contact with. They’re insisting that we do e-correspondence now so the clients ring us up saying ‘I can’t get through’. We’re ending up being the meat in the sandwich between the client and the IRD. I know the drive is to get everything to be online, but I had a guy ring me up ‘I’ve just paid my June PAYE for May and I put it in to 2015’. All it’s doing is just loading us up with cleaning up stuff. That is a big frustration for me.”*

**(Tax agent)**

Tax agents resist the role of tax ‘collector’ because it takes (unpaid) time and they don’t want that sort of ‘policing’ relationship with their clients.

*“IRD want us to do debt collection for them... it’s a balance between us being seen as the compliance person versus IRD being the compliance person. We don’t want to be seen as being the policeman.”*

**(Tax agent)**

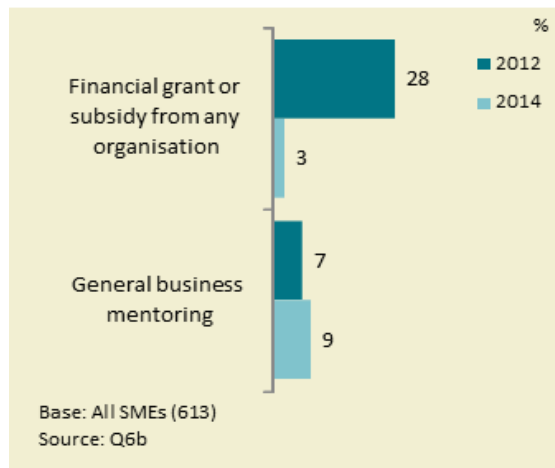
*“I’ve got a phone message. Here’s an example where if they can’t contact the client they ring us and they leave an 0800 number from the collections team. I’m not ringing back an 0800 number. Are you kidding me? That’s dreams. I’m not here as the collection agent for the IRD.”*

**(Tax agent)**

## Other support - financial grants and subsidies

Respondents in the telephone survey were asked whether they had received a financial grant or subsidy from any organisation in the last 12 months. They were also asked whether they had received general business mentoring from any organisation in the last 12 months.

### Other support received



Receipt of a financial grant or subsidy from any organisation in the last 12 months has dropped substantially (from 28% to just 3%). Note, the 2012 figure is most likely a reflection of the initial government grant to pay staff etc.

Slightly more businesses have received general business mentoring (up two points to 9%).

In the qualitative interviews, some businesses and tax agents suggested that business mentoring would be timely for surviving, new, and growth businesses.

Sub-group analysis of the 2014 data shows that businesses in the wholesale trade, and businesses with 6-19 employees, are more likely to receive general business mentoring (25% and 22% respectively compared to 9% of all SMEs

## Appendix A – Detailed tables

### Detail of movements between stages of recovery

2012 stage of recovery	% type	2014 stage of recovery				
		Not trading (45)	Surviving (90)	Recovering (146)	Recovered (155)	Not affected & currently trading (170)
Not trading	Column %	27%	9%	1%	1%	0%
Surviving	Column %	13%	58%	31%	15%	0%
Recovering	Column %	18%	28%	43%	34%	0%
Recovered	Column %	6%	4%	25%	50%	0%
Not affected & currently trading	Column %	36%	0%	0%	0%	100%
Not trading (26)	Row %	56%	34%	7%	4%	0%
Surviving (126)	Row %	5%	41%	37%	17%	0%
Recovering (162)	Row %	6%	17%	43%	34%	0%
Recovered (110)	Row %	3%	3%	32%	63%	0%
Not affected & currently trading (182)	Row %	9%	0%	0%	0%	91%

Base: See table. Note, base sizes do not add to 613 as 7 respondents answered 'don't know' in either 2012 or 2014 and have been excluded from the base

Source: Q1a, Q1c, Q1e (2012) & Q1a, Q1b, Q1e (2014)

The table above details the movements between stages from 2012 and 2014. Both column and row percentages are used:

- Column percentages show the proportion of businesses in a 2014 stage of recovery that were in a 2012 stage of recovery. For example, 28% of businesses that are 'surviving' in 2014 were in the 'recovering' stage in 2012.
- Row percentages show the proportion of businesses in a 2012 stage of recovery that are now in a 2014 stage of recovery. For example, 36% of businesses that were 'surviving' in 2012 are 'recovering' in 2014.

## Reasons for improved compliance since the earthquakes

	SME		Tax agents	
	2012 (27) %	2014 (54) %	2012 (6) %	2014 (11) %
<b>Improved financial position</b>	<b>81</b>	<b>68</b>	<b>67</b>	<b>55</b>
Business is financially stronger/better cash flow	75	66	67	55
Up-to-date with payments /prefer to pay on time	6	2	-	-
<b>Changes to business structure/staff/overheads/approach</b>	<b>6</b>	<b>15</b>	<b>17</b>	<b>18</b>
More organised/had more time to comply	6	10	17	9
Better systems in place	-	5	-	9
<b>Other</b>	<b>25</b>	<b>42</b>	<b>17</b>	<b>18</b>
Influx of people	6	6	-	-
IR has been helpful/ supportive with payment options	-	7	17	9
Other	18	29	-	9
Don't know	-	-	-	9

Base: Businesses and tax agents who believe their (or their clients) tax compliance has improved since before the earthquake

Source: Q5d

## Reasons for worsened compliance since the earthquakes

	SME		Tax agents	
	2012 (159) %	2014 (99) %	2012 (30) %	2014 (17) %
<b>Worsened financial position</b>	<b>68</b>	<b>69</b>	<b>70</b>	<b>65</b>
Lack of income/poor cash flow	58	52	57	65
Stopped trading	9	8	7	-
Other payment priorities e.g. staff/mortgage/food/ other creditors or debts	9	7	13	6
Loss of financial records	9	3	20	-
Business downturn	6	5	-	6
EQC slow in settlement or actioning request	3	-	-	-
Other expenses	2	4	-	-
More tax to pay	2	4	-	-
Had to pay late penalties/ interest	1	7	-	-
<b>Uncertainty</b>	<b>4</b>	<b>2</b>	<b>7</b>	<b>12</b>
Issues with insurance companies/inability to get funds/lack of proceeds/ insurance coverage	4	2	3	-
Feeling of hopelessness/ uncertainty/no motivation	-	-	3	12
<b>Focus on recovery</b>	<b>4</b>	<b>1</b>	<b>-</b>	<b>-</b>
Shifting premises	4	1	-	-
<b>Focus on business survival and growth</b>	<b>3</b>	<b>7</b>	<b>7</b>	<b>-</b>
Focussed on getting business up and running	2	5	7	-
Focussed on finding new contracts/work	1	3	-	-
<b>Other</b>	<b>40</b>	<b>33</b>	<b>27</b>	<b>29</b>
Premises damaged/ destroyed	11	2	7	6
Stress e.g. personal/ financial/business related	8	10	3	-
Difficulties/problems in accessing data/records/ mail	7	-	3	6
Got busy/focussed on other matters/was an oversight	5	3	7	6
Lack of information/ inconsistent information from IR	4	-	-	-
Accountant affected/ delayed filing of returns	3	5	-	-
No tax arrangements/ provisions	2	-	-	6
Fixed cost the same	1	-	-	-
Disruption in infrastructure	1	-	-	-
Other	6	14	10	12
Don't know	-	-	7	6

Base: Businesses and tax agents who believe their (or their clients) tax compliance has worsened since before the earthquakes.

Source: Q5d

Reasons for expectations of improved tax compliance in 2014/2015 tax year

	2012 (123) %	2014 (124) %
<b>Nett improved financial position</b>	<b>71</b>	<b>62</b>
Increased/more consistent turnover/business/customers/improved business forecast	40	24
Increased/more consistent cash flow/income/profits/improved financial position	22	46
Fewer business disruptions/earthquake related disruptions/more stable environment	13	1
Increased business opportunities due to earthquakes/involved in rebuild	3	1
Hard work/working harder	3	-
<b>Nett changes to business structure/staff/overheads/approach</b>	<b>20</b>	<b>18</b>
We are more structured/organised/have restructured business/reduced overheads	16	9
We have improved processes/systems	2	5
New accountant/changed accountants/working with accountant/accountant now back in business	2	4
We are employing more staff/new/dedicated staff member	1	1
<b>Nett uncertainty</b>	<b>9</b>	<b>2</b>
Depends if there are more earthquakes/disruptions/effect of earthquake	7	-
Depends on insurance pay outs/timing of insurance pay outs	3	-
Uncertainty/difficult times/lack of confidence	2	2
<b>Nett worsened financial position</b>	<b>4</b>	<b>1</b>
Downturn in business/income/cash flow/general economic downturn/late payments	4	1
Increased costs	-	-
Difficult to meet tax obligations	-	-
<b>Nett other</b>	<b>19</b>	<b>42</b>
Optimistic/confident for the future of Christchurch/recovery process	6	18
Expect to meet tax obligations	3	14
Don't expect to have tax to pay/to pay as much tax this year/will receive tax credit	2	3
Have arranged payments/working with IR	1	1
Other increased costs	-	2
Health issues are resolved/resolving	-	2
Other	6	11

Base: All businesses that are currently trading who believe they will be better at meeting their tax obligations this year compared to the previous tax year

Source: Q7b

Reasons for expectations of worsened tax compliance in 2014/2015 tax year

	2012 (53) %	2014 (25) %
<b>Nett worsened financial position</b>	<b>73</b>	<b>84</b>
Downturn in business/income/cash flow/general economic downturn/late payments	71	70
Difficult to meet tax obligations	10	19
Increased costs	4	2
<b>Nett improved financial position</b>	<b>5</b>	<b>7</b>
Increased/more consistent turnover/business/customers/improved business forecast	4	3
Increased business opportunities due to earthquakes/involved in rebuild	1	-
Increased/more consistent cash flow/income/profits/improved financial position	-	3
<b>Nett uncertainty</b>	<b>5</b>	<b>-</b>
Uncertainty/difficult times/lack of confidence	4	-
Depends on insurance pay outs/timing of insurance pay outs	3	-
<b>Nett changes to business structure/staff/overheads/approach</b>	<b>4</b>	<b>1</b>
We are employing more staff/new/dedicated staff member	4	1
<b>Nett other</b>	<b>30</b>	<b>14</b>
Don't expect to have tax to pay/to pay as much tax this year/will receive tax credit	9	-
Other increased costs	2	8
Expect to meet tax obligations	-	5
Other	22	10
Don't know	1	-

Base: All businesses that are currently trading who believe they will be worse at meeting their tax obligations this year compared to the previous tax year

Source: Q7b



## Appendix B – Sample profile

### Sample profile

	Unweighted data		Weighted data	
	n=631	%	n=631	%
<b>Business size (number of employees in 2012)</b>				
sole traders	227	37%	464	76%
1-5 employees	189	31%	95	15%
6-19 employees	153	25%	41	7%
20+ employees	44	7%	13	2%
<b>Business size (2014 turnover)</b>				
None	50	8%	66	11%
\$1 - \$500,000	296	48%	383	62%
\$500,000 - \$1 million	94	15%	70	11%
\$1 million - \$20 million	169	28%	94	15%
\$20 million +	4	1%	1	0%
<b>Debt history status (December 2010)</b>				
Currently in debt	114	19%	76	12%
Never in debt	149	24%	196	32%
Used to be in debt	350	57%	341	56%
<b>Industry</b>				
Primary	78	13%	94	15%
Agriculture, Forestry and Fishing	77	13%	93	15%
Mining	1	0%	0	0%
<b>Industrial</b>	<b>149</b>	<b>24%</b>	<b>124</b>	<b>20%</b>
Manufacturing	54	9%	32	5%
Electricity, Gas, Water and Waste Services	4	1%	7	1%
Construction	91	15%	86	14%
<b>Distribution</b>	<b>133</b>	<b>22%</b>	<b>106</b>	<b>17%</b>
Wholesale Trade	42	7%	43	7%

Retail Trade	68	11%	36	6%
Transport, Postal and Warehousing	23	4%	28	5%
<b>Business and finance</b>	<b>41</b>	<b>7%</b>	<b>61</b>	<b>10%</b>
Financial and Insurance Services	9	1%	14	2%
Rental, Hiring and Real Estate Services	32	5%	47	8%
<b>Service</b>	<b>212</b>	<b>35%</b>	<b>227</b>	<b>37%</b>
Accommodation and Food Services	39	6%	31	5%
Information Media and Telecommunications	7	1%	10	2%
Professional, Scientific and Technical Services	72	12%	90	15%
Administrative and Support Services	35	6%	40	7%
Public Administration and Training	2	0%	1	0%
Education and Training	10	2%	11	2%
Healthcare and Social Assistance	9	1%	7	1%
Arts and Recreation Services	10	2%	14	2%
Other Services	28	5%	22	4%

Base: All respondents