

Exploring the impact of adverse events on SME tax compliance behaviour: A longitudinal study

Findings from year 1



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Preface

The 2010 and 2011 Canterbury earthquakes caused major economic and social disruptions to everyday activities and social life. This triggered the need for Inland Revenue to look at its response to sudden large-scale adverse events (adverse events) to ensure that it can maintain collection of the financial resources required by the Government.

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 demands¹. 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 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, Inland Revenue 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.

Inland Revenue is carrying out a longitudinal research project over three to five years. The first year of this study consists of a desktop review of literature and secondary source data, environmental mapping using Inland Revenue's administrative data, and primary quantitative and qualitative research with SMEs and tax agents, carried out by Colmar Brunton.

This research forms part of a suite of research that the government, universities and other organisations are undertaking on the impact of the Canterbury earthquakes on New Zealand's social and economic wellbeing. Findings from the longitudinal study will feed into this bigger pool of information which will help other agencies in their decision and policy making. It will also help the government develop a collective view of the key issues facing Canterbury.

This report presents findings from the Inland Revenue administrative data analysis, and research undertaken with SME business owners and tax agents.

¹ 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.

Background and objectives of the longitudinal study

Background

Disasters or adverse events generally have two or three phases: prevention, response and recovery (Webb, et al., 1999; Kerstein, 2006; Runyan, 2006; Powell, 2010). Our research shows that for SMEs in Christchurch who are still operating there are several stages of recovery - surviving, recovering and recovered. Different phases of a disaster require different actions from Inland Revenue. In the aftermath of the Canterbury earthquakes Inland Revenue offered a package of general support to SMEs to assist businesses to recover by:

- Providing a range of tools and services that help organisations self-manage.
- Educating businesses about how they can comply with tax requirements during the recovery.
- Offering free business seminars and tailored presentations, meetings, events and expos for businesses affected by the earthquake.
- Waiving penalties for late filing.

There is some information that businesses do not always fail immediately after a disaster; sometimes it can take two to four years. Business owners can continue to struggle to recover until they have exhausted all their resources. The literature states that the smaller the business, the less likely the recovery. Those that rely on discretionary spend, or sustain more structural damage, and those that fail to comply with regulations (Stevenson et al, 2011) are particularly affected. In addition, smaller businesses generally have fewer resources to prepare for disasters. Large businesses tend to fare better than small businesses after a disaster as they tend to have more resources for disaster recovery (Webb et al, 1999; Kroll et al, 1991; Powell, 2010). For example, a New Zealand study found more than 80% of small to medium businesses have inadequate insurance (Powell and Harding, 2010).

A critical component of an efficient and effective tax system is voluntary compliance, i.e. tax payers proactively comply with their tax obligations. For this research, good compliance² is when an Inland Revenue customer files their tax return on time and pays tax owing on time and in full. Examples³ of good compliant attributes include a SME business owner who:

- is organised and uses a tax agent
- builds savings and uses personal cash reserves if necessary
- as a personal ethos or attitude about tax (e.g. that tax provides services to society)
- has good business acumen
- creates a financial forecast for the business
- belongs to professional bodies
- builds networks
- uses technology (e.g. MYOB) to help with their tax and other regulatory obligations
- uses good business practices (e.g. calendar)
- has insurance
- is proactive with entering into a dialogue with their tax agent and/or tax administration if facing a tax-related problem.

Risk factors that can lead to non-compliance are when the SME business owner:

- has a lack of knowledge/interest in tax obligations and poor knowledge of the business' financial situation

² There are five components of tax compliance. These are registration, reporting, filing, payment and claiming. The research will focus on the filing and payment components of compliance. These categories are defined as the percentage of returns filed on time and the percentage of payments made on time. That is the ratio of number of late filings to a total number of filings per tax year. A return is considered to be on time if it is filed within seven days after the due date, and the ratio of number of late payments to a total number of payments per tax year. A payment is considered to be paid on time if it is paid in full within seven days after the due date.

³ The examples of good and poor compliant behaviours were identified from the project's interviews and survey, and also from previous SME research (Poppelwell, Kelly, and Wang, (2012).

- considers tax agents an unnecessary expense, and see tax as a burden and 'easy money' for the Government
- relies heavily on cash flow
- the size of a business (no employee to help out)
- uses future earnings to pay staff/ creditors/ debts
- has poor management practices for dealing with debt
- spends more time looking for work and contracts instead of doing administration work
- when having tax-related problems, does not enter into a dialogue with a tax agent or its tax administration.

Objectives

The objectives or key research questions for the longitudinal study are:

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 Inland Revenue affected that impact?
4. How should Inland Revenue act to get the best compliance result when adverse events occur?

Outcome

The research will identify how the prolonged nature of recovery from the Canterbury earthquakes has impacted on SME compliance behaviour, how Inland Revenue tried to mitigate it, and how we can learn from this. In addition to identifying the long-term implications for Canterbury and the rest of New Zealand, findings from the study will form a body of information that will help Inland Revenue and other government agencies inform future strategies, and develop a framework for managing compliance behaviour following an adverse event.

Executive summary of Inland Revenue's analytic data

The first year of the project focused on gathering baseline data. This included the analysis of Inland Revenue's administrative data to measure the impact of major disasters on tax compliance behaviours, and develop a framework to monitor the administrative data throughout the life of the project. The population base used is SMEs who were active on⁴ 4 September 2010. Using this data has the benefits of being able to take both current and historic measures (i.e. pre and post quakes). Inland Revenue will continue monitoring the data until SMEs return to pre-quake "normality", or conversely it is obvious a new normality has been established. In summary, the analysis found that:

- The 2010 and 2011 Canterbury earthquakes impacted on Canterbury's contribution to New Zealand's business turnover for March 2011, with a drop of 11.4% from 11.7% in March 2010 before rebounding one year later in March 2012 to 11.9%. These impacts vary by different industries.
- It is not yet clear what the impact has been on employment. However, SME employment in certain industries has clearly shown either negative or positive impacts.
- The percentage of payments made on or before due date by SMEs has been dramatically affected by the earthquakes. Secondary and Tertiary industries are more affected than the Primary industry sector. In Canterbury, the central business district (CBD) was more affected than the rest of Canterbury.
- Canterbury's contribution to New Zealand's total SME debtors increased after the earthquakes, with

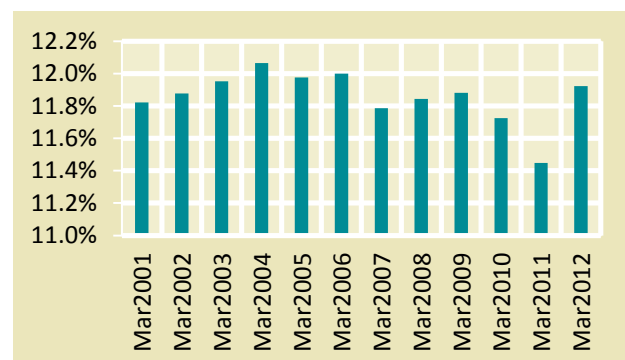
approximately 1,800 new debtors. These measures will be monitored throughout the life of the project.

Key findings:

GST turnover

Figure 1 shows Canterbury's contribution to total GST revenue. Over this period Canterbury produced around 11.9% of the national GST turnover. The immediate impact can be seen in the March 2011 column with a drop of 11.4% from 11.7% in March 2010, before rebounding one year later in March 2012 to 11.9%. Although the graph does not provide any information about external factors, local conditions are an important driver for SME employment and business turnover in line with global and national factors.

Figure 1: Proportion of Canterbury Contribution to National SME Annual GST Turnover



The figure overleaf shows the proportion that five major Canterbury industry sector groups (Agriculture, Forestry and Fishing; Construction sector; Retail Trade; Rental, Hiring and Real Estate Services; Accommodation and Food Services (last three from the tertiary sector)) make to the national annual GST turnover. Both Construction (from 12.8% to 16.2%) and Rental, Hiring and Real Estate service industries (from 12% to 15.3%) have increased about 30% from 2011 to 2012. This could be due to the overall increase in demolition activity or interim repairs, and increase in real estate activity with business and residential relocation. In addition, some participants in the qualitative research reported that their businesses were benefiting from increased customer demand due to other businesses in their sector no longer operating.

⁴ In this report, the SME population is all non-individual customers that are not non-profit organisations and not registered in a corporate service centre area, and individual customers that are registered for tax types of 'GST' and/or 'PAYE', with annual GST turnover less than \$100 million. The SME customers in the analysis include all active entities that meet the above definition at 4 Sep 2010. An active SME customer is defined as a client status that is 'Active' and whose tax registration is 'Active'.

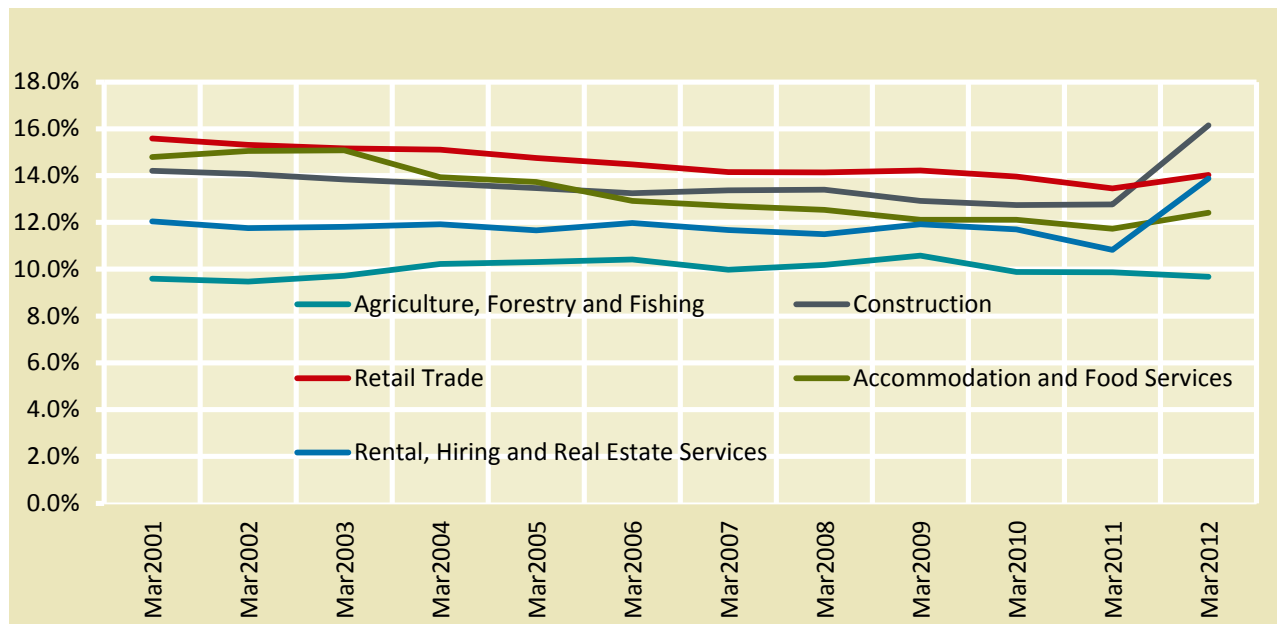
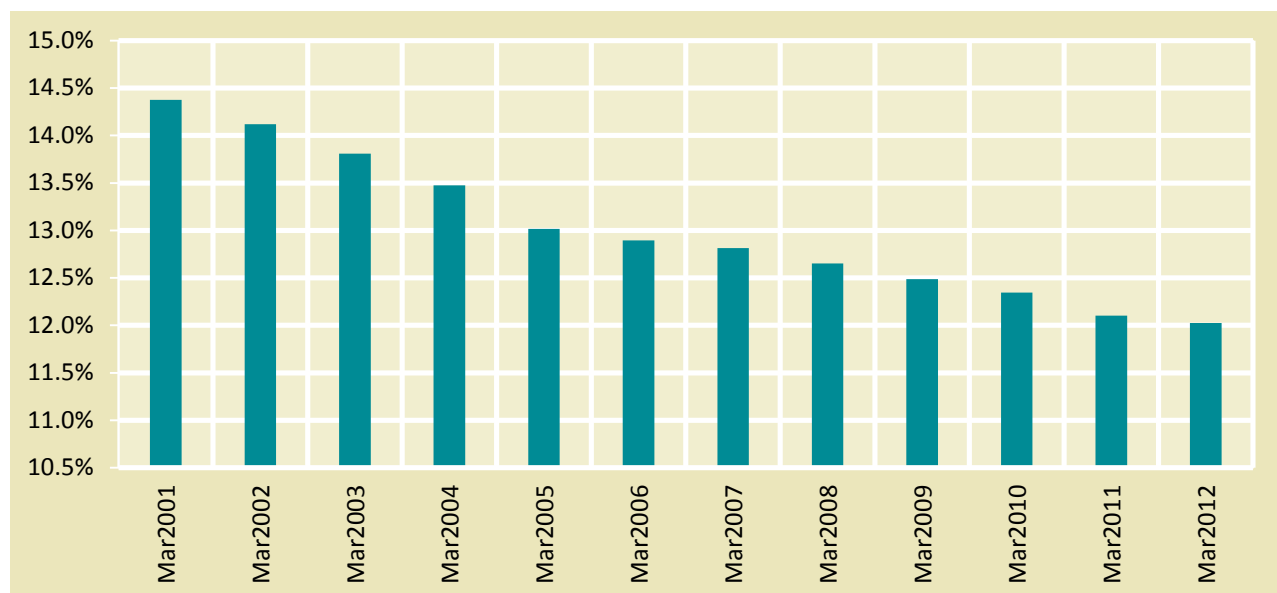
Figure 2: Proportion of Canterbury Contribution to National SME Annual GST Turnover by Industries**Employment**

Figure 3 illustrates the Canterbury contribution to New Zealand's annual SME employment from 2001

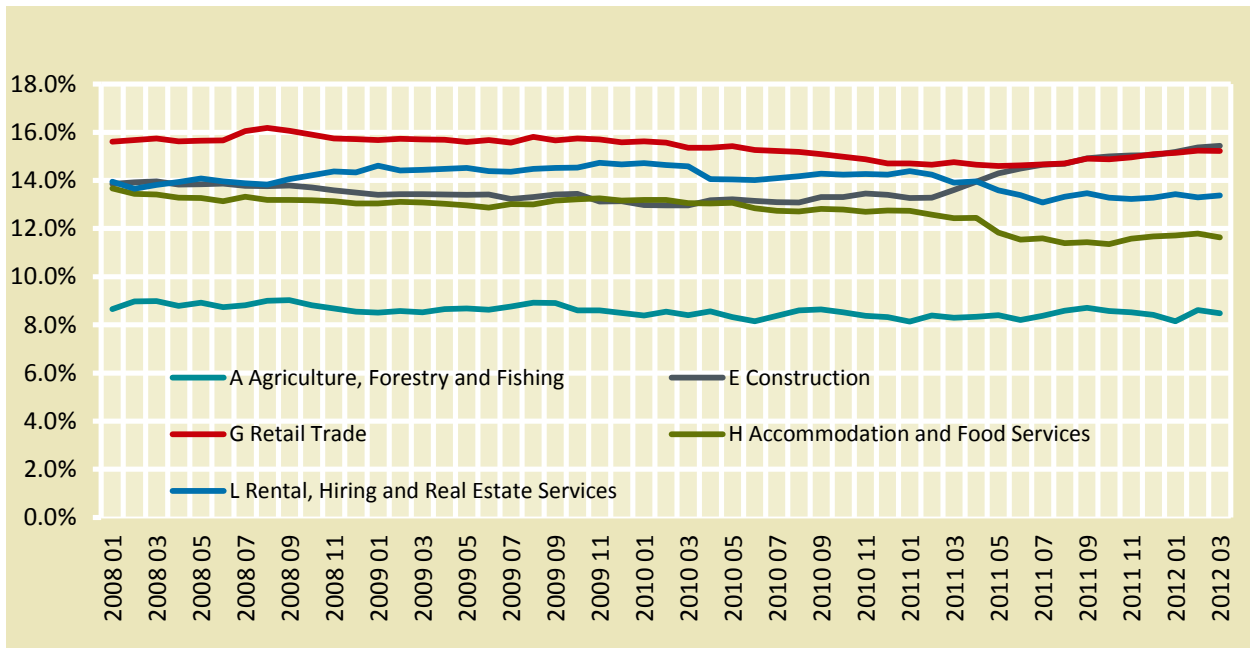
to 2012, and it clearly shows a downward trend from September 2001 to March 2011. In the past, there have been larger annual drops (e.g. 2004-2005) than that directly seen after the earthquakes.

Figure 3: Percentage of Canterbury contribution to National SME Annual Employment

When it comes to industry level, there are some clear findings as shown in the figure below which demonstrates the proportion of Canterbury

contribution to New Zealand's SME monthly employment by industries.

Figure 4: Proportion of Canterbury Contribution to National SME monthly employment by industries



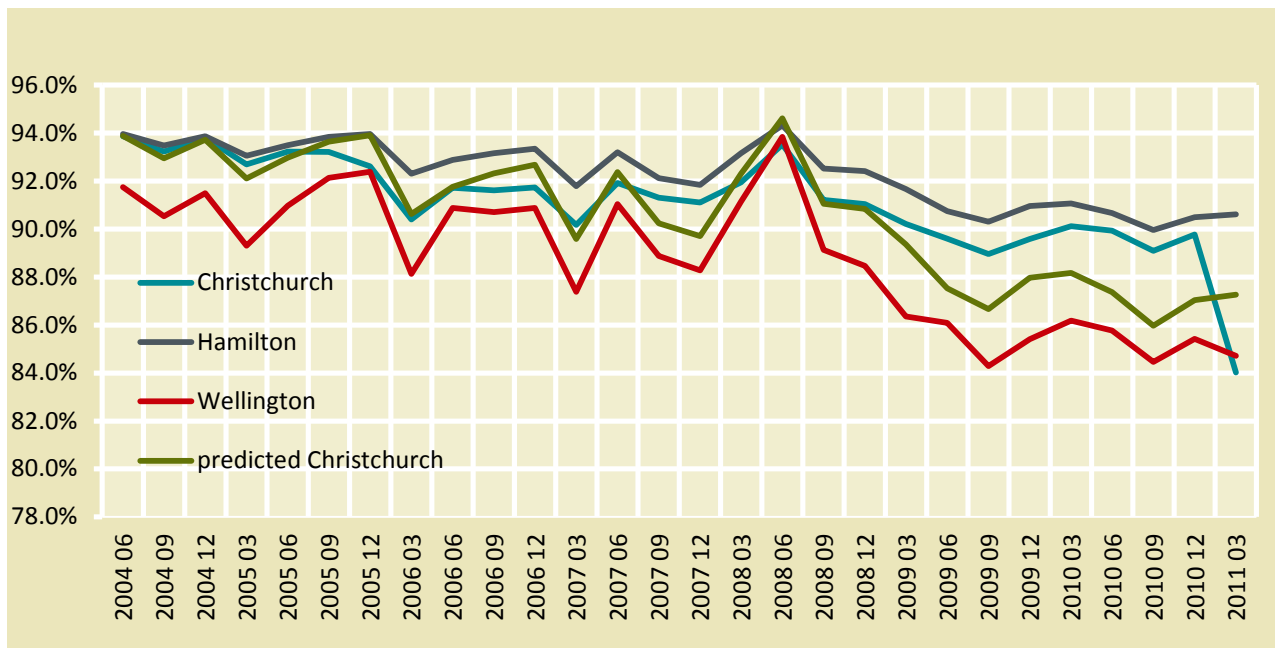
The figure shows:

- The proportion of Canterbury's contribution in Agriculture, Forestry and Fishing industry sector has not changed significantly from 2008 to March 2012. As anticipated, this sector appears to be less affected by the earthquakes and more affected by the wider economic environment.
- The Accommodation and Food Services industry sector shows a slow downward trend from January 2008 to February 2011, with a big drop from April 2011. This could be due to a number of large hotels and cafes in the red zone being affected by the quakes. However, evidence from qualitative research and other sources indicates that while the overall sector is down, those trading are doing better than before the earthquakes due to a decrease in the number of businesses operating.
- The Construction industry increased dramatically from March 2011 and started growing more steadily from July 2011. This could be due to the increase in demolition work and interim repairs to homes.
- Retail trade appears to have improved slightly from its decreasing trend immediately after the 2011 quake.
- Various industries in Canterbury performed differently in SME monthly employment after the earthquakes. This could be due to some receiving a government subsidy immediately after the quakes.

Payments made on or before due date

The figure overleaf illustrates the percentage of quarterly (combined GST and PAYE) payments made before due date by SMEs in Christchurch, Hamilton and Wellington, from June 2004 to March 2011. The three regions have similar patterns before 2011. In March 2011, Canterbury dropped dramatically, whereas the other two areas followed the same trend.

Figure 5: Percentage of SME Payments made on or before due date



In Christchurch and Hamilton, the percentage of payments made before due date, follow a similar pattern. By applying the Hamilton value to a regression model, we can predict a Christchurch value. The figure projects a level of Christchurch percentage payments made before due date as if the earthquakes had not occurred against the actual results. The predicted value in March 2011 is the estimated percentage of payment made before due date for Canterbury if there was no earthquake (89.6). We can presume that the difference between the actual value (84%) and predicted value from March 2011 (5.6%) is mainly caused by the earthquakes.

This data will be monitored throughout the life of the project to see if we can either identify when Canterbury returns to pre-quake "Normality" or whether there is a new "Normality" for Canterbury.

Tax Debt

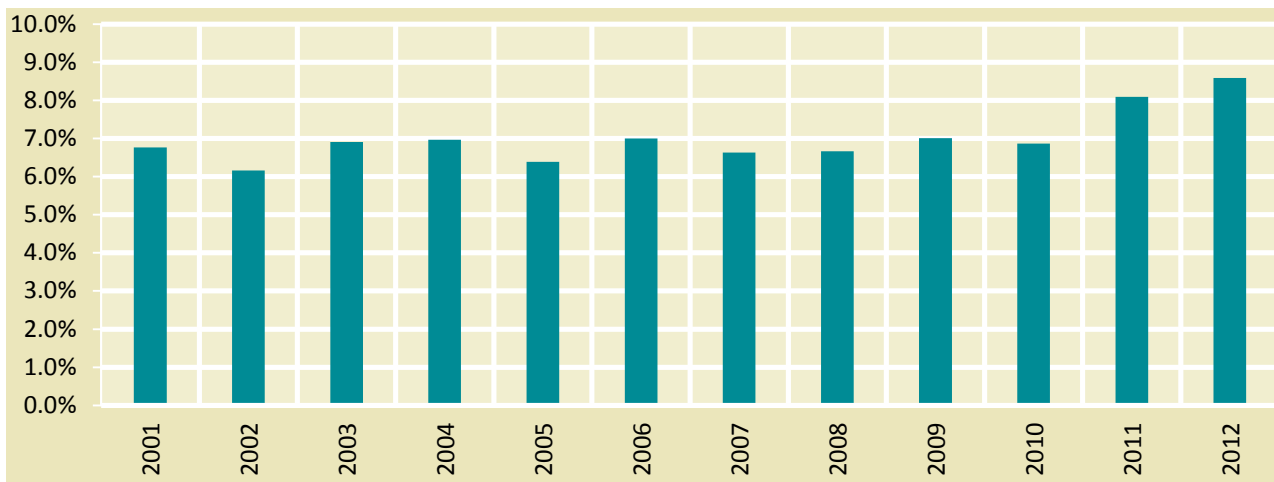
Figure 6 looks at the contribution Canterbury SME debtors made to New Zealand's figures for debt. The proportion increased from 10.6% in 2010 to 12.3% in 2011. This is a 16% increase, which is approximately 1,800 new debtors.

Figure 6: Canterbury percentage of national SME Debtors



The figure overleaf shows the CBD contribution to the percentage of SME debtors in Canterbury. Not surprisingly perhaps, the more damaged the area, the greater impact it had on the numbers of debtors. The

number of debtors from the CBD increased more than other areas in Canterbury (from 6.9% in 2010 to 8.1% in 2011).

Figure 7: CBD percentage of Canterbury SME Debtors

As part of the longitudinal study, Inland Revenue commissioned Colmar Brunton to undertake a benchmark study of SMEs and tax agents.

The remainder of the report provides the key findings and conclusions of this research.

Executive summary and conclusions for the benchmark qualitative and quantitative research

The key objectives of this benchmark 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 Inland Revenue (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.

Research methodology

The qualitative and quantitative research was carried out with SMEs and tax agents in Canterbury. The qualitative research stage consisted of 30 individual in-depth interviews with SMEs and tax agents during April, 2012. Interviews were 1 ½ hours' duration.

The quantitative stage of the research consisted of a telephone survey of 1,161 SMEs and 100 tax agents in the Canterbury region. Fieldwork was conducted from 21 June to 31 July, 2012. The overall response rates to the surveys were 35% for SMEs and 42% for tax agents. Data has been weighted to ensure the sample reflects population characteristics in terms of business size and debt history status.

Research findings

Key findings and conclusions related to each of the research objectives are provided below.

Objective 1: To what extent have the Christchurch earthquakes changed SMEs' attitudes and behaviours with regard to tax compliance?

There is limited evidence in the research that general attitudes towards tax have changed significantly.

- Large majorities of SMEs agree that they accept responsibility for paying their fair share of tax (90%), believe paying tax is the right thing to do (86%), and believe that by paying tax they are contributing to New Zealand society (80%). These levels of agreement are similar to those evident among a national sample of SMEs in IR's Customer Satisfaction and Perceptions (CS&P) survey (although the strength of agreement is somewhat weaker among Canterbury SMEs).
- Few (8%) agree that they resent paying tax. Interestingly, this level of resentment is lower than that evident among SMEs in the CS&P survey. It is possible that this lower level of resentment is tied to a belief that paying tax is important because it contributes to the Christchurch rebuild (65% of all SMEs in Canterbury agree with this notion). Resentment that does exist among Canterbury SMEs largely stems from a belief that they pay too much tax, disapproval of how tax money is spent by government and a general sense of the tax system being unfair. However, none of these reasons appear to be unique to the Canterbury situation.
- General attitudes towards tax tend to be more positive among SMEs in later stages of recovery from the earthquakes than SMEs in earlier stages of recovery (including those not trading).

The research findings do indicate, however, that many SMEs believe that businesses adversely affected by the earthquakes should be given tax leeway:

- Around half (53%) of SMEs agree that businesses shouldn't have to pay previous tax debts until they are fully operating again (with the remainder more likely to take a neutral stance).
- The notion of businesses adversely affected by the earthquakes paying a lower tax rate attracts a polarised response, with four in ten SMEs (41%) agreeing with this idea and around a quarter (28%) disagreeing.

The request for tax leeway can be explained by changes in ability to comply in that the tax compliance behaviour of SMEs has been impacted by the earthquakes both in the short term and the long term:

- 73% of tax agents say that more than three quarters (76% to 100%) of their business client base has stayed the same in terms of how well they meet their tax obligations. Likewise, the majority (75%) of SMEs said their compliance was about the same during the 2011/2012 compared to before the earthquakes. Cash reserves, savings (both personal and business) and adequate cashflow were important in enabling SMEs to meet their tax obligations.
- Just over half (54%) of tax agents say that up to a quarter (1% to 25%) of their business client base was worse in meeting their obligations in 2011/2012 compared to before the earthquakes, with an additional 19% of tax agents saying more than a quarter (26% to 100%) of their client base has got worse.
- Around one in five of all SMEs (21%) indicate their business was worse at meeting its tax obligations during the 2011/2012 tax year than before the earthquakes. Levels of worsened tax compliance are higher among:
 - Those in earlier ('surviving' or 'recovery') stages of recovery from the earthquakes (30% said their tax compliance was worse).
 - Those with declining business income (36% said their tax compliance was worse).
 - Those with debt in late December 2010 (50% said their tax compliance was worse).
- Of the quarter (27%) of SMEs affected by the earthquakes that are currently trading and report experiencing a worsening in tax compliance since the earthquakes, 45% expect to see an improvement in meeting their tax obligations by 2012/2013 and 30% by 2013/2014, with the remaining 26% not expecting to see an improvement by 2013/2014 or being unsure. Irregular business patterns and the ongoing earthquakes contribute to SMEs' uncertainty about their ability to meet future tax obligations.

Conclusions from Objective 1

Due to the lack of a benchmark study, the research is limited in its ability to fully answer the question on whether attitudes towards tax have changed. However, these research findings suggest there has not been a major shift in attitudes towards tax compliance. The vast majority of SMEs in Canterbury exhibit positive attitudes towards tax. Having said this, there is an expectation that SMEs in Canterbury should be given tax leeway to help recover from the earthquakes.

Tax compliance behaviour has worsened for some SMEs. Whilst as just stated there does not appear to have been a marked shift in attitudes, restoring good tax compliance behaviour may require SMEs to get back

into the habit of filing and paying tax so that these behaviours once again become routine.

A fuller discussion on what is required to restore tax compliance is provided under Objective 4 in the context of the impact that the different phases of a disaster have on behaviour.

Objective 2: 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?

Key findings related to this research objective are as follows:

- The qualitative research findings suggest that there are slightly different views on what constitutes 'hidden economy activity' with a range of perceptions from deliberate cash payments and non-declaration of income through to accidental paperwork errors (claiming for expenses that they shouldn't or mistakes). SMEs' definitions in turn drive their behaviour and attitudes on the acceptability of the behaviours and what is the appropriate response from IR.
- Large majorities of both SMEs and tax agents think that there either has been no change in hidden economy activity⁵ (69% and 64% respectively) or they are unsure (20% and 22% respectively). Business owners who perceive there has been a change are fairly evenly divided between those who think there has been an increase (6% of all SMEs) and those who think there has been a decrease (5% of all SMEs). Tax agents are more likely to think there has been a decrease (11%).
- When prompted on what may have caused a change in the hidden economy, SMEs highlight the changes that are now unique to Christchurch – it is not 'business (and behaviour) as usual' which in turn drives attitudes and behaviour specific to the Christchurch environment. This can create more or less opportunities for hidden economy behaviour than previously.
 - Perceptions of an increase in hidden economy activity most commonly stem from recognition of financial pressures and competition, an ability to get the job done quicker, and smaller operators and contracts. In the qualitative research findings, business owners distinguished between those who willingly deal with 'under the table' cash payments and those who due to the general disruptions caused

⁵ 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'.

by the earthquakes have or will inadvertently take part in the cash economy (e.g. the need to use estimates if lost records cannot be recreated, or sloppy paperwork due to the business owner spending more time focussing on getting the business up and running again).

- Perceptions of a reduction in hidden economy activity most commonly stem from the involvement of professional organisations (and the associated red tape) and the requirements of larger contracts, as well as a perceived increase in electronic transactions.
- IR taking a hard line in dealing with ‘under the table’ payments with fines and prosecution receives support from around half of SMEs (48%). Whilst some disagree with this approach (16%), many hold a more neutral stance (30%). Tax agents are more strongly in favour of IR taking a hard line approach (67%).
- Relatively few believe that because of the earthquakes IR should take a more lenient approach to ‘under the table’ payments (only 16% of SMEs and 5% of tax agents agree with this notion). However, only a small majority of SMEs (59%) disagree with this statement as some take a more neutral stance (21%).
- In the qualitative research, SME owners suggested IR use a softer/lenient approach during the survival phase as most SMEs are struggling. This includes educating and informing SMEs about appropriate business, financial and tax management versus cash, using an approachable and understanding manner that will enable business owners to ask for assistance if required, and communicating the option of payment arrangements to struggling SMEs. IR is then expected to take a tougher/stricter approach during the recovery phase as SMEs should have resumed a regular, non-cash business pattern. Following education and advice about risks and consequences, SMEs expect audits and legal action, proceedings to be made public to discourage others, and IR to proactively target SMEs/industries that are deemed at risk.

Conclusions from Objective 2

The ‘softer’ approach towards the hidden economy during the ‘survival’ stage is bound up with the type of approach, response and interventions that IR should take towards all tax non-compliance. Typically, IR should take a case by case approach in that they should be proactive, helpful, compassionate and lenient towards SMEs whose lack of tax compliance is outside of their control or a ‘genuine’ error/oversight, while taking a hardline approach to ‘deliberate’ tax avoidance.

The suggestions that stand out as slightly different in an adverse event situation are for IR to be more visible in the community, meet with SMEs face-to-face, build relationships, provide reassurance and a more individual and tailored intervention/solution.

Once SMEs have returned to a more regular business pattern (recovering and recovered), most SMEs believe that IR should be tougher and more proactive in dealing with the hidden economy. SMEs’ suggestions are similar to previous debt research, in that deliberate tax avoidance requires enforcement.

Objective 3: 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?

Assistance to SMEs

In the qualitative research, there was a perception that IR responded to the earthquakes by offering the ‘usual’ assistance available to SMEs in compliance difficulty such as time extensions, waived penalties and payment arrangements. IR further combined this with possibly increased proactivity, extending some of the provisions (e.g. longer time periods than usual) and a sympathetic and helpful manner. However, there is not a perception that there was an extraordinary ‘assistance package’ formulated in response to an adverse event.

Having said that, tax agents and SMEs are generally positive about IR’s assistance and support during the earthquakes and feel that IR was approachable, available, flexible and lenient, thus helping them to meet their tax obligations within the new context of their changing circumstances. Key take up rates of IR’s assistance include:

- 37% of all SMEs (or their accountants) received an extension of time for their business to file a tax return or make a payment (58% of those in debt late December 2010 received this)
- 21% of SMEs negotiated a payment arrangement for the late payment of tax
- 14% had penalties waived by IR (43% of those in debt late December 2010 received this).

Large majorities (74% to 88%) of SMEs that received these types of assistance found them helpful. These forms of assistance enabled SMEs to address their immediate tax obligations and prevent them from incurring (sometimes additional) debt in the initial period following the earthquakes. However, there was a strong call in the qualitative research for the support and assistance to be extended beyond the initial few weeks/months. Many SMEs are either still ‘surviving’ or feel they have only recently resumed any sense of ‘normal’ business.

SMEs appreciated the range of communication channels IR used to let business owners know what to do if their business had been affected by the earthquakes. Only a minority of SMEs had direct contact with IR: 19% of SMEs phoned IR, IR phoned 12% of SMEs, and just 4% had face-to-face contact.

Recall levels of the more generic communication channels were higher: 45% recalled the letter, 45% recalled the advertisement and 33% visited IR's website.

Face-to-face contact is viewed especially favourably (82% of those who had face-to-face contact found it helpful) as it enabled business owners to address their concerns, discuss the complexities of their situation, seek clarification and receive reassurance that they are doing the right thing.

Ratings of the other forms of contact and communications were not as high, with around half (or a little more) of recipients indicating they were helpful (many of the remainder gave a neutral rating). Key issues were a perceived drop off in IR's interest and understanding (evident in phonecalls to IR), as well as a decrease in the frequency of updates on the website, once a slowdown in earthquakes occurred.

The main suggestions for improving IR's overall approach to providing support and assistance during the survival stage of an adverse event are to provide a more 'extraordinary response' rather than an improved 'business as usual' response. This means, for example:

- Greater profile and visibility in the community with the opportunity for face-to-face contact.
- Increased proactivity with IR contacting SMEs (by phone), rather than the onus on SMEs to make the contact. Relying on SMEs to contact IR means it may not happen as SMEs deprioritise tax or fear IR's response.
- Not sending automated, generic letters and statements – these often contradicted what business owners had agreed with their tax agents or IR and caused some SMEs considerable anxiety.
- Additional assistance to sole traders. Smaller SMEs are more likely to have been adversely affected by the earthquakes than larger SMEs. The qualitative research suggests sole-traders wanted more personalised communication or targeted information, especially if they did not have a tax agent. They felt that IR's assistance was primarily aimed at employers.

Assistance to tax agents

As an authoritative intermediary between SMEs and IR, tax agents play a critical role in supporting SME survival and recovery from the earthquakes and maintaining SME compliance behaviour. Further, over half (57%) of tax agents say they have been more involved in the

financial management of their business clients since the earthquakes.

There has been a strengthening of relationships, negotiations and trust between IR and tax agents, with face-to-face meetings particularly helpful.

Tax agents report that the interventions provided by IR directly to tax agents have been helpful to them professionally (managing their own workload) and to their SME clients. The most useful interventions have been:

- time extensions
- payment arrangements and penalties waived
- ability to negotiate what is provided and when
- use of estimates when lost records could not be recreated or duplicated.

Tax agents believe extensions of time, payment arrangements and the waiving of penalties continue to be important for SMEs in recovery. Tax agents also made suggestions about improving relationships through the provision of locally-based staff (see previous comments about visibility) and/or dedicated staff who were completely up-to-date with the situation in Christchurch.

Conclusions from Objective 3

Many of SMEs' and tax agents' suggestions for communication would also be appropriate in a business as usual context. However, in extraordinary situations and while in the survival phase, SMEs and tax agents suggest more extraordinary communication. SMEs and tax agents need IR to increase their visibility (e.g. face-to-face) and proactivity for an extended period of time and provide a more individualised/tailored approach, while reducing generic communication (such as automated letters).

One of the key learnings of the research is that the 'surviving' timeframe is very variable from SME to SME and depends on a number of factors, e.g. the nature and timeframe of the event itself, the extent of disruption to the business and industry demand. This means that IR's response and interventions will need to be tailored to the SME's circumstances, rather than a more generic 'survival' response. The research suggests a survival timeframe anywhere on a spectrum of a few weeks, to 18 months or beyond.

Objective 4: 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?

The impacts of the earthquakes on SMEs

Two thirds (67%) of business owners in Canterbury have at least one business that has been adversely affected

by the earthquakes. Smaller SMEs, SMEs that were located in the CBD, SMEs that have experienced a decline in business income, and SMEs in the wholesale, retail and accommodation and food sectors are more likely to have been negatively impacted by the earthquakes.

SMEs are spread across different stages of recovery from the earthquakes:

- 6% are currently not trading – only 18% of these SMEs are confident that they will resume trading in the next two years.
- 21% are ‘surviving’ (i.e. the business is focussed on doing what it takes just to survive) – only 40% of ‘surviving’ SMEs are confident that they will still be trading in the next two to three years.
- 23% are ‘recovering’ (i.e. the business has passed the survival stage, but is still focussed on minimising the impacts of the earthquakes).
- 17% have ‘recovered’ (i.e. the business is as strong, or stronger, than before the earthquakes).
- 33% were not adversely affected by the earthquakes.

Other key impacts of the earthquakes on SMEs are:

- 40% of SMEs still trading experienced a decrease in their business income since before the earthquakes, 40% have experienced no change in their business income and 18% have experienced income growth. SMEs in earlier stages of recovery are more likely to have experienced a decrease in business income (81% in ‘surviving’ and 58% in ‘recovering’).
- 18% of SMEs adversely affected by the earthquakes, but still trading, reduced their staff levels and 8% increased their staff levels. 38% of SMEs no longer trading employed staff prior to the earthquakes.
- Around one quarter (26%) of SMEs affected by the earthquakes have moved location since the earthquakes (12% have moved multiple times).
- Only one quarter (24%) of SMEs that are currently located outside of the CBD, but were previously located in the CBD, plan to move back to the CBD once the rebuild provides an opportunity to do so. An additional 28% are unsure of their future movements. Nearly half (48%) say they are relocated permanently outside of the CBD.

Influences on behaviour

A number of factors have impacted the tax compliance of SMEs across the stages of recovery from the earthquakes. These include:

- the priority the business places on tax compliance versus other business priorities

- whether the business has appropriate and effective financial management and tax processes
- the use of cashflow to meet tax payments versus tax put aside.

These factors are consistent with previous research on SME tax debt. However, in this research the earthquakes accentuate them, especially in the earlier stages of recovery (e.g. ‘surviving’ stage). For instance, tax compliance becomes even less of a priority for SMEs. Likewise, the heavy reliance on cashflow is exposed as a poor strategy for tax compliance when income is unpredictably cut due to an adverse event.

The earthquakes compounded already poor tax compliance strategies, by introducing new factors such as damage to business premises and lost records.

Conclusions from Objective 4

Surviving is typified by using both personal and business resources to continue trading, generating revenue and/or cover costs. It seems that a SME in the surviving phase oscillates between moving towards either ‘loss’ and failure of the business or eventual ‘recovery’. Many of the environmental factors and SMEs’ decision-making that sway the balance one way or the other will be outside of IR’s control, but it would appear that proactive assistance of IR (and tax agents) could be a tipping point factor to avert failure. The timing of this assistance will be critical and will need to include some objective measures of the likelihood of the intervention sustaining the business into recovery or only staving off deepening debt and inevitable failure.

Surviving/recovering transition is likely to be based on personal and business resilience, environmental factors (e.g. an industry that is in demand) and key interventions from IR such as payment arrangements, penalties waived, time extensions etc that have enabled the SME to financially re-establish itself. SMEs that are recovering may need close tax management to ensure that re-establishing tax compliance is as high a priority as re-establishing the business, e.g. ensuring that reinvesting in the business, paying staff and suppliers etc is not to the detriment of tax compliance.

SMEs that have recovered may have recovered to a point whereby their financial position matches or even exceeds that prior to the adverse event. There is some suggestion from tax agents that SMEs that are recovered (and in growth) may also need close tax management to ensure that both their current and forward tax payments are accounted for. SMEs that are in growth industries may get themselves into a ‘busy cycle’ meeting demand that they are unprepared for and the accounting/financial management of the business may be more typical of a ‘new’ business, i.e. they need to up-skill their financial and tax management to meet the new demands such as a growth in staff numbers, more invoicing etc.

As noted earlier in this section, IR's response and interventions will need to be tailored to the SME's individual circumstances. This will ideally require close liaison between IR and tax agents to determine which stage of recovery a business is at. Unfortunately there are no straightforward and significant indicators, but the following table attempts to highlight some useful 'flags' and the essence of what IR policy, operational and/or communication strategy may be. Overall, regardless of stage of survival or recovery, it would appear to be critical for IR to proactively be in contact with these

SMEs to ensure that they are maintained within the 'system' and ensure that there is an active plan in place to manage tax requirements. For SMEs that have become less visible (e.g. IR doesn't have up-to-date contact details), there may need to be some encouragement for SMEs to come forward (with no risk of penalty) so that a joint strategy/plan can be implemented.

Table 1. Key flags

Key flags	IR strategy
Not trading (6% of SMEs)	
Note, new SMEs will be starting up once the rebuild is under way.	These SMEs may or may not resume trading. They will possibly need a strategy that is similar to 'new' SMEs. As with new SMEs in other parts of the country, this is an opportunity for education and information.
Surviving (21% of SMEs)	
May have declining business activity. Facing issues regarding business premises, lost records etc. Struggling with paying and filing tax on time. Somewhat more prevalent among smaller SMEs. High proportions in wholesale trade, retail trade, accommodation and food sectors.	SMEs in this stage require an extended timeframe. IR's strategy in the immediate aftermath of an adverse event needs to sustain SMEs that will move quite quickly into 'recovering' as well as those that will be 'surviving' for up to 18 months. Initially (days/weeks after the event), IR needs to be proactive and visible with phone or face-to-face contact available. Assistance needs to be offered so that SMEs are quickly aware of their options and quickly into the arrangements that are within IR's scope such as time extensions etc. Once the immediate event moves into the next survival stage over months (rather than weeks), IR needs to adopt tax debt management strategies to ensure that SMEs are kept in the 'loop' and have some financial and tax debt management strategies in place such as having a plan/timeframe to file and then payment arrangements and penalties waived. It is important to avoid SMEs becoming 'invisible'.
SMEs in 'surviving' stage that may not survive:	
May be exhausting personal and business resources. Poor financial management and tax processes. Higher levels of previous debt.	Close management of these SMEs is required. Note that tax agents may become frustrated (and unpaid) by these clients. A close debt management strategy is required by IR to avoid a spiralling tax debt and unviable SMEs that are not paying their staff or creditors. These SMEs need financial management strategies to assess whether there is a significant likelihood of failure.
Recovering (23% of SMEs)	
SMEs that are in industries that are improving so they have improved revenue/cashflow. May be re-employing staff.	Need comprehensive and close financial and tax management to ensure that they are up to date with previous filing and paying as well as anticipating terminal and provisional tax. Tax management needs to be as high a priority as business management. Previous debt behaviour (prior to earthquakes) needs to

<p>May be taking on additional/new contracts that they are less familiar with.</p> <p>Busy at work and possibly also still dealing with insurance etc so may be time poor as well as financially stretched as they re-establish the business, e.g. buying stock.</p>	<p>be flagged so that any tendency towards poor compliance is not tolerated.</p>
<p>Recovered (17% of SMEs)</p>	
<p>Growth in business activity.</p>	<p>As above for the recovering SMEs.</p> <p>Outstanding debt and forward tax needs to be prioritised and IR will need to use enforcement strategies for those that are not complying. 'Business as usual' as regards tax needs to be applied. Tax agents flag that 2013/2014 may be a watershed year for those in growth industries that have been unaccustomed to rapid growth and the implications that this has for tax. SMEs need to be encouraged to closely monitor their financial position (in conjunction with their tax agent) and put tax aside.</p>
<p>Not adversely affected by earthquakes (33% of SMEs)</p>	
<p>Situated in locations not affected by earthquakes.</p>	<p>'Business as usual' regarding tax needs to be applied.</p> <p>It is important to these SMEs that IR is seen to be acting appropriately with other SMES in the region, i.e. flexible with those that are surviving/early stages of recovery and enforcement for those that are recovered/growing.</p>

Research method

A combination of qualitative and quantitative research methodologies was employed. Qualitative research was conducted first to explore the subject matter in-depth and provide a diagnostic understanding of the issues. Quantitative research was then conducted to measure the extent to which perceptions and self-reported behaviours exist in the SME and tax agent populations. Detailed discussion of each methodology employed is provided below.

Qualitative research

The qualitative research consisted of 30 in-depth individual interviews with SME owners (21) and tax agents (nine), as well as one focus group with IR staff based in Christchurch.

Interviews were around 1 ½ hours in length and were mainly conducted at the business's premises. All of the qualitative fieldwork was conducted during April, 2012.

A semi-structured discussion guide was used to elicit business owners' responses while providing them with the freedom to explore the topic from their own distinct perspectives.

Sample

A range of SMEs were recruited according to four key criteria:

- Size: from sole trader to medium-sized SMEs (20 employees).
- Industry: building, retail, hospitality and agriculture (note, the agricultural industry was included to act as a control group as the impact of the earthquakes on this industry was felt to be more limited).
- Activity level: growing, dormant and declining.
- Location: Christchurch Red Zone, Greater Christchurch and Canterbury (e.g. Kaiapoi).

In the final sample:

- The majority of SME owners used a tax agent.
- All SMEs had different levels of business turnover compared to before the earthquakes.
- The focus was primarily on SMEs that have been affected (to varying degrees) by earthquakes and had experienced a change in tax compliance as a result.
- The tax agents were located in the Red Zone, Greater Christchurch or Canterbury, and varied in size from sole practitioner to large firms.

For the focus group, IR contacted and internally recruited key local staff who had played an active role throughout the crisis (e.g. assisting SMEs and tax agents with information and support).

Quantitative research

The quantitative research consisted of a telephone survey of 1,161 SME owners and 100 tax agents in the Canterbury region. Fieldwork was conducted from 21 June to 31 July 2012.

Questionnaire development

The questionnaire was developed by Colmar Brunton in close consultation with IR. Two rounds of questionnaire testing were undertaken:

- Six cognitive face-to-face interviews were conducted with respondents to qualitatively pre-test the survey questions (five of the interviews were with SME owners and one interview was with a tax agent).
- The revised questionnaire was then piloted with 16 respondents to test the survey processes, interview length, and provide further feedback on the questionnaire.

A small number of changes were made to the questionnaire following each round of testing. A copy of the final questionnaire used for the main fieldwork is appended to this document.

The average interview lengths were 14 minutes (for SMEs) and 13 minutes (for tax agents).

Sampling approach

Contact lists were provided by IR for sampling respondents.

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) so that sufficient numbers of interviews were conducted in these key

subgroups of interest to allow for statistically robust comparisons between groups.

At the analysis stage, the data have been weighted to ensure that the sample reflects population characteristics in terms of business size and debt history status.

The table below provides a profile of the total sample (using both unweighted and weighted data).

Table 2. Total sample profile by weighted and unweighted data

	Unweighted data		Weighted data	
	n=1,161	%	n=1,161	%
Business size				
sole traders	450	39%	879	76%
1-5 employees	337	29%	180	15%
6-19 employees	278	24%	78	7%
20+ employees	96	8%	24	2%
Debt history status (December 2010)				
Currently in debt	262	23%	152	13%
Never in debt	221	19%	316	27%
Used to be in debt	678	58%	693	60%
Location (December 2010)				
CBD	151	13%	145	13%
Rest of Great Christchurch	691	60%	687	59%
Rest of Canterbury	319	27%	329	28%
non CBD	1,010	87%	1,016	87%
Use of a tax agent				
Tax agent	842	73%	779	67%
no tax agent	319	27%	382	33%
Industry				
Primary	156	13%	182	16%
Agriculture, Forestry and Fishing	155	13%	182	16%
Mining	1	0%	0	0%
Industrial	264	23%	229	20%
Manufacturing	104	9%	69	6%
Electricity, Gas, Water and Waste Services	7	1%	12	1%
Construction	153	13%	148	13%

Distribution	233	20%	190	16%
Wholesale Trade	81	7%	73	6%
Retail Trade	113	10%	77	7%
Transport, Postal and Warehousing	39	3%	41	4%
Business and finance	90	8%	132	11%
Financial and Insurance Services	16	1%	18	2%
Rental, Hiring and Real Estate Services	74	6%	114	10%
Service	418	36%	428	37%
Accommodation and Food Services	85	7%	70	6%
Information Media and Telecommunications	12	1%	20	2%
Professional, Scientific and Technical Services	128	11%	148	13%
Administrative and Support Services	67	6%	64	5%
Public Administration and Training	4	0%	4	0%
Education and Training	20	2%	26	2%
Healthcare and Social Assistance	28	2%	26	2%
Arts and Recreation Services	16	1%	20	2%
Other Services	58	5%	50	4%

Base: All SME respondents

Source: IR sample

Response rates

The overall response rates to the surveys were 35% for SMEs and 42% for tax agents.

Margins of error

The table below provides estimated margins of error for key groups used in the analysis. All margins of error have been calculated at the 95% confidence level.

Table 3. Maximum margins of error

	n=1,161	Maximum margin of error
All tax agents	100	+/-9.8%
All SMEs	1,161	+/-3.8%*
Business size		
sole traders	450	+/-4.6%
1-5 employees	337	+/-5.3%
6-19 employees	278	+/-5.9%
20+ employees	96	+/-10.0%
Debt history status		
Currently in debt (December 2010)	262	+/-6.1%
Never in debt	221	+/-6.6%
Used to be in debt	678	+/-3.8%

*The margin of error associated with the total sample of SMEs takes into account the 'effective sample size' (which takes into account weighting effects).

Extensive subgroup analysis has been carried out throughout this report. All differences noted in the written commentary are statistically significant at the 95% confidence level (unless otherwise stated) and assume simple random sampling.

Notes to the reader

Some of the analyses of the quantitative 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 in December 2010.
- Business size (sole trader, 1-5 employees, 6-19 employees, 20+ employees) – as per IR's records in December 2010.
- Location (CBD, rest of greater Christchurch, rest of Canterbury) – as per IR's records in December 2010.
- Tax compliance (payments) – as per IR's records during 2004 to 2009. Note, this variable has only been used in Section 2 of this report in the context of assessing whether attitudes towards tax differ by tax compliance history.

Section 1. Impact of the earthquakes on SMEs – contextual findings

General contextual factors

The Canterbury earthquakes have disrupted business in a dramatic way

A series of destructive earthquakes struck the Canterbury region from September 2010 onwards. Canterbury residents and organisations have had to deal with the outcomes of the earthquakes (e.g. loss of life, destruction of or damage to buildings, and uncertainty about 'life after the earthquakes'). Business owners have realised that the business landscape as they knew it in Canterbury has now changed permanently and they need to adapt to their new environment. This research was conducted in April 2012 (qualitative phase) and June/July 2012 (quantitative phase). At the time of this research, SMEs had no clear indication or understanding of when the situation will stabilise.

Multi-layered impacts on people and businesses

The earthquakes have disrupted residents' lives over a long period of time. People's lifestyles have had to adapt to the changing environment. For example, some people are scared that they may be injured by falling debris, therefore they avoid going into the CBD and will run errands in the unaffected suburbs.

- People have suffered physically and/or emotionally. The level of stress is high, due to the uncertainty of "when the next quake is going to hit".
- The impacts have been direct (e.g. injuries from the quakes) and also indirect (e.g. family members' home destroyed and family moving in with unaffected relatives).

The earthquakes have also disrupted business, with many local SMEs being unable to trade in their usual 'business pattern'. Challenges faced by SMEs have been varied and complex, thus making it difficult for business owners, and IR, to use a 'one size fits all' approach to assist SMEs.

- Some SMEs have been directly impacted by the earthquakes (e.g. building destroyed), while others have been indirectly impacted (e.g. SMEs unaffected but benefiting from their competitors' demise).

- Many business owners find it difficult to focus on their business, due to the personal and far-reaching impacts of the earthquakes.

The international recession has impacted SMEs in New Zealand

SMEs in New Zealand have experienced an overall slowdown of their activity due to the international economic recession. Business owners in this research expressed the view that some businesses in many sectors in the New Zealand economy have struggled to stay afloat, for example retail and tourism. For some, however, the long lasting recession has meant that they have had to adopt new approaches to business to survive this crisis (e.g. restructure their organisation and implement cost-cutting strategies).

Tax agents have had to keep up-to-date with legislation

Tax agents have experienced legislative changes (e.g. changes to Loss Attributing Qualifying Company rules in 2010) and have had to update their knowledge in order to provide sound advice to their clients and do their tax work accurately. Tax agents feel these changes have been substantial and have involved tax agents receiving training and/or information from specialised bodies, for example, the New Zealand Institute of Chartered Accountants (NZICA) and IR.

Personal impacts

Since the first earthquakes, business owners have experienced relatively high levels of stress and anxiety. Some have been personally injured during the earthquakes or fallen ill following the earthquakes. Some business owners' family members (e.g. spouse and children) have not coped well with the stress of recurring earthquakes, which has changed family dynamics. For many business owners, ensuring the safety and happiness of the family unit has become their key focus and managing the business during the crisis has taken a back step. Business owners and their family have suffered physically and/or emotionally through the earthquakes, which has increased their overall levels of stress and anxiety.

“I had three heart attacks [just before the earthquakes started], I can’t lift heavy weights and I can’t find another job. Most of my [delivery] runs are in the Red Zone. My stress has gone up since the quakes.”

Interview 10
SME, retail

but were damaged in the deadly February 2011 earthquake.

Respondents in the telephone survey were asked how many businesses, if any, they own that have been adversely affected by the earthquakes. The chart overleaf illustrates the result.

“For [the first] two-three weeks, we were all like stunned mullets.”

Interview 26
Tax agent

“Most people did nothing for some time after the earthquakes. It was a combination of trauma due to the quakes, and low anxiety about tax. People were not too worried about tax at the time.”

Interview 30
Tax agent

Moreover, some business owners have also been directly impacted by the earthquakes through the damage to, or destruction of, their family home. A few have had to pack their belongings and shift house. One business owner explained that he had most of his furniture in paid, secure storage while he worked out if he could repair his home and move back in or if he had to find a new home altogether.

Some business owners who employ staff have also had to take into account and deal with the personal circumstances of their employees. In some cases, employees have had to take time off work to attend to their personal affairs.

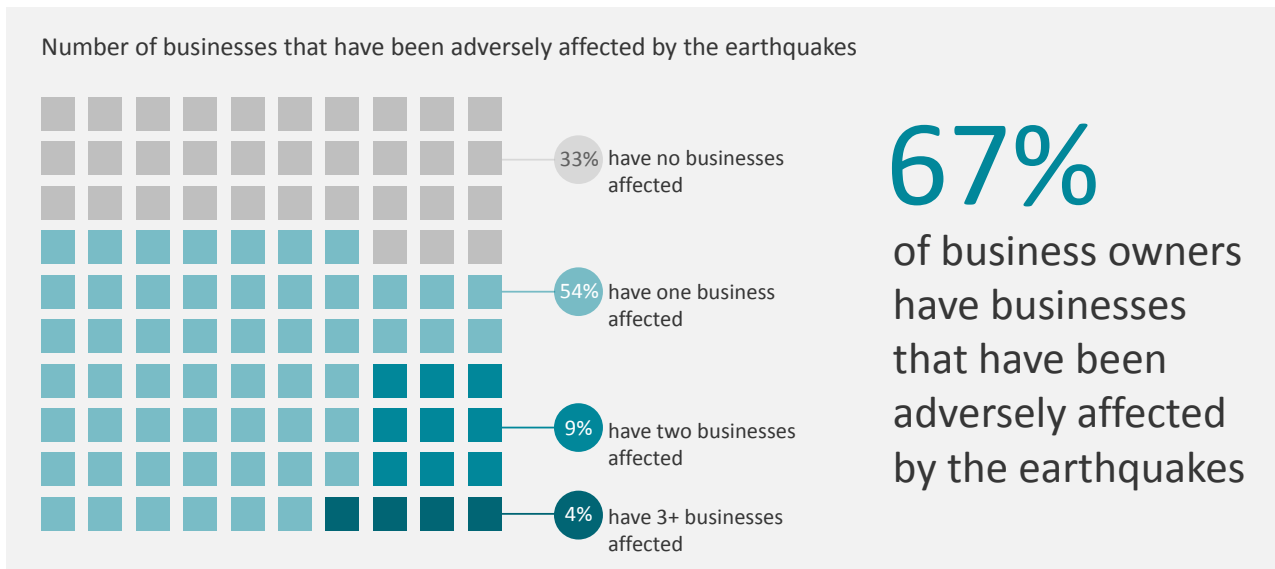
Business impacts

This section discusses the extent to which the earthquakes have adversely impacted SMEs and describes the stages of recovery from the earthquakes.

Two thirds of business owners have businesses that have been adversely affected by the earthquakes

The qualitative research findings highlight that the earthquakes have struck businesses ‘blindly’, and many in the Canterbury region have suffered at different times and to different degrees over the long period of recurring earthquakes. For example, some SMEs were unaffected by the strong September 2010 earthquake

Figure 8: The number of business that have been affected by the earthquakes



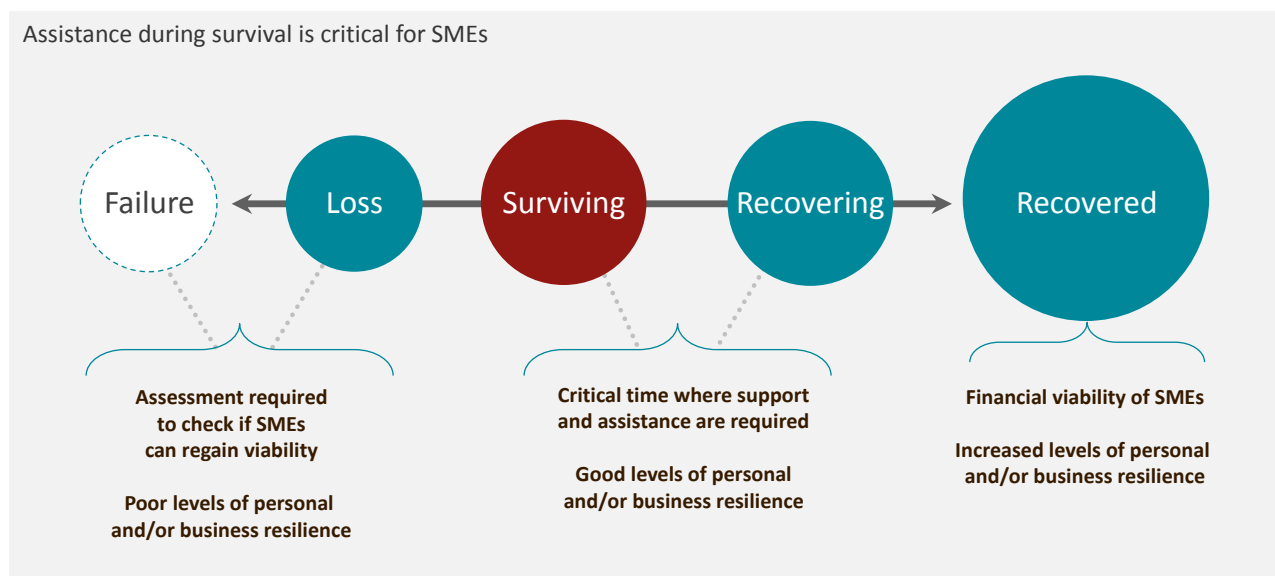
Source: Q1a
Base: All businesses (1,161)

Around two-thirds (67%) of business owners have businesses that have been adversely affected by the earthquakes. Thirteen percent of business owners have two or more businesses that have been adversely affected. Note, business owners with more than one business adversely affected by the earthquakes were asked to answer the questions in the remainder of the telephone survey in relation to their business that had been most affected by the earthquakes.

SMEs are in different stages of business recovery

The qualitative research highlights that SMEs can be in one of several stages of recovery as illustrated in the next diagram.

Figure 9: Assistance during survival is critical for SMEs



One half of all SMEs are either not trading, surviving or recovering

Based on an understanding from the qualitative research findings of the different stages of recovery, respondents in the telephone survey were asked a series of questions to determine their business's stage of recovery from the earthquakes:

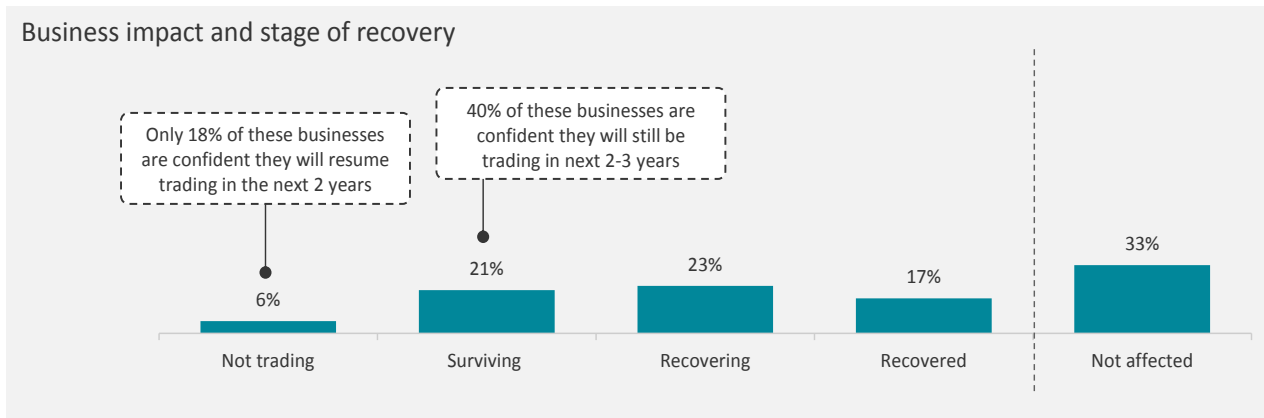
- Business owners with businesses that have been adversely affected by the earthquakes were asked if their business has been able to continue or resume trading.
- Business owners with earthquake affected businesses that have been able to resume trading were asked which of these best describes their business 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 chart overleaf shows the proportions of SMEs in each of the stages described above as well as the proportion that is not adversely affected by the earthquakes.

Note, those with businesses that have been unable to resume trading were also asked how confident they are that the business will resume trading in the next two years⁶. Likewise, SMEs in the 'surviving' stage were asked how confident they are that their business will still be trading in the next two to three years⁷.

⁶ These 65 SMEs were asked to give their response using a scale of 1 to 5 where 1 is 'not at all confident' and 5 is 'very confident'. The proportion of SMEs that indicated they were confident (a 4 or 5 out of 5) is described in the chart on this page (18%). More detailed results are: rating of 1 = 41%, 2 = 23%, 3 = 15%, 4 = 0%, 5 = 17%, and don't know = 3%.

⁷ These 231 SMEs were asked to give their response using a scale of 1 to 5 where 1 is 'not at all confident' and 5 is 'very confident'. The proportion of SMEs that indicated they were confident (a 4 or 5 out of 5) is described in the chart on this page (40%). More detailed results are: rating of 1 = 12%, 2 = 18%, 3 = 29%, 4 = 16%, 5 = 24%, and don't know = 0%.

Figure 10: Business impact and stages of recovery

Source: Q1a, Q1c, Q1d, Q1e and Q1f
Base: All SMEs(1,161)

SMEs are spread across the spectrum of stages of recovery. Although relatively few (6%) have not resumed trading, around one in five (21%) still consider their business to be just 'surviving'. Further, most of the SMEs in this stage are not yet confident that their business will still be trading in the next two to three years. Four in ten SMEs are either in 'recovery' (23%) or 'recovered' (17%). The remainder were not adversely affected by the earthquakes (33%).

The qualitative research provides insights into business owners' mind-sets around the stages of recovery (discussed below).

A large number of SMEs has been in survival mode for longer than expected

Prior to the earthquakes, IR (and other agencies) may have understood survival as the first few weeks or months after an adverse event during which SMEs implement strategies to cope, e.g. adapting to their changing circumstances and developing resilience.

"Be adaptable. Most businesses have adapted to new circumstances. Be prepared to sink or swim."

Interview 25

Tax agent

"We're in survival mode. We focus on the central core of our products. Financial planning is not good. I have a loan to pay back, tax to pay, I've just caught up with ACC. I make money on a few days of the year. I'm part of the leisure industry. We've had a massive downturn."

Interview 14

SME, retail

One of the key learnings of the research is that the 'surviving' timeframe is very variable from SME to SME and depends on a number of factors, e.g. the nature and timeframe of the event itself, the extent of disruption to the business and industry demand. This means that IR's response and interventions will need to be tailored to the SME's circumstances, rather than a more generic 'survival' response. The research suggests a survival timeframe anywhere on a spectrum of a few weeks, to 18 months or beyond.

In Canterbury, the adverse event was not a one-off earthquake but rather a series of destructive earthquakes that started in September 2010. The extent of the earthquakes' impacts on SMEs was not uniform: some SMEs had their premises destroyed in September 2010, while other SMEs kept trading until a new earthquake several months later made them stop business. During the 15-month period of the severe earthquakes, many SMEs experienced different levels of disruptions to their business. The SMEs that have been badly affected and have experienced a decline in their business activity level are more likely to stay in survival mode longer than the SMEs that have managed to restructure their organisation and grow their business activity. For example, a café owner had one successful café closed down permanently early on, but managed to reopen his second café, located in the Red Zone, very quickly. Due to the current lack of competition, the café's turnover is growing.

"Emotional toll of the earthquake... People are tired, scared. Clients have sad stories, they're tired. People are struggling. You're limited in what you can do. People are frightened."

Interview 22

Tax agent

“Business [challenges]? Home life is involved too. Priorities become life at home. There’s underlying stress. They [clients] are worried. They’re not meeting their tax obligations. Family life is ‘damaged’ and it impacts on the business.”

Interview 24

Tax agent

“There’s still too much uncertainty; it’s hard to re-establish a business. Where is their customer base now? What environment do they face? Are the roads open or closed? What about noise levels? Are services available? It’s hard to move forward. There’s no decision from a business until more is known.”

Interview 25

Tax agent

As a consequence of this extended period of earthquakes, many SMEs in the Canterbury region that have been affected by the earthquakes have felt in survival mode up until recently, i.e. March 2012 when we conducted the qualitative stage of the research. Business owners explained that during the earthquakes, they had tried to go back to a situation of ‘business as usual’ (e.g. meet customers’ needs despite the disruptions and resume business for those who had had to stop). However, this was not always possible due to recurring tremors and subsequent disruptions. The last major earthquake was in December 2011 (prior to the qualitative research fieldwork), and since then business owners have been able to stabilise their business situation to some extent (e.g. new stock ordered, received, secured in the shop, and now available for customers to purchase). These business owners feel that they are now starting to transition from the survival phase to the next one (i.e. recovery). However, there are still some SMEs entrenched in the survival phase with no clear resolution of their situation in sight (e.g. premises in the Red Zone and no opportunity to relocate).

“Lots of businesses are still in survival mode, because the CBD is still closed. Survival is still for another year. Survival is when you operate out of temporary premises or moved away from the core location of the CBD. Recovery will be the removal of the cordon in the central city, coupled by the desire of businesses and customers to want to go back and provide facilities to do it. Today 70% of buildings have to be demolished. It will take longer than one year [to recover].”

Interview 25

Tax agent

Recovery mode started only recently for many SMEs

Up until now, business financial recovery may well have been a higher priority than tax compliance, but now many SMEs (in conjunction with their tax agent) will also be addressing any tax compliance issues now that they are in the ‘recovering’ stage.

“There’s no need for IR to contact me [during recovery period], unless I’m not meeting my obligations.”

Interview 16

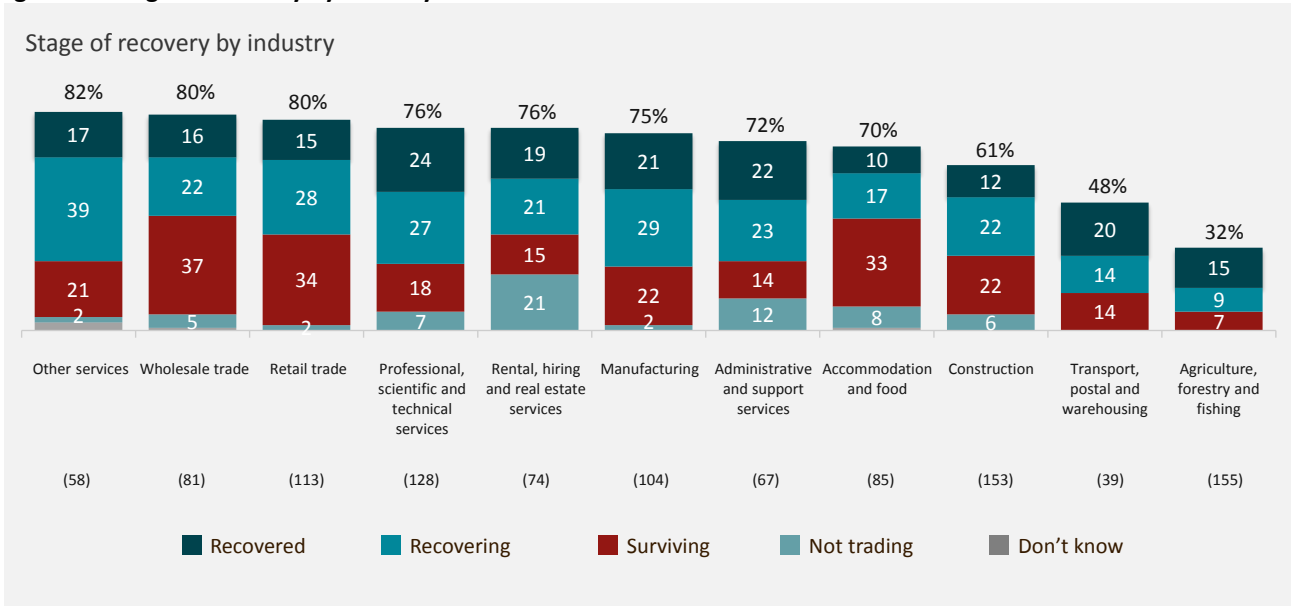
SME, building industry

Other SMEs may need proactive tax compliance intervention to ensure that their tax compliance also becomes a priority.

SMEs recovery from the earthquakes varies by industry

Stage of recovery by industry is illustrated in the chart overleaf. Note, only industries with a sample size of at least 30 are shown.

Figure 11: Stage of recovery by industry



Source: Q1a, Q1c, Q1d, Q1e and Q1f
Base: Varies – see graph

The chart highlights the industries that are surviving, recovering or recovered. This provides an indication of the industries that are in recovery and may need proactive interventions to ensure tax compliance is a priority now. For example, many in the professional, scientific, technical services, manufacturing and administrative and support services should be in a position to make full tax compliance a priority.

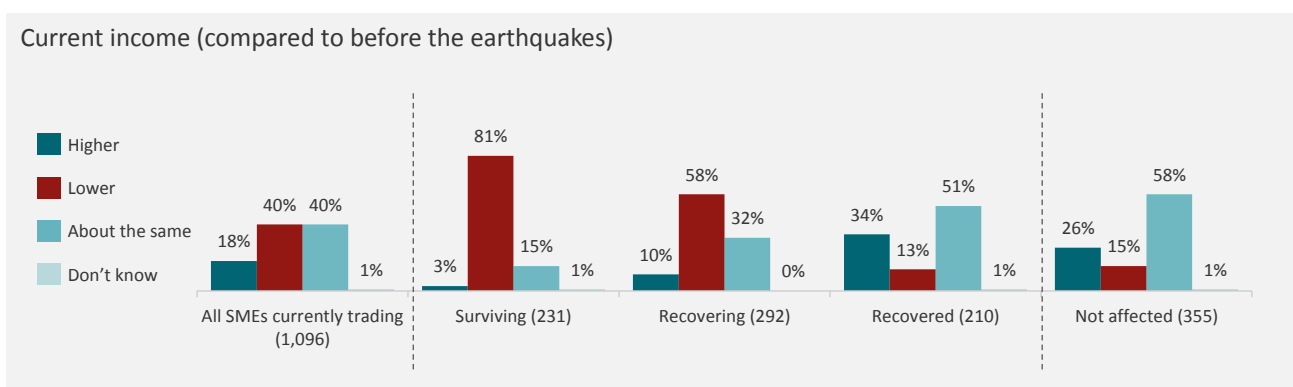
Meanwhile around a third of SMEs in the wholesale and retail trades, and the accommodation and food sector, are still ‘surviving’ and will need a different intervention from IR (see earlier diagram on ‘surviving’ SMEs tipping into either loss/failure or recovering).

As detailed in the research methodology, the qualitative research focused on four sectors. A detailed discussion of the factors impacting these sectors in surviving and recovering from the earthquakes is contained in Appendix A

Four in ten SMEs have lower business income than before the earthquakes

In the telephone survey, SMEs that were currently trading were asked if their income was higher, lower or about the same as before the earthquakes. Results are presented below.

Figure 12: Current income (compared to before the earthquakes)



Source: Q4c
Base: Varies – see graph

Four in ten SMEs have experienced a drop in income since before the earthquakes (40%). The same proportion have experience no change in their business income (40%). Nearly one in five SMEs have experienced income growth (18%).

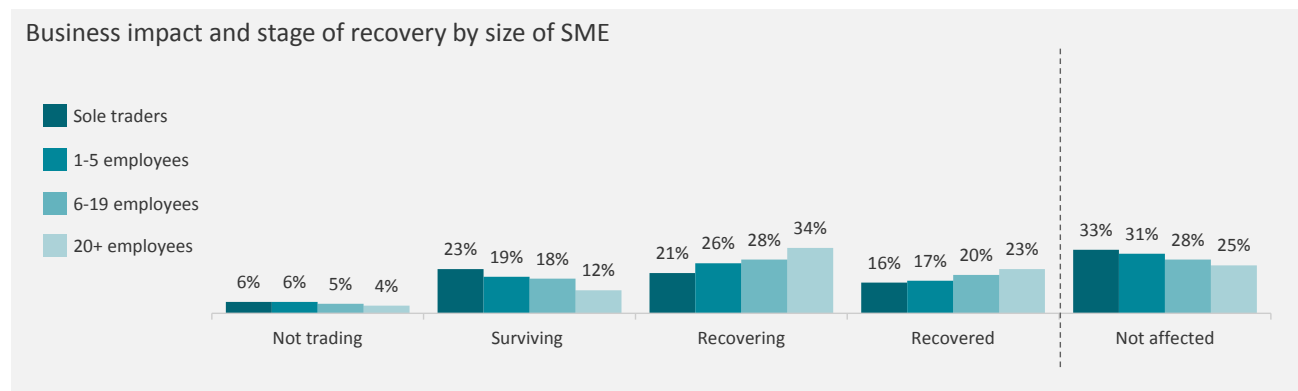
As might be expected, SMEs in earlier stages of recovery are much more likely to have experienced a drop in business income than SMEs in later stages of recovery or SMEs that have not been affected by the earthquakes.

The qualitative research suggests that income does impact on tax compliance, in that SMEs relying on cashflow are likely to be less compliant when their income decreases.

Smaller SMEs tend to have been impacted more than larger SMEs

As illustrated in the chart below, smaller SMEs that have been affected by the earthquakes are more likely to be in earlier stages of the recovery process.

Figure 13: Business impact and stage of recovery by size of SME



Source: Q1a, Q1c, Q1d, Q1e and Q1f

Base: Sole traders (450), SMEs with 1-5 employees (337), SMEs with 6-19 employees (278), and SMEs with 20+ employees (96)

The qualitative research findings also suggest that the number of staff employed by a SME has a relative impact on the SME's ability to cope in an adverse event. Smaller SMEs (e.g. sole traders) tend to struggle more and/or longer than SMEs with 20 or more employees. Smaller SMEs may therefore need more support than larger SMEs and for longer.

Generally, smaller SMEs have more limited resources to address a business problem than larger ones. Resources are not only physical (e.g. money and office space) but also intangible (e.g. time, energy, knowledge and skills), as well as social (e.g. access to labour and information, and size of networks). For example, sole traders may be more affected by a negative business situation than larger SMEs, given that their professional situation is intertwined with their personal life in some cases (e.g. the business office is part of the family home, and the car used to deliver goods for the business is also used for family transportation).

By contrast, larger SMEs tend to display more resilient attributes in case of an adverse event. Larger SMEs may have more financial resources and savings to help with resuming the business activity, or have greater access to financial resources (e.g. bank loan or overdraft to cover some unexpected expenses). Larger SMEs also have more manpower to help, and collective knowledge to tap into, when there is a problem.

“Southern Demolition and Fulton Hogan, they're fine, they have massive financial support. But the little guys are struggling, e.g. to get registered with Fletcher requires a lot of paperwork.”

Interview 21

SME, building industry

“Bigger structures [SMEs] are more organised, their duties are divided between different areas and people.”

Interview 24

Tax agent

Employees in larger SMEs also tend to have a specific role to perform with more specialised knowledge required, thus being able to address a problem and deal with it from a more knowledgeable/technical perspective. For example, an employee looking after the company's human resources is likely to know where and how to recruit a new staff member after another employee resigned. In larger SMEs, networks also tend to be wider than in smaller SMEs. For example, one larger SME had to relocate after the February 2011 earthquake and through its network asked a real estate agent to help them, which enabled the larger SME to move into new premises soon after.

In case of a substantial problem, employees in larger SMEs are able to find comfort and support from their colleagues within the organisation. Also, larger SMEs have potentially greater awareness of, and access to, external resources (e.g. counselling services like EAP).

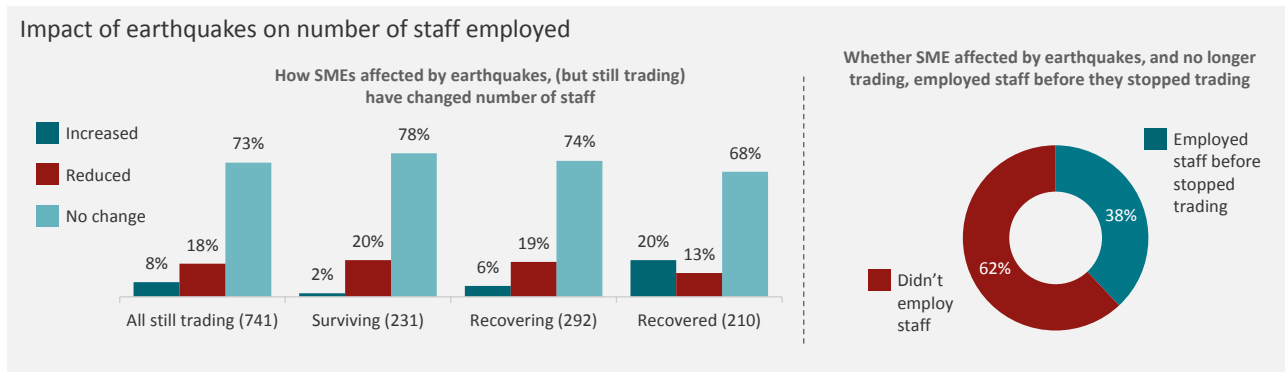
For example, talking with colleagues and accessing external support (EAP) have been valuable coping mechanisms in a larger SME that has experienced the death of a staff member and injuries of many others.

Impact of earthquakes on number of staff employed

In the telephone survey, business owners whose business is still currently trading were asked whether as

a result of the earthquakes they had increased or reduce their number of staff or whether there had been no change. Likewise, business owners whose business was no longer trading were asked whether they employed staff before they stopped trading. Results to both of these questions are presented in the chart below.

Figure 14: Impact of earthquakes on number of staff employed



Source: Q1a, Q1c, Q1e and Q4a
Base: Varies – see graph

Source: Q1c and Q4b
Base: No longer trading (65)

Nearly one in five (18%) SMEs reduced their number of staff following the earthquakes. SMEs in the 'surviving' and 'recovering' stages are more likely to have reduced their number of staff than SMEs in the 'recovered' stage (statistically significant at the 90% confidence level). Conversely, 'recovered' SMEs are more likely to have increased their number of staff (20%) than SMEs in earlier stages of recovery.

Nearly four in ten (38%) SMEs that are not currently trading employed staff before they stopped trading.

The earthquakes have struck key business locations.

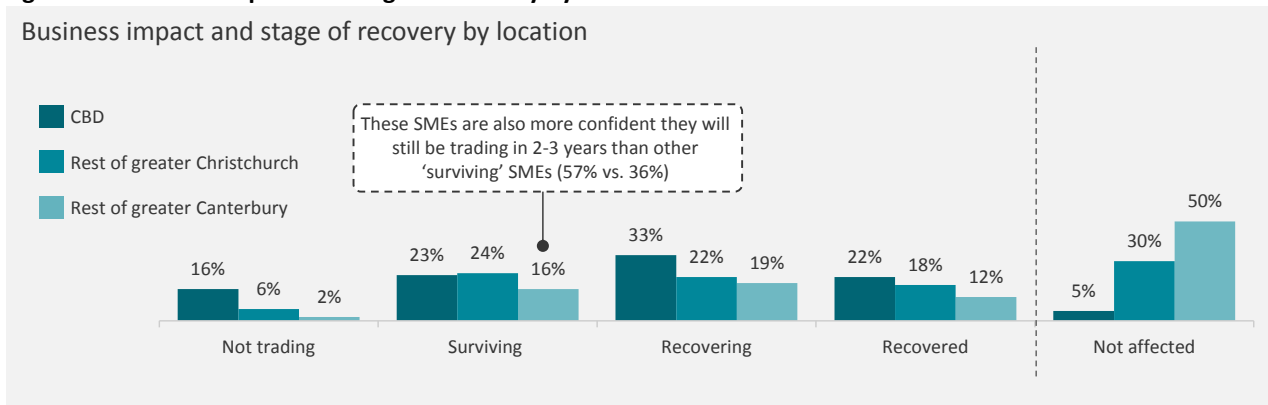
Since September 2010 and over the following 16 months, the severe earthquakes were localised in key business centres, such as the Christchurch CBD and Kaiapoi centre. The severe damage to some buildings and the destruction of others have meant that these key

business locations have had to be secured or cordoned off for safety reasons (e.g. Red Zone between the four main Christchurch avenues), thus preventing these SMEs from initially conducting business and earning an income.

The chart overleaf summarises SMEs' current stages of recovery by location. Note, the location used in this variable was sourced from the IR supplied sample and relates to the location of the business prior to the earthquakes.

The results in the chart overleaf, clearly illustrate that location is a key determinant of impact of the earthquakes. Almost all SMEs in the CBD (95%) were affected by the earthquakes and 16% of all CBD SMEs have not yet resumed trading.

Figure 15: Business impact and stage of recovery by location



Source: Q1a, Q1c, Q1d, Q1e and Q1f
 Base: SMEs in CBD (151), rest of greater Christchurch (691), and rest of Canterbury (319)

One quarter of SMEs have moved location

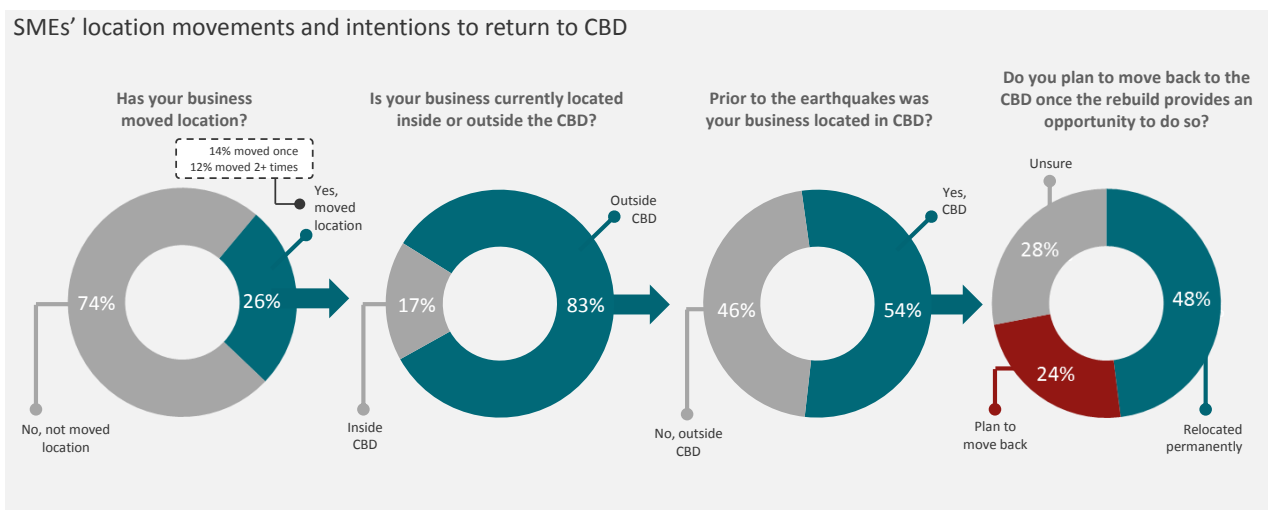
In the telephone survey, business respondents were asked a series of questions to ascertain their movements in location. Specifically we asked:

- All business respondents whether their business had moved location since the earthquakes (and if they had, how many times).
- Those who had moved, whether their business is 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 are currently located outside of the CBD, but were located in the CBD, whether they have relocated outside of the CBD permanently for the foreseeable future or if they plan to move back to the CBD once the rebuild provides an opportunity to do so.

Results for each of these questions are presented in the chart below.

Figure 16: SMEs' location movements and intentions to return to CBD



Source: Q3a
 Base: All SMEs affected by earthquakes (806)

Source: Q3b
 Base: All SMEs that moved location (211)

Source: Q3c
 Base: All SMEs moved to location outside of CBD (183)

Source: Q3d
 Base: All SMEs that were located in the CBD, but moved out of CBD (101)

Around one quarter (26%) of SMEs affected by the earthquakes have moved location since the earthquakes (12% have moved multiple times).

The qualitative research provides insights into the success or otherwise of SMEs relocating (discussed below).

Nearly one quarter (24%) of SMEs that are currently located outside of the CBD, but were previously located in the CBD, plan to move back to the CBD once the rebuild provides an opportunity to do so. An additional 28% are unsure of their future movements. Nearly half (48%) say they are relocated permanently outside of the CBD.

On the outskirts of Christchurch, SMEs seem to be doing relatively well

Some SMEs that were initially located in the Christchurch CBD, Kaiapoi or other locations badly hit by the earthquakes, managed to relocate to the outskirts of Christchurch in areas that have not been affected by the

earthquakes. A few of these SMEs have also been able to retrieve part of their stock and business records, thus helping them reopen their business sooner.

Business owners who made the decision to relocate immediately after the first earthquakes hit were able to select an appropriate location for their business and found that the rent was within their expectations. These SMEs were therefore able to resume business with 'minimal' disruption.

These new business hubs, or Christchurch satellites, are thriving due to the closure of the Christchurch CBD and their relative safe location (no obvious impact of the earthquakes).

"[Name] street is closed. Very few customers can come. There's a geographical division. People go to the satellites."

Interview 14

SME, retail industry

SMEs in the Red Zone and other secured areas are not doing very well

For some SMEs, however, the situation is looking glum. Some SMEs that were damaged by the earthquakes several weeks/months after the earthquakes started have found it very hard to relocate. First, there is now a lack of premises available to SMEs. Secondly, rent payments have increased under the pressures of demand, which has restricted the number of SMEs able to relocate. Thirdly, some SMEs are also tied by a lease in their current, damaged location for several more years and have not been able to get out of their agreement. With no or little opportunity to relocate and/or reopen, these SMEs have seen their business activity decline.

Due to the intensity of the earthquakes, some areas of Christchurch have been badly hit and subsequently experienced depopulation. People and businesses have left (e.g. CBD and Kaiapoi centre). These areas are now "like a ghost town". In addition to depopulation, the slow demolition and reconstruction of these areas are perceived to send "a negative message to people".

Indeed, the cordons and security guards are still active 18 months on and do not entice people and businesses to return.

"After the September 2010 earthquake the business slowed down again, it was just ticking along. We did a flyer drop to help. We needed to put a sign down the hill too. We were shut for three weeks over Christmas. And then, the next quake happened and we had to close off the restaurant. We had no water. The power came

back, but the building was skewed. We didn't know if the restaurant could be opened again."

Interview 4

SME, hospitality

"Last year [2011] was emotionally hard. I lost half of my business. It's hard. I'm just coming to terms with that [in 2012]. There's nothing positive. Others have struggled to reopen or in their ability to find premises, so for me, it's not too bad in comparison."

Interview 3

SME, hospitality

At the time of this research, many question marks remain regardless of a business's stage of recovery

The randomness of earthquakes (e.g. strength, duration, location and frequency), have contributed to a significant increase in stress and anxiety among Cantabrians. Business owners were worried that there may still be destructive earthquakes striking the region at the time of this research, thus disrupting business even more. Many business people wonder if they will be able to maintain their business activity, should another strong earthquake occur. Whether they are still in survival mode or have transitioned to recovery, business owners cannot maintain any certainty around the future viability of their business.

"The building industry benefited the most from the earthquakes, but it was also the most affected by them too. In the long term, there are still question marks about work. Do I think of expansion? Maybe not, because I'll have more problems if another event like that happens again, and I'll have less flexibility if I'm too big. There are questions marks going forward. It's due to council issues: what would be required, what needs to be reviewed, new design criteria etc. There are delays with building approval. There's no inspectors for houses [inspections]. There are delays. It affects cashflow."

Interview 15

SME, building industry

"There's a lot going around, but not much going forward."

Interview 3

SME, hospitality

Some business owners also have unanswered questions about their new business environment. For example, the level of competition has changed, as have customer spending patterns. Business owners have to understand their new business environment and be able to adapt rapidly in order to steer their business strategically in the right direction. SMEs that are struggling may not be able to develop a strategic view of their business, but SMEs that are in recovery mode need to develop a solid understanding of their new environment if they are to sustain business growth. However, business owners who have never experienced this situation before have no 'reference point' or 'benchmark' to guide them through this process (e.g. how long is the recovery phase? What is required to make it through recovery and experience growth?). Some SMEs are only starting to re-establish a regular business pattern, 12 to 18 months after the start of the earthquakes, although there is no certainty that the business pattern they now know will remain the same in future (e.g. with the rebuild of Christchurch CBD, business activity levels in Christchurch central and outskirts/satellites may change again due to new levels of competition and a revamped city centre).

“Since December 9th we’ve also been waiting to hear if the building next door needs to be demolished. That’s the biggest threat to the café.”

Interview3
SME, hospitality

SMEs. This discussion includes the results from two open-ended questions in the telephone survey that give an overview of the factors and an indication of the extent to which SMEs commented on these factors. In interpreting these results, the reader should bear in mind that SMEs gave us their 'top-of-mind' responses to these questions. We also draw on the qualitative research findings to provide a more in-depth understanding of the factors. Strategies that SMEs and tax agents feel could have helped limit disruptions to business activity are also discussed.

Factors that contributed to survival and recovery

Without prompting, SMEs were asked what things have helped their business survive since, or recover from, the earthquakes. Tax agents were also asked what things they think have helped their business clients survive since, or recover from, the earthquakes. 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) – each nett score figure gives the percentage of respondents that gave at least one of the more detailed suggestions (which are listed below the nett score).

Figures in **red** denote percentages in subgroups that are statistically significantly higher than percentages in other subgroups (or from the total sample).

Factors that help and hinder the survival and recovery of SMEs

The remainder of this section of the report discusses the factors that help and hinder the survival and recovery of

Table 4: Factors that have helped SMEs survive since, or recover from, the earthquakes

	All affected SMEs currently trading % (741)	Surviving % (231)	Recovering % (292)	Recovered % (210)	Tax agents % (100)
Positive customer demand	22	18	21	29	12
Type of business meant an increase in turnover/more work/business since earthquake	8	4	7	16	4
Customer loyalty/good customer base	5	6	4	4	-

Our good reputation/been around a long time	4	4	2	4	-
Relocation of people to the area/new people moving into this area	2	1	2	2	1
Sourcing new customers/business/clients from other areas/off shore clients	2	1	4	1	-
Existing clients undamaged/unaffected/only a few clients affected	1	1	-	3	7
Lack of competition	1	-	-	3	1
New approaches	13	17	11	10	5
Our diversity/ability to change our direction/structure of the business	8	9	9	8	5
Alternative business/income	4	8	2	2	-
Other financial assistance/subsidies	12	12	16	7	40
Government assistance/wage subsidy	10	10	13	5	31
Other grants/subsidies	2	2	2	2	9
Assistance/support from Recover Canterbury	2	1	3	-	6
Dedicated attitude	10	9	14	5	4
Hard work/long hours	6	5	9	4	-
Perseverance/tenacity/determination	5	7	7	1	4
Location	9	5	8	14	8
Relocating	7	4	8	10	7
Our location/locality	2	1	-	5	1
Financial support from other organisations	8	6	13	6	18
Insurance pay-outs/claims	7	3	12	5	13
An understanding/supportive bank/bank funding	2	3	2	1	5
Earthquakes had limited effect	6	3	1	14	-
Business as normal/ability to carry on as normal/business unaffected by earthquake	5	2	1	12	-
Premises undamaged/unaffected by earthquake	1	1	-	2	-
Supportive individuals	5	3	6	4	1
Good/supportive/committed staff	3	1	5	4	1
Family/friends	1	2	1	-	-

Reduced costs	5	6	4	6	1
Reduced/cut other costs/overheads	5	5	4	5	1
Reduced/cut staff	1	3	-	-	-
IR support	2	4	2	-	23
Extension/lenience with payments to file/pay tax	1	2	1	-	18
Support/understanding/help from IRD	1	3	1	-	7
IR waived penalties	-	-	-	-	6
Nett other	42	32	52	43	41
Time/recovery time/starting to rebuild/renovate/businesses getting up and running	10	1	19	8	6
Ability to get up and running/need to carry on	6	2	6	11	5
Advertising/direct marketing	3	-	4	4	-
Was in a reasonable financial position/had low debt/overheads	2	3	2	-	-
Some have survived, some haven't/depends on individual circumstances	-	-	-	-	14
Other	23	25	22	22	20
Don't know	-	-	-	1	3
Nothing	6	12	2	1	2

A range of factors have helped SMEs survive and recover: from the earthquakes. No one reason stands out as applying to most SMEs. However, positive demand from both existing and new customers is the most commonly cited reason (22%). The type of business resulting in increased work and turnover is especially prevalent among SMEs that have recovered (16%). The qualitative research showed that contacting and relying on one's business networks to access and pass on information was especially important.

"I'm in the Holiday Accommodation Parks Association of New Zealand. If there are any issues, I go to the association. I get all the emails from the AA [Automobile Association] and Tourism NZ."

Interview 2
SME, hospitality

[What has been helpful?] "The loyalty from my customers! The client base of people you've treated right for years has helped. Also, the associations I work with, like fishing associations, Fish & Game."

Interview 14
SME, retail

Around one in seven SMEs mentioned new business approaches (13%). The qualitative research findings also revealed the importance of reviewing business models. This included reviewing costs and margins, and potentially changing one's business model (e.g. being the sole distributor of a product so that competitors cannot undercut profit).

"In our plan for the future, we want to keep that productivity high, and going back to what's our core business. So, we certainly dropped a lot of things that we would be investing in at the more venture capital [level] [e.g. business vehicle

replacement]. We're just going back to that base and building from our core business... Come September, I have to have a viable stock, so it comes down to the skills of being able to negotiate with creditors. We also deal with a company that runs out of Australia, their product margin is good and we'll be dealing with them again next year. They divide the country up, so what I sell isn't sold anywhere else [in the region], so I don't need to drop my prices."

Interview 14
SME, retail

"We didn't change the way that we do business, but some [business people] are smarter, more creative. They have reopened in a [shipping] container. And people [customers] are more accepting."

Interview 4
SME, hospitality

Financial assistance and subsidies from government agencies (12%), as well as the financial support and understanding from other organisations such as banks and insurance companies (8%), was also important. In the qualitative research, business owners spoke about asking creditors for a temporary payment freeze or paying by instalment – in many cases, creditors outside of the Canterbury region have shown understanding and allowed business owners to meet their obligations when they can.

"KiwiBank gave me a three or six-month suspension to my mortgage. They contacted me. They were very good actually. They did the same in February."

Interview 21
SME, building industry

Tax agents place particular emphasis on the importance of financial subsidies (40%) and financial support from insurance and banks (18%).

The importance of having invested in comprehensive insurance cover, and understanding the inclusions and exclusions (e.g. disruption to business, destruction of stock), was also evident in the qualitative research.

"We had the stock and plant insured, but we didn't have the business disruption insurance. [In future] I need to understand my insurance cover better from my broker, all the inclusions and exclusions of the policy."

Interview 14
SME, retail

"[To prepare for a crisis] you need to have insurance cover, e.g. business interruption and material damage. You need to review it annually."

Interview 30
Tax agent

One in ten SMEs (10%) spoke about the need for a dedicated attitude. This often involved the business owner working longer shifts and being more hands-on in the daily operations of the business, for the same wage/salary.

"[March 2010] we were not trading for four weeks, and when we reopened we were not busy at the beginning, we didn't have enough cashflow. So, I [owner] came to work more."

Interview 3
SME, hospitality

"In February-March [2012] I had some work, EQC repairs. But in April [2012] I had to do considerable cold calling..."

Interview 16
SME, building industry.

Nine percent commented on matters related to moving and location. The qualitative findings indicated that business owners who were more proactive in finding ways to get out of the crisis looked for new premises as soon as possible (e.g. after the September 2010 earthquake), and used their contacts to find a suitable location (e.g. the client of one business owner is a real estate agent and helped the business owner find new premises). Communicating to customers the business's new location was also important. Business owners who were able to exit their current lease on damaged premises also fared better. In this way, they only pay one rent (on the new premises) instead of two, which some business owners have been doing (many cannot afford to do so and therefore do not move into new premises).

“Some [business] people are fighting to get a building to re-establish their business. There’s a lack of availability and knowledge of where to go. Downtown has been locked down for too long, and too many large areas too.”

Interview 24
Tax agent

“The key problem is [re]opening in [our part of] town; there’s one shop and nothing else. If we could find a location to run our business from, and financial and mentoring help, we would keep the business going.”

Interview 4
SME, hospitality

“Up until we don’t know if the building is OK or not, we don’t do anything.”

Interview 3
SME, hospitality

A small number of SMEs (6%) commented on the limited effect of the earthquakes on their business. Further, as highlighted in the qualitative research findings, some business owners working in a cyclical industry felt they fared better as these business owners have some experience of ‘boom/bust’ cycles and are less stressed about a crisis (e.g. 7-10 year cycle for the building industry and seasonal cycle for the hospitality industry).

Five percent commented on the impact of reducing their costs on helping their survival and recovery.

“We moved from 13 to six staff. I look at efficiencies, I look at margins. And how we’re treating customers.”

Interview 14
SME, retail

In answering this question, only 2% of SMEs commented on the support they received from IR compared to nearly one quarter of tax agents (23%). In interpreting these results, the reader is reminded that this question asked SMEs about what assisted them to survive or recover from the earthquakes without specific mention of meeting tax obligations. Later sections in the report provide strong evidence that SMEs found IR assistance and support to be critical in helping them manage their tax obligations and the financial aspects of their businesses. Tax agents’ greater emphasis on IR support is expected given their primary and on-going role of helping SMEs meet their tax obligations.

Barriers to resuming trading

Without prompting, SMEs were also asked what things have made it difficult to resume trading or recover from the earthquakes. Tax agents were also asked what things they think have made it difficult for their business clients to recover from the earthquakes. Again, respondents could give more than one answer.

Figures in **red** denote percentages in subgroups that are statistically significantly higher than percentages in other subgroups (or from the total sample).

Table 5: Factors that have made it difficult to resume trading or recover from the earthquake

	All affected businesses % (806)	Not trading % (65)	Surviving % (231)	Recovering % (292)	Recovered % (210)	Tax agents % (100)
Reduced customer demand	40	28	52	40	26	38
Lack of customers/spending/demand/new contracts/work	27	15	38	29	14	24
Loss of population/people moving out of the area	5	1	9	5	2	6
Lack of cashflow/revenue	4	3	3	7	3	5
Lack of tourists/people visiting the area	4	1	5	3	4	-
CBD gone/disruption to the city/a lot of work was in the city	3	4	1	3	4	1
The economy	2	4	3	3	-	5
Competition for work/other companies being brought in to do the work	2	2	3	-	2	-
Lack of people coming into the city	2	2	2	1	1	1
Inconsistency of workload	-	-	-	-	-	3

Location/premises issues	17	43	17	13	15	24
Loss/damage of premises	8	30	8	5	4	15
Having to relocate/find suitable premises to relocate to	6	5	5	6	7	11
Waiting on decisions about the premises/whether premises are ok or not	3	7	5	2	2	4
Shift premises several times	1	-	-	1	-	-
Increase in rental properties	1	-	1	-	4	1
Disruption to business	17	16	14	17	19	8
Shops/businesses/facilities closed down/not operating	7	13	9	7	3	4
The dislocation/cohesion/disruption	4	-	2	5	5	3
Not being able to operate for a time/downtime	3	2	1	2	7	1
Knowing where people have gone/relocated to/moved to different locations	1	-	1	1	1	-
Insurance	16	14	17	18	14	38
Insurance issues/delayed pay outs	15	14	17	17	11	38
High cost of insurance premiums	1	-	1	1	3	-
Inability to get adequate/proper insurance	1	-	2	2	-	1
Lack of progress in rebuild	14	17	13	18	9	21
Issues/delays with EQC	5	-	5	7	5	7
Lack of progress in rebuild/recovery of area	3	8	3	4	-	9
All the red tape/bureaucracy	3	4	1	4	3	7
Ability to get damage assessed/safety of building checked out	2	4	2	3	1	-
Time taken to get repairs/rebuild of premises	2	1	4	3	-	1
Infrastructure issues	10	-	8	9	16	3
State of the roads/roading issues	5	-	4	5	7	2
The infrastructure/collapsed infrastructure	2	-	3	1	3	-
Hard to get around/transport/traffic problems	2	-	1	2	6	1
Ability to get access to places	2	-	2	1	2	1
Loss of services i.e. phone, power, broadband etc.	1	-	1	2	2	-
Uncertainty	7	4	8	8	6	14
The uncertainty/not knowing what's happening/lack of confidence	5	4	6	7	4	11
After shocks/on-going aftershocks	3	4	3	4	2	5
Staff	4	-	2	5	4	8
Unavailability of good/quality staff	2	-	1	2	2	3
Staff issues - stress/anxiety/grief	2	-	-	3	2	1

Loss of staff	1	-	1	1	2	4
Lost access to data	3	1	3	3	4	12
Ability to get access to records/stock/documents/information from premises	2	1	1	2	3	8
Loss of records/data/files/information	1	-	2	1	1	6
Nett other	21	26	21	21	19	20
Loss of stock/equipment	2	6	3	1	-	1
Other costs	2	1	2	2	2	1
Fletchers organisation	1	-	1	1	2	-
Getting people to pay/slow payments	1	-	2	2	-	2
Other	16	21	16	15	15	17
Nothing/no problems	4	2	1	-	13	5

Base: SMEs affected by earthquakes and all tax agents

Source: Q2b

A range of factors have made it difficult for SMEs to recover from the earthquakes. Reduced customer demand is the most common reason given (40%) especially among those in the earlier stages of business recovery.

Whilst issues related to location and suitable premises potentially affect SMEs in all stages of recovery, they are the most common barrier to resuming trading (43% of those not trading).

Other key barriers relate to disruption to business (17%), insurance (16%), a lack of progress in the rebuild (14%) and infrastructure issues (10%).

In addition to reduced customer demand, tax agents emphasise insurance issues as a barrier to recovery for SMEs (38%). They were also more likely than SMEs to comment on lost access to data (12%).

Strategies that could have helped limit the disruptions to business activity

In the qualitative research, business owners and tax agents discussed what they could have done in hindsight to limit the disruptions to their business activity. They are seriously considering implementing some of these strategies, in prevision to another crisis like an earthquake:

- **Data storage:** storing physical data onsite but also offsite, and ensuring that the back-up is updated frequently. By diversifying the locations where records are kept, they believe that they will be able

to access up-to-date data quickly after the adverse event. They also suggested storing electronic data on a cloud-based system to ensure that information is accessible regardless of the computer used and the time of day. This gives them more flexibility to business owners in accessing information in case of business disruption.

- **Remote access:** developing computer networks that would enable staff to access their work files from home instead of being in the office. Remote access would enable staff to keep working despite the physical disruptions (e.g. office closed for a while, need to relocate).
- **Storage of stock/equipment:** storing stock and equipment in different locations (e.g. warehouse away from the shops) so as to avoid the destruction of all the stock/equipment.
- **Prioritise search for premises:** looking for premises as soon as the adverse event happens. The more some business owners waited, the less they were in a position to shift location (e.g. less choice, increased rents).
- **Reducing debt:** minimising the business's debt levels at all times (e.g. cut costs, increase margins, pay creditors on time) so as to ensure that the business builds up some profit/cash reserves and is able to face some temporary disruption.
- **Adequate insurance cover:** reviewing the business's insurance cover regularly to ensure that it is thorough and wide enough to include potential changes to the business (e.g. business branching out). Business owners talked about using a professional insurance broker to facilitate the review process.

- Business diversification: diversifying the business activity if it is hit badly by an adverse event (e.g. a business owner converted his business of running touristic trips in Canterbury using a small bus to providing shuttle services). Some business owners were flexible and adapted their core business activity to survive in a new business environment.

“It [earthquake] comes out of nowhere, it’s hard to prepare! But I could have stored my mailing list, server etc off-site and on-site. Prevention is better than cure.”

Interview 14

SME, retail

“Clients need to shift their management system on a cloud-based system. For example, scan their hard copy documents to put on the cloud so that it’s safe. It’s the way to go for other businesses too; there’s no disruption to trade.”

Interview 22

Tax agent

“People need to rely more on digital records of the business: digitisation of records and off-site back-up.”

Interview 22

Tax agent

Note: these strategies were thought of by business owners and tax agents in the context of an adverse event like an earthquake, but another type of destructive event may require different strategies. For example, a cloud-based system may not work in the case of a powerful solar flare, and an offsite storage location may be destroyed in the case of a tsunami.

SMEs’ internal coping mechanisms

The qualitative research findings also show that personal resilience (e.g. personal philosophy, knowledge, skills about good business practice) and business resilience (systems, processes, tools and techniques to ensure a business’s long-term viability) are also key determinants of surviving a crisis. Personal resilience in particular has a strong attitudinal element. These factors are therefore discussed in depth in the next section on ‘attitudes towards tax.

Section 2. Attitudes towards tax

A key objective of this research is to explore the impact of the earthquakes on SMEs' attitudes towards tax compliance. This section addresses this objective by exploring Canterbury SMEs' general attitudes towards tax (and how these compare to those measured in IR's Customer Satisfaction and Perceptions survey), the role of personal resilience (and business resilience) in driving tax compliance, and specific attitudes towards tax related to the earthquakes.

Note, attitudes towards hidden economy activities are explored in Section 3 of this report.

General attitudes towards tax

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.

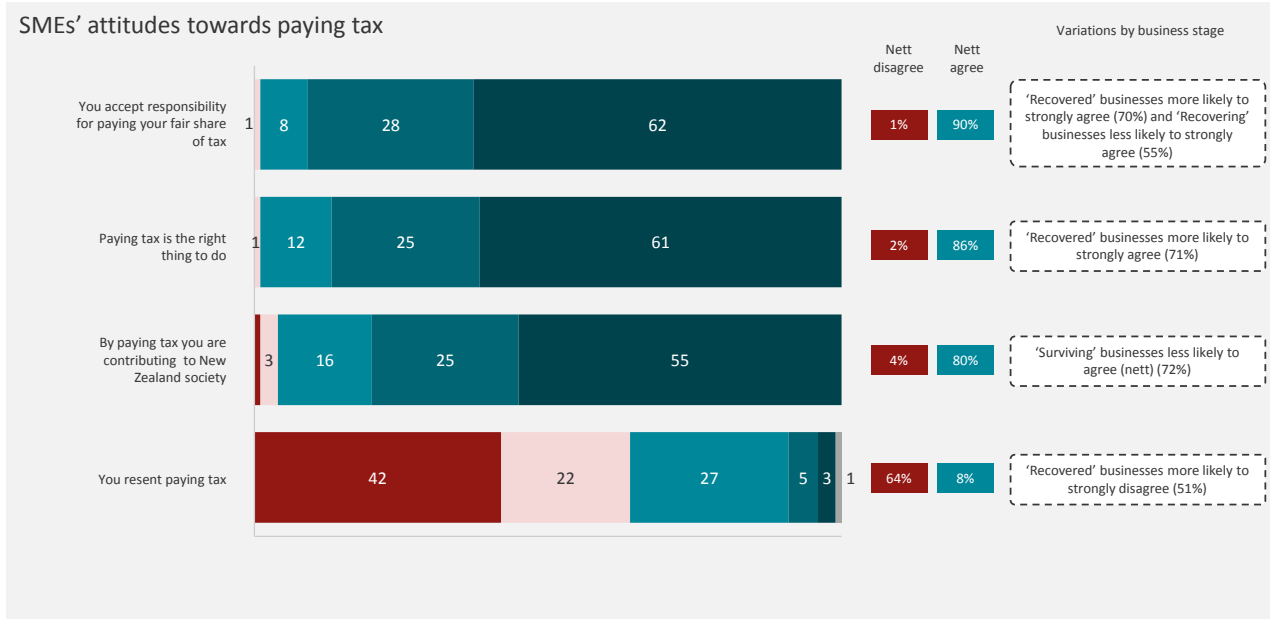
This first chart depicts general attitudes towards tax (not specifically related to the earthquakes). These statements are also asked in IR's Customer Satisfaction and Perceptions (CS&P) survey.

Large majorities of SMEs agree that they accept responsibility for paying their fair share of tax (90%), believe paying tax is the right thing to do (86%), and believe that by paying tax they are contributing to New Zealand society (80%).

Less than one in ten resent paying tax (8%). Reasons for resentment towards paying tax are explored later in this section.

There are a small number of significant variations in general attitudes towards tax by industry⁸.

⁸ SMEs in the Retail trade are more likely to agree (nett) that paying tax is the right thing to do (94%), whereas SMEs in the Agriculture, Forestry and Fishing sector are less likely to agree (nett) with this statement (78%). SMEs in the Administrative and Support Services sector and the Transport, Postal and Warehousing sector are most likely to agree (nett) that they resent paying tax (17% each).

Figure 17: SMEs' attitudes towards paying tax

Source: Q8

Base: All SMEs (1,161)

Comparisons with IR's Customer Satisfaction and Perceptions Survey

There are several statistically significant differences between the results of the CS&P survey and this survey of Canterbury SMEs. These are shown in the chart overleaf.

Note, the reader should apply some caution in interpreting this data as two factors mean the results of the two surveys are not directly comparable:

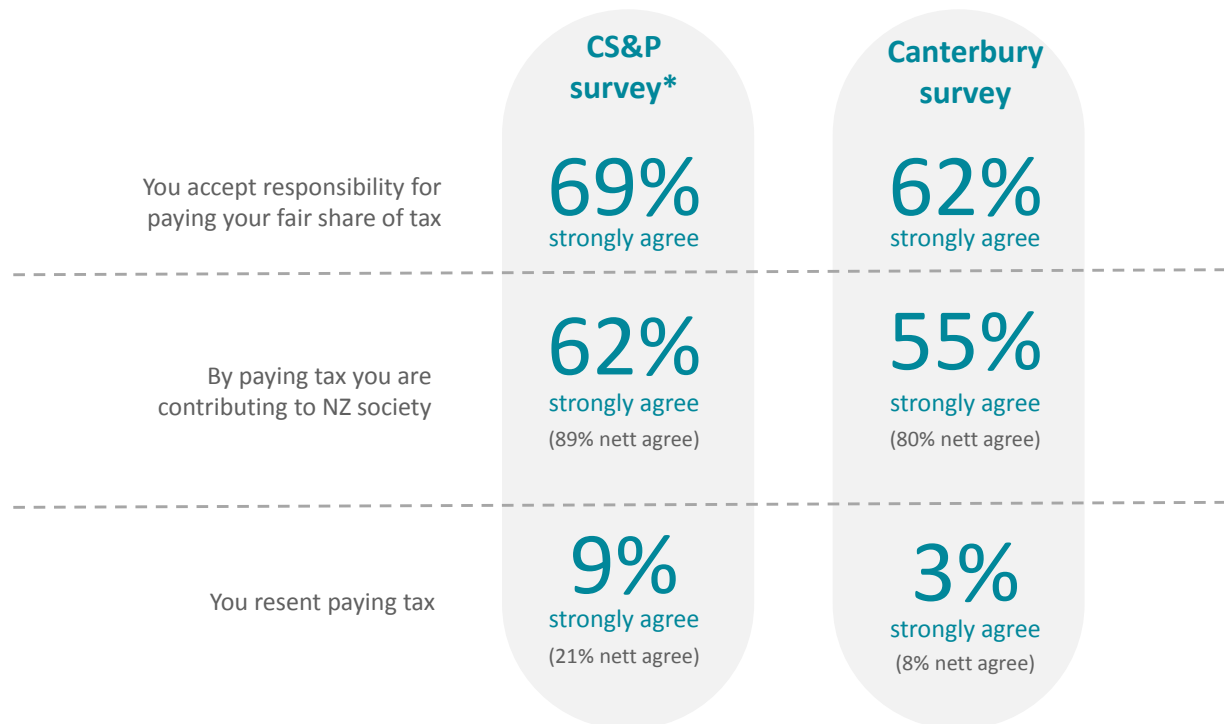
- The CS&P surveys SMEs that have recently had contact with IR.
- The CS&P survey is based on a national sample of SMEs. Prior to the earthquakes, the attitudes of Canterbury SMEs may have been different to the

attitudes of SMEs nationally. Having said that, given that IR administrative data indicates that prior to the earthquakes Canterbury SMEs tended to be more compliant than SMEs in other parts of the country (such as Auckland), it is possible that Canterbury exhibited more positive attitudes than SMEs located elsewhere.

SMEs in the CS&P survey are more likely to strongly agree that they accept responsibility for paying their fair share of tax, and are more likely to agree (nett) and strongly agree that by paying tax you are contributing to New Zealand society, than SMEs in the Canterbury survey. However, SMEs in the CS&P survey are also more likely to agree (nett) and strongly agree that they resent paying tax.

Figure 18: Comparisons between surveys

Comparisons between surveys



*Source: IR's Customer Satisfaction and Perceptions Survey, based on 552 SMEs interviewed in 2011/2012

Reasons for resenting paying tax

As reported earlier, 8% of Canterbury SMEs resent paying tax. Without prompting with possible reasons, these business owners were asked for their reasons why they feel this way. 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) – each nett score figure gives the percentage of respondents that gave at least one of the more detailed suggestions (which are listed below the nett score).

Table 6: Reasons for resenting paying tax

	All SMEs %(117)
Pay too much tax	25
Tax rate is too high/always going up	12
Too many taxes/continually paying tax/large part of business is spent on tax matters	10
Businesses are struggling to pay tax/struggling to stay in business	6
Dislike how tax money is spent	24
Do not agree with where tax money is spent	11
Tax payer money is wasted/wasteful projects	9
Too much tax payer money is spent on benefits/beneficiaries/encourages people not to work	9
Unfair	20
Unfair/unfairly assessed/not everyone pays their fair share	13
Feel that the harder you work/the more you earn, the more you are taxed	7
Don't mind paying tax	16
Don't mind paying tax/understand I have to pay tax/contributes towards running the country	15
Misunderstood the scale/do not resent paying tax	1
Nett other	36
You have to pay tax/tax is not voluntary/tax is theft	13
Resent paying indirect taxes	5
Don't like paying tax/everyone resents paying tax	5
Issues with provisional tax payments	2
More support for small businesses from IRD	2
Prefer to spend money on myself/my business	1
Other	13
No reason/nothing/none/no comment/n/a	5

SME resentment towards paying tax stems from a belief that they pay too much tax (25%), disapproval of how tax money is spent by government (24%) and a general sense of the tax system being unfair (20%).

The role of personal and business resilience in influencing tax compliance

Consistent with previous research, business owners explain that tax compliance in the context of ‘business

as usual’ (i.e. no adverse event has impacted on the SME) relies on two key factors:

- Personal resilience.
- Business resilience.

In the case of an adverse event, these two factors impact even more on tax compliance.

Figure 19: Two types of resilience are key to tax compliance



The level of personal resilience varies among business owners

On the tax compliance spectrum related to personal resilience, two distinct attitudes exist (i.e. one at each end of the spectrum) and are discussed below.

Business owners who are tax compliant consider that paying the right amount of tax on time is important, as it impacts on the finances of their business (e.g. they are not charged late filing/payment penalties and interest) and also the wider economy (e.g. provision of services to New Zealanders). They are disciplined and organised. They make sure that they have the necessary amount of cash in their business or personal account in order to meet their tax obligations that they take seriously.

“You have to be as financially secure as you can get yourself. I don’t owe people any money, I own my gear and I don’t carry debts.”

Interview 21

SME, building industry

“I’m very pragmatic. I’m looking at the earthquakes as a new adventure. We’ve had lots of crises in the last 15 years. I stay stoic. What doesn’t kill you makes you stronger. The employee subsidy really helped. I’ve been through tough times, but actually, you get

through it. And I have great support at home. I keep going. Some resources are internal... You just sit on the wave and ride it.”

Interview 14

SME, retail

“Many had no strategy, but they had business acumen. It’s a matter of necessity: you get yourself organised, you don’t feel sorry for yourself.”

Interview 26

Tax agent

By contrast, some business owners who are not fully compliant show a lack of interest and/or understanding about the tax system, their tax obligations and the reasons behind paying tax. They may also lack some administrative knowledge and/or skills that would assist them in meeting their tax obligations.

The above findings are supported by some of the quantitative research results. In particular, attitudinal

differences are evident between more⁹ and less¹⁰ compliant SMEs as follows:

- More compliant SMEs are more likely to strongly agree that they accept responsibility for paying their fair share of tax (63% compared to 51% of less compliant SMEs).
- Less compliant SMEs are more likely to agree (nett) that businesses adversely affected by the earthquakes should pay a lower tax rate (51% compared to 40% of more compliant SMEs).
- Less compliant SMEs are more likely to agree (nett) that businesses affected by the earthquakes shouldn't have to pay previous tax debts until they are fully operating again (63% compared to 52% of more compliant SMEs).

SMEs display different levels of business resilience

Similar to the personal resilience spectrum, a business resilience spectrum applies to business owners when it comes to tax compliance.

On the one hand, there are business owners whose tax compliance is very good, because they have implemented systems and strategies that ensure they are knowledgeable and up-to-date with their tax obligations, and plan for tax when managing their business. They use technology and professional networks to keep on top of their tax obligations, as well as business activity. They are involved in many aspects of their business.

“Tax will always be. The issue is not about tax, but understanding business, and stay in business. IR needs to educate on how people can stay in business. For example, they could have a ‘business liaison’ department that would be proactive and call, organise seminars.”

Interview 15

SME, building industry

On the other hand, business owners who are not meeting their tax obligations as required tend to have cashflow management issues (e.g. no/little savings, no cash ‘buffer’ available, income used to pay staff, stock paid by instalment). In addition, these business owners tend to be more involved in the job rather than the administrative side of managing their business, and therefore they may not have extensive networks to fall back on to access knowledge and information.

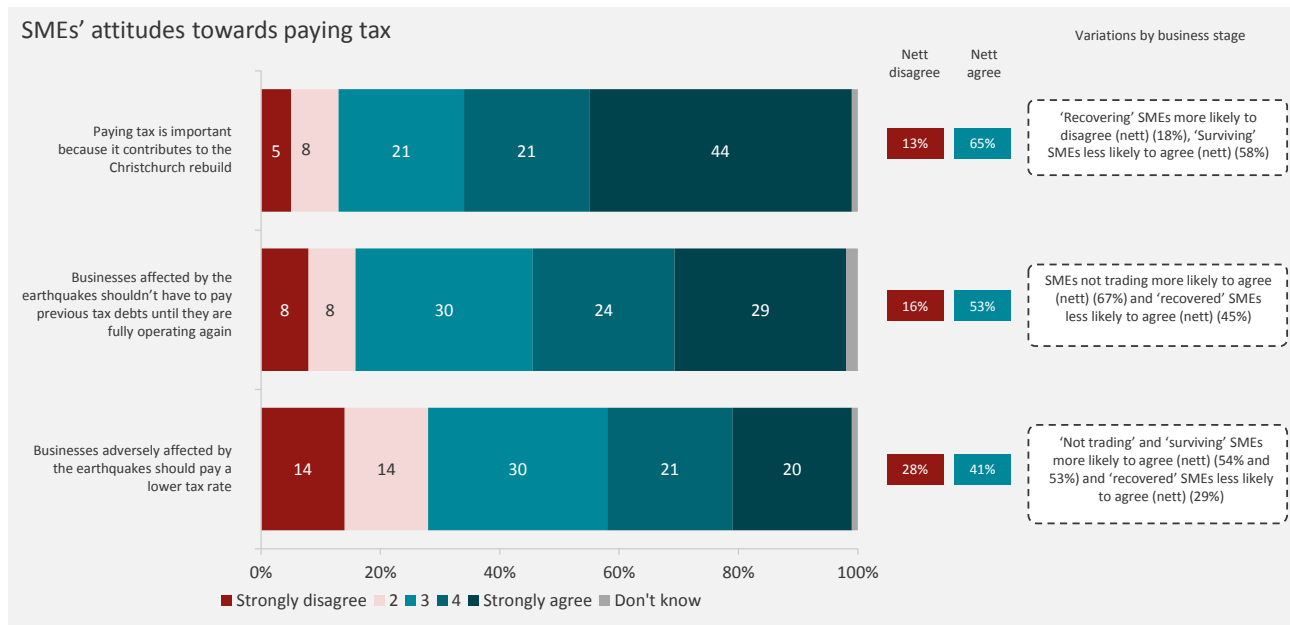
⁹ ‘More’ compliant SMEs are defined as those with a record during 2004 to 2009 of ‘full compliance’, ‘good compliance’ or ‘less compliance’. These variables were part of the sample provided by IR.

¹⁰ ‘Less’ compliant SMEs are defined as those with a record during 2004 to 2009 of ‘poor compliance’, ‘very poor compliance’ or ‘total non-compliance’. These variables were part of the sample provided by IR.

Specific attitudes related to the Christchurch earthquakes

The chart below provides the results depicting attitudes towards tax that are specifically related to the Christchurch earthquakes.

Figure 20: SMEs' attitudes towards paying tax



Source: Q8
Base: All SMEs (1,161)

Responses to the statements depicting attitudes towards tax that are related to the Christchurch earthquakes are somewhat more polarised and there are some variations by debt status, industry and location:

- Only two thirds (65%) agree that paying tax is important because it contributes to the Christchurch rebuild (although the remainder are more likely to take a neutral stance than disagree).
 - Business owners who have never been in debt are more likely to agree (nett) with this statement (70% compared to 63% of those who used to be in debt and 61% of those with debt in late 2010).
 - Business owners in the Construction sector are more likely to agree (nett) with this statement (74%), whereas SMEs in the Manufacturing sector are less likely to agree (nett) (55%).
- Around half (53%) agree that businesses shouldn't have to pay previous tax debts until they are fully operating again (and again the remainder are more likely to take a neutral stance).
 - SMEs with debt in late 2010 are more likely to strongly agree with this statement (43% compared to 26% of those who used to be in debt and 27%
 - of those who have never been in debt).
 - Only 42% of SMEs that were located in the CBD agree (nett) with this statement compared to 53% in greater Christchurch and 57% in greater Canterbury.
- The notion of businesses adversely affected by the earthquakes paying a lower tax rate attracts the greatest polarisation in response, with four in ten SMEs (41%) agreeing with this idea and around a quarter (28%) disagreeing.
 - SMEs with debt in late 2010 are more likely to strongly agree with this statement (31% compared to 20% of those who used to be in debt and 14% of those who have never been in debt).
 - Only 31% of SMEs that were located in the CBD agree (nett) with this statement compared to 44% in greater Christchurch and 39% in greater Canterbury.
 - SMEs in the Accommodation and Food service sector are more likely to agree (nett) with this statement (54%), whereas SMEs in the Professional, Scientific and Technical Services are less likely to agree (nett) (29%).

Section 3. Perceptions of hidden economy in Canterbury

This section explores perceptions of the hidden economy in Canterbury.

The qualitative research findings suggest that there are slightly different views on what constitutes 'hidden economy activity' with a range of perceptions from deliberate cash payments and non-declaration of income through to accidental paperwork errors (claiming for expenses that they shouldn't or mistakes). SMEs' definitions in turn drive their behaviour and attitudes on the acceptability of the behaviours and what is the appropriate response from IR.

Perceived changes in hidden economy activity

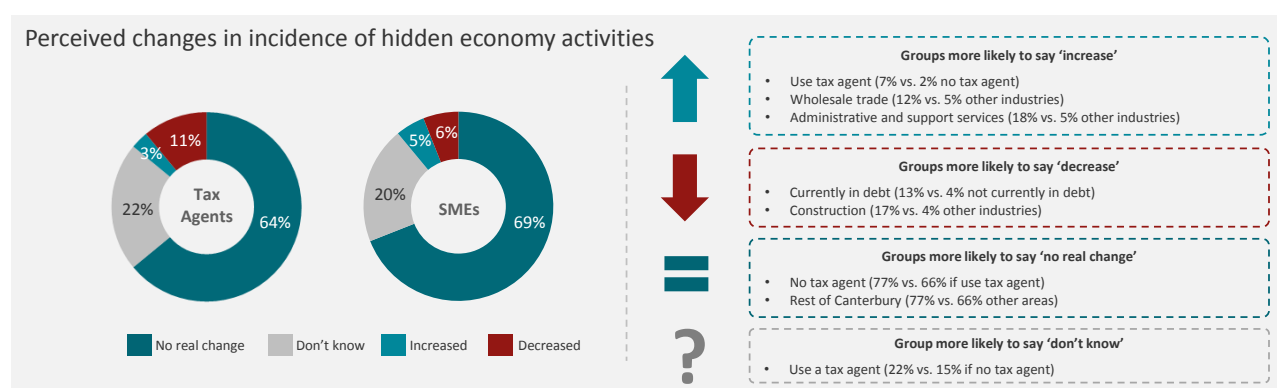
In the telephone survey, hidden economy activity was described to respondents as payments businesses receive for work completed that they do not declare for tax purposes. Respondents were further told that this included cash payments which are sometimes referred to as payments made 'under the table'.

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

The results to both of these questions are displayed in the chart below along with any subgroup differences among SMEs.

Figure 21: Perceived changes in incidence of hidden economy activities



Source: Q9a

Base: All tax agents (100) and SMEs (1,161)

Large majorities of both SMEs and tax agents think that there either has been no change in hidden economy activity (69% and 64% respectively) or they are unsure (20% and 22% respectively). Business owners who perceive there has been a change are fairly evenly

divided between those who think there has been an increase (6% of all SMEs) and those who think there has been a decrease (5% of all SMEs). Tax agents are more likely to think there has been a decrease (11%).

“The cash economy hasn’t changed much. There’s extra money circulating, but it isn’t in the form of cash (e.g. EQC, insurance, Fletcher). It goes to bank accounts. Contractors dealing with EQC have to be proper businesses, they need to be approved by EQC. Home owners need to go to Fletcher to get their repair done. They need reputable tradesmen.”

Interview 30

Tax agent

“The quakes didn’t make a difference [to the cash economy]. It’s a habit, and people wouldn’t change it.”

Interview 3

SME, hospitality

Reasons for perceived increase in hidden economy activity

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) – each nett score figure gives the percentage of respondents that gave at least one of the more detailed suggestions (which are listed below the nett score).

Table 7: Reasons for perceived increase in hidden economy activity

	All SMEs % (60)	Tax agents % (3)*
Financial pressures/ competition	38	-
Tough/hard times/less cash/need cash	36	-
Labour shortage/competition	3	-
Quicker process	27	-
Get job done quicker	19	-
Disorganised/busy/no time for paperwork	8	-
More small contracts	17	33
More small/cowboy operators	11	-
Small work contracts are not monitored closely	5	33
Nett other	36	67
Opportunities for it not to be noticed/slip through the cracks	12	-
Cheaper	10	-
People wanting to help each other	2	33
Other	14	67
Don't know	3	-

Financial pressures in these ‘hard times’ is the most commonly cited reason for an increase in hidden economy activity (38%). This finding is supported by the following perceptions observed in the qualitative research:

- Disruptions to some SMEs’ business activity may have led to serious difficulty in making ends meet and therefore they feel they have no other solution but to deal in cash to lessen their financial troubles.

- Some business owners (especially those in the building industry) want to undercut their competitors through cash payments, especially competitors from outside Canterbury, as they feel these ‘outsiders’ take the jobs that belong to Cantabrians.
- From an employer’s perspective, offering cash to employees may be an effective way of securing skilled and experienced labour, especially after valued staff resigned from their company and moved outside of Canterbury/overseas. Similarly, some employees may request to be paid cash by their employer when they work overtime (e.g. extra shifts in a restaurant).

“It’s hard to make ends meet. The base rate is \$13.50.”

Interview 4
SME, hospitality

“The extent of the cash economy has changed, because now there’s more cash around due to insurance [payouts]. EQC gives \$10,000 cheques to traders to sort it, so it [cash economy] potentially happens. After September 4th, cheques for repairs were very generous. This encourages the cash economy.”

Interview 26
Tax agent

Getting the job done more quickly is the next most commonly cited reason (27%). The qualitative research indicated that some business owners in the building industry feel that residential people who offer cash to do repair work, instead of going through the official channels (e.g. EQC and insurance companies), will get the work done sooner.

Smaller operators and smaller contracts are also considered to be a reason for increased hidden economy activity (17%). The qualitative research findings highlighted a perception that because some EQC contracts in the residential building industry are not closely monitored (e.g. below \$10,000 value) it will be easier to “pocket some of the cash when using contractors”.

“There’s heaps of people [contractors] from out of town. The standard of work is bad. They undercut everyone.”

Interview 21
SME, building industry

“After the February earthquake, new contractors came to Christchurch. There are some unscrupulous people. It’s put undue pressure for all industries, and there’s a lot of scrutiny from EQC.”

Interview 16
SME, building industry

Twelve percent commented on the greater opportunity that now exists for hidden economy activities to not be noticed. Likewise, respondents in the qualitative research felt that a few business owners may be generally dishonest, and the chaos of the earthquakes has given them a greater opportunity to deal with their business affairs in a fraudulent way; for some business owners who ‘have fallen through the cracks’ inadvertently, this may be an opportunity to ‘try it on’ and see how much they can get away with.

Whilst most of the reasons cited for a possible increase in hidden economy activity relate to people willingly dealing in cash, some business owners in the qualitative research felt that that due to the general disruptions caused by the earthquakes, many business owners have or will inadvertently take part in the cash economy. They provide a few examples of situations that could lead to this:

- Some of them have lost all or most of their financial and tax records, therefore they will have to use estimates if they cannot recreate them.
- Some business owners have become busier looking for work/new contracts instead of ensuring the administrative side of their business is accurate, therefore sloppy paperwork is likely to arise and mistakes are likely to be made (this was also cited as a reason by 8% in the telephone survey).
- Through their own and their clients’ experiences in dealing with the earthquakes, tax agents have also become busier and are not always able to pick up and rectify tax errors on time – IR may be in a similar situation of not being able to pick up these mistakes on time either.
- Some business owners have also mentioned that they “keep cash handy, in case there’s another earthquake and I can’t go to the bank”.

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 table overleaf.

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 score figure gives the

percentage of respondents that gave at least one of the more detailed suggestions (which are listed below the nett score).

Table 8: Reasons for perceived decrease in hidden economy activity

	All SMEs % (66)	Tax agents %(11)*
Larger contracts/professional involvement	40	64
Involvement of professional organisations (e.g. CERA, EQC, HANZ)	24	36
Large contracts/business to business contracts/not cash	11	27
More bureaucracy/red tape in place	9	9
Large companies winning tenders need correct paperwork	9	9
Electronic transactions	26	27
Less cash available/not wanting to release cash	17	9
More electronic transactions/online banking	11	18
Fewer opportunities	17	9
Economy/business is down	8	9
Due to earthquake/businesses/people have left Christchurch	8	-
Less 'under the table' work offered	4	-
Nett other	18	18
Logistics of making insurance claims	2	9
IR takes action/IR visible	-	9
Other	16	-
Don't know	5	-

Among both SMEs and tax agents, the most common reason cited for a decrease in hidden economy activity relates to the involvement of professional organisations (and the associated red tape) and the requirements of larger contracts (40% of SMEs and 64% of tax agents cited these reasons).

In the qualitative research, business owners in different industries commented that the Canterbury region has experienced an increase in "red tape and bureaucracy" following the earthquakes with the involvement of large organisations taking part in the rebuild process (e.g. Canterbury Earthquake Recovery Authority, Earthquake

Commission, insurance companies). Business owners dealing through these channels have to ensure they have the correct paperwork and accurate records. Larger companies winning tenders will need to sub-contract part of the work, and they will also require the correct paperwork from their contractors. Besides, large building contracts are not paid in cash. These factors therefore tend to contribute to the decrease in potential cash dealings, according to some business owners.

“It [cash economy] varies from builder to builder. It depends on contact with the public. I can’t do it, because I sub-contract. Most of my work comes from EQC: there are too many checks and balances. The industry has changed. Taking on EQC work means a lot more bureaucracy, a long chain to work through, more office work. The job is slower.”

Interview 15

SME, building industry

In addition to an increase in bureaucracy, some business owners mentioned that in many industries today there are professional bodies whose role among others is to develop and promote high standards within their industry (e.g. Hospitality Association NZ, Master Builders). Industry members receive information and education about it. They realise that for the longevity of their business, they cannot deal in cash.

Besides, growing businesses want to “do everything by the books” to ensure the long-term viability of their business. If some SMEs were not doing the right thing (e.g. missing tax payments) it is now the opportunity for a growing business to rectify and strengthen their situation.

SMEs doing business with other SMEs have official dealings rather than ‘under the table’. Each business involved has to be able to demonstrate good business practice (e.g. to their tax agent and IR), therefore there is no incentive for a business-to-business dealing to handle cash ‘under the table’. Many business owners interviewed explained that with cash dealings “it’s a habit, if you don’t do it, you wouldn’t start doing it because of the earthquakes”. They explain that it comes down to honesty and overall they believe that business people are honest.

“I say to them ‘you declare it all, it’s illegal not to’. Not only that keeps the economy going, but also if they want to sell their business, they need to show records. [...] I tell clients that IRD has measures to check (if they’re cheating).”

Interview 22

Tax agent

“We keep paying our bills. It’s important to keep money getting around. If someone doesn’t pay, it’s like sand in the cogs. Everybody is affected. It’s a question of morals.”

Interview 2

SME, hospitality

Many business owners believe that due to an overall increase in electronic transactions (e.g. eftpos and credit card payments, as well as online banking), people and businesses handle less cash and instead deal with ‘virtual money’ that is automatically recorded and accounted for (e.g. till receipt and individual reference number for electronic transactions). Around one quarter of SMEs (26%) and tax agents (27%) cited these types of reasons.

“There’s no change in the cash economy. Society isn’t in cash mode anymore. There’s no impact of the quakes on the cash economy.”

Interview 24

Tax agent

“Everything we do is declared, our tax agent does everything, all is done through BankLink. It’s easier. My clients don’t pay cash because I work for companies, and big money is involved.”

Interview 16

SME, building industry

“There’s no need to do things under the table, because everything is online now, it’s easy to do. No problem.”

Interview 22

Tax agent

“It happens in labour trades, across all sectors. A lot more used to happen in the past, but today there’s more checks and balances, and also computer, internet [to transfer money]. It’s easier to track money [today]. IR has the right to check your accounts, go into your bank, so that should be picked up then.”

Interview 21

SME, building industry

Seventeen percent of business owners and 9% of tax agents also commented on the fewer opportunities to take part in the cash economy largely as the result of less business activity.

In the qualitative research interviews, some business owners recalled seeing advertisements in their local newspaper about IR and/or receiving some industry newsletters about what IR was currently focusing on regarding business (e.g. HANZ newsletter telling members that IR is visiting and talking with business people in the hospitality and catering industry to target cash dealings). The increased visibility of IR (e.g. court proceedings and audits involving IR) have made business owners more aware of IR’s intentions and actions. Therefore business owners keep in mind they have tax obligations, even though they do not always address

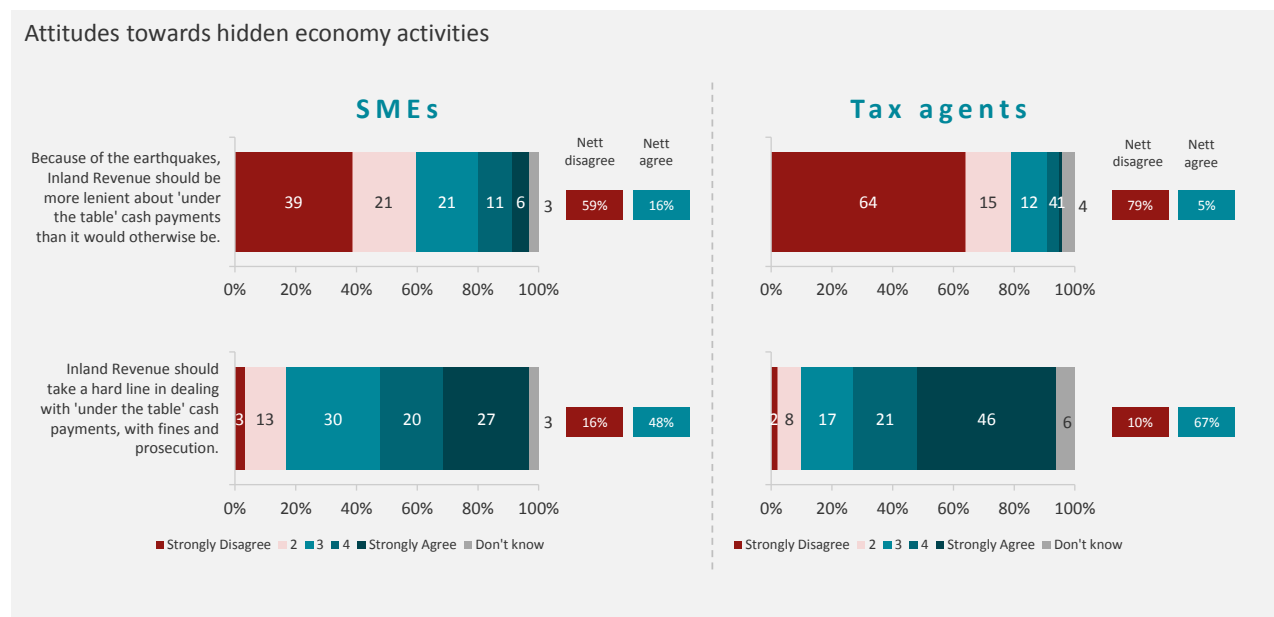
them on time and in full. IR's visibility was mentioned more commonly in the qualitative research than in the telephone survey (only one tax agent in the telephone survey mentioned this).

Tax agents and business owners who think that cash dealings have decreased believe that IR is 'blowing the issue out of proportion'.

Perceptions of how IR should deal with the hidden economy

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.

Figure 22: Attitudes towards hidden economy activities



IR taking a hard line in dealing with 'under the table' payments with fines and prosecution receives support from around half of SMEs (48%). Whilst some disagree with this approach (16%), many hold a more neutral stance (30%). Tax agents more strongly favour IR taking a hard line approach (67%).

Relatively few believe that because of the earthquakes IR should take a more lenient approach to 'under the table' payments (only 16% of SMEs and 5% of tax agents agree with this notion). However, only a small majority of SMEs (59%) disagree with this statement as a sizeable proportion take a neutral stance (21%).

In the qualitative research, business owners and tax agents suggested IR use a softer/lenient approach during the survival phase as most SMEs are struggling, and a tougher/stricter approach during the recovery phase as SMEs should have resumed a regular, non-cash business pattern.

Softer approach during the survival phase

The 'softer' approach towards the hidden economy during the 'survival' stage involves a case by case approach whereby IR is proactive, helpful, compassionate and lenient towards SMEs whose lack of tax compliance is outside of their control or a 'genuine' error/oversight, while taking a hardline approach to 'deliberate' tax avoidance.

The range of proactive, lenient, helpful and compassionate options that IR could implement is much the same proactive and approachable measures as those suggested in a 'business as usual' situation to avoid and prevent tax debt, for example:

- educating and informing SMEs about appropriate business financial and tax management versus cash
- an approachable, friendly and understanding manner that will enable business owners to ask for

assistance or advice if required. (Some business owners are afraid of contacting IR and expect blame/finger pointing if they ask for help)

- communicating payment arrangements that IR makes available to struggling SMEs.

The suggestions that stand out as slightly different in an adverse event situation are for IR to be more visible in the community, meet with SMEs face-to-face, build relationships, provide reassurance and a more individual and tailored intervention/solution.

On the hardline approach, tax agents and SMEs suggest that IR should work closely with tax agents to catch potential 'cash dealers' more easily/quickly.

Tougher approach during the recovery phase

Once SMEs have returned to a more regular business pattern (recovering and recovered), tax agents and some SMEs believe that IR should be tougher and more proactive in dealing with the hidden economy. Their suggestions are similar to previous debt research, in that deliberate tax avoidance requires enforcement. Suggestions of appropriate actions by IR are firstly education and advice about risks and consequences, followed by:

- audits and legal action
- making proceedings public (e.g. advertised in the local newspaper) in order to raise awareness of IR's actions among SMEs and also discourage them from dealing in cash
- proactively targeting SMEs/industries that are deemed at risk.

"IR needs to tighten the noose. Expand on their audit presence, but they need to lay off in Christchurch because of the earthquakes. IR needs to keep looking at these businesses and make it known 'we're watching you'. But IR also needs to be flexible and encourage people to communicate with them. IR needs to publicise in newspapers and online."

Interview 30

Tax agent

"IR took too long to get to the ratbags. The earthquakes haven't changed that. It still takes a long time to go to court. Some of my ratbags need to be dealt with harsher than they were. Non-compliant taxpayers need to be out of the system."

Interview 26

Tax agent

"To address the issue of cash economy IR needs to look at the ratios 'expenditure to income' or 'income generated by each industry' and assess according to individual businesses. IR can track the lifestyle of people and assess their income back on that."

Interview 24

Tax agent

Section 4. Impact of the earthquakes on tax compliance up to the and including 2011/2012

This section examines tax agents' and SMEs' perceptions of 1) the scale of the impact of the earthquakes on SME tax compliance following the earthquakes, 2) the mechanisms by which tax compliance was affected, and 3) the general factors that helped SMEs meet their tax obligations. The focus of this section is largely on the period following the earthquakes up to and including the 2011/2012 financial year. The likely impact of the earthquakes on tax compliance in subsequent tax years (2012/2013 and 2013/2014) is examined in Section 8 of this report.

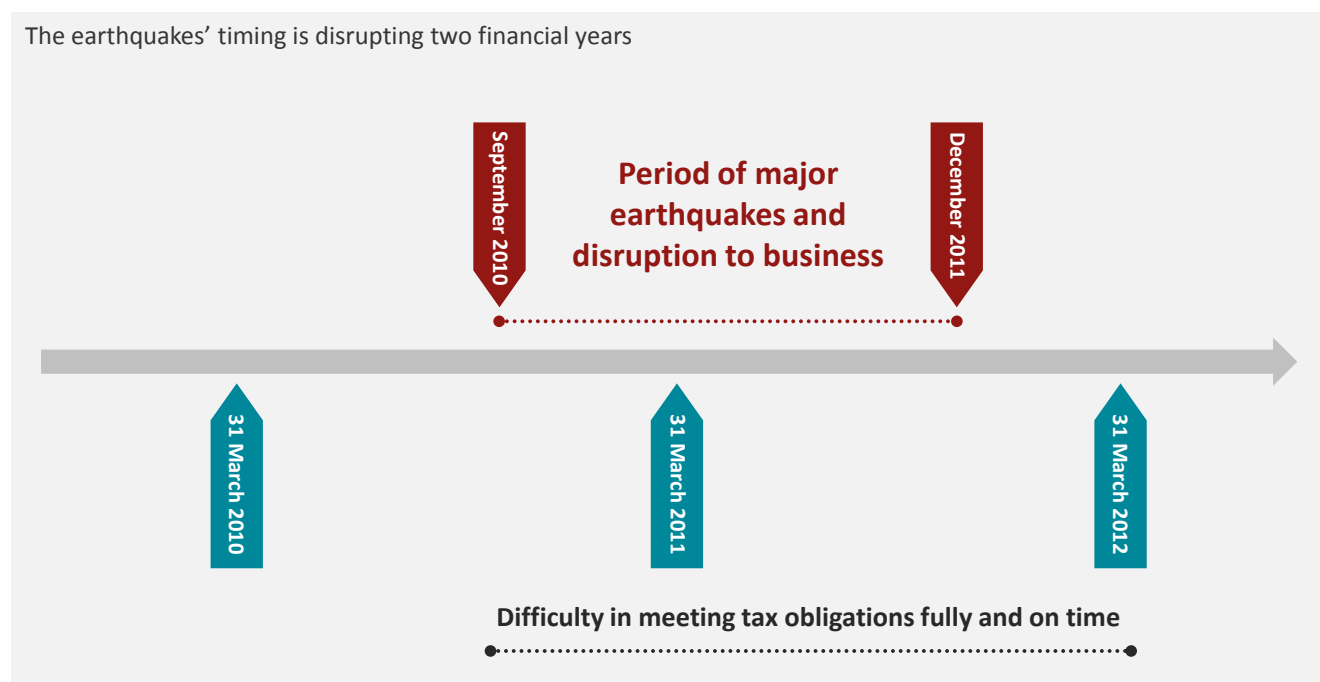
The scale of the impact on tax compliance

The initial impact of the earthquakes affects two financial years

The destructive earthquakes started in September 2010, thus potentially impacting on the financial year 2010-2011. Some SMEs experienced serious disruption to their business and administrative management. The subsequent earthquakes, including the severe February 2011 earthquake, had a damaging effect on a large number of SMEs structurally and financially. As a result, this potentially impacted on the following financial year 2011-2012.

From a financial and tax perspective, the impact of the February 2011 earthquake was likely to be worse than the September 2010 earthquake, as it struck just before the end of the 2010-2011 financial reporting year.

Figure 23: The earthquakes' timing is disrupting two financial years



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 2011/2012 tax year compared to before the earthquakes; what percentage have been worse and what percentage have stayed the same.

The table below presents the results. Key points from this table are as follows:

- 73% of tax agents say that more three quarters (76%-100%) of their client base has stayed the same in terms of how well they meet their tax obligations.
- 54% of tax agents say that more than none and up to a quarter (1%-25%) of their client base has got worse at meeting their tax obligations.
- 19% of tax agents say that more than a quarter (26% to 100%) of their client base has got worse at meeting their tax obligations.

Table 9: Tax agents' perceptions of how well their clients have been able to meet their tax obligations

Proportion of tax agent's client base	Better %	Worse %	About the same %	Don't know %
0%	83	27	4	95
1%-25%	14	54	3	2
26%-50%	3	15	8	-
51%-75%	-	2	12	-
76%-100%	-	2	73	3

SMEs' self-reported tax compliance in 2011/2012 (compared to before the earthquakes)

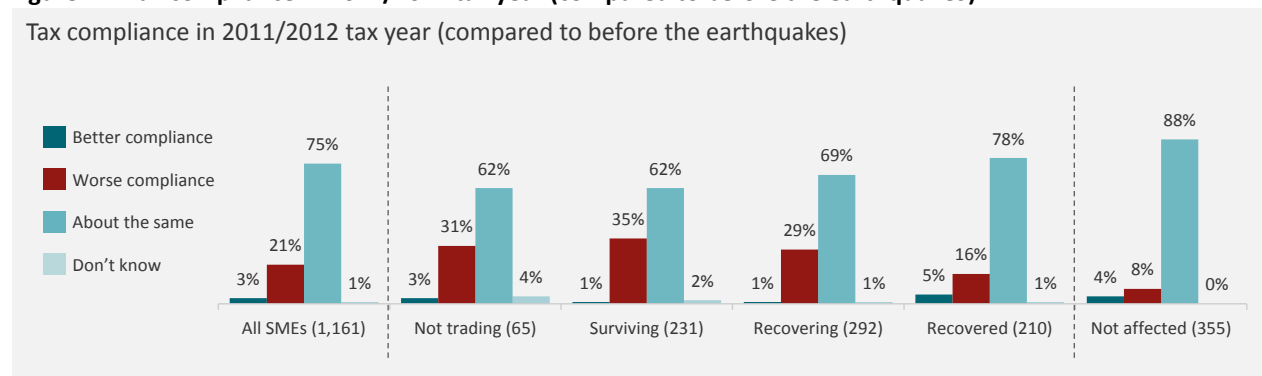
In the telephone survey, we also explored with SMEs how well they have been able to meet their tax obligations during the 2011/2012 tax year. 'Meeting tax obligations' was defined for respondents as whether the business filed its tax returns and paid its tax on time (or within any extensions of time 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 2011 to

March 2012 their business was better, worse or about the same in meeting its tax obligations compared to before the earthquakes.

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 on time for the correct amount.

Results to this question are presented by stage of recovery in the next chart.

Figure 24: Tax compliance in 2011/2012 tax year (compared to before the earthquakes)



Source: Q5ci
Base: Varies – see graph

Around one in five SMEs (21%) indicate their business was worse at meeting its tax obligations during the 2011/2012 tax year than before the earthquakes. The majority (75%) said their compliance was about the same.

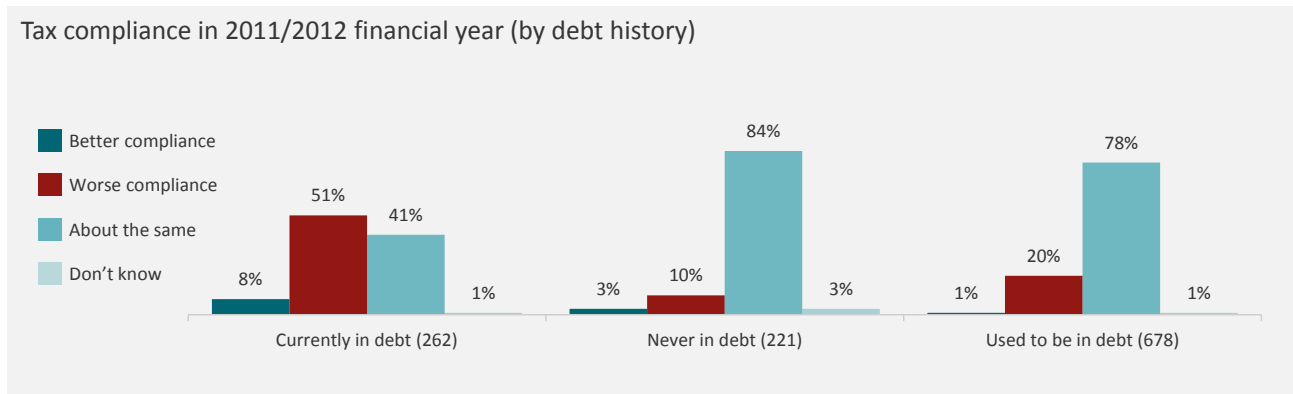
The degree of impact of the earthquakes on the business clearly has an impact on tax compliance. SMEs currently not trading or in the 'surviving' or 'recovering' stages are more likely to have worsened compliance

(30% on average) compared to those who have recovered (16%) or were not affected (8%).

Impact of debt history on meeting tax obligations

Debt status is also a defining factor in tax compliance with around half (51%) of those in debt in late 2012 indicating they were worse at meeting their tax obligations in 2011/2012 than before the earthquakes.

Figure 25: Tax compliance in 2011/2012 financial year (by debt history)



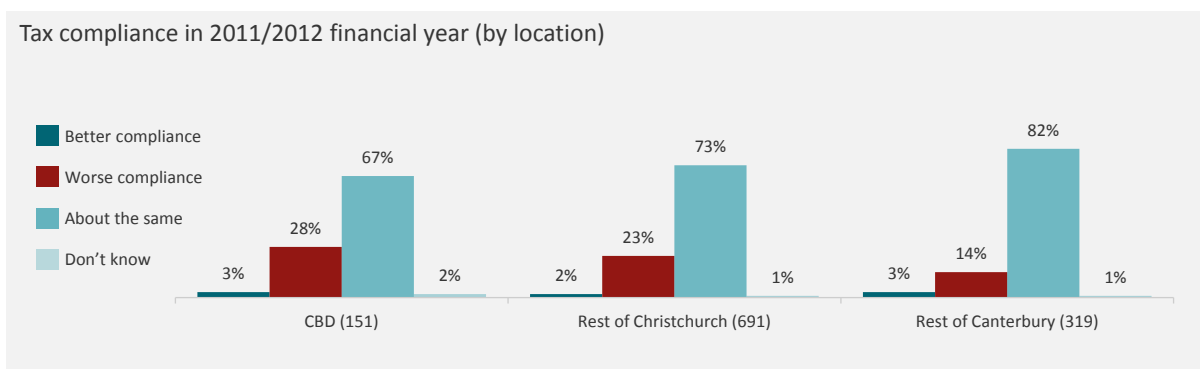
Source: Q5ci
Base: Varies – see graph

Impact of SMEs' location on meeting tax obligations

The chart below illustrates that location has an impact on how well SMEs have been able to meet their tax

obligations during the 2011/2012 tax year. SMEs in the CBD and rest of Christchurch are more likely to say they have been worse at meeting their tax obligations than SMEs in the rest of Canterbury.

Figure 26: Tax compliance in 2011/2012 financial year (by location)



Source: Q5ci
Base: Varies – see graph

The qualitative research findings highlighted that SMEs located in Christchurch CBD, as well as other business centres struck by the earthquakes, have experienced extensive damage and loss of records that have made filing and paying tax very difficult.

Tax agents have also been strongly impacted if they were working in badly affected locations. The repercussions can be far-reaching for their clients. Even though some of their clients have not been affected by

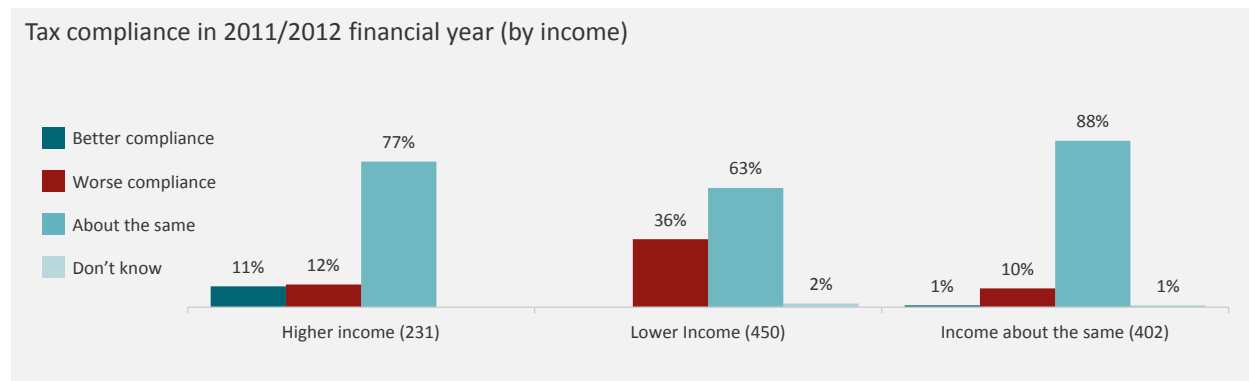
the earthquakes at all, some SMEs were not able to meet their tax obligations on time if their tax records were kept by the tax agent.

Impact of SMEs' business income on meeting tax obligations

The chart below illustrates that changes in business income also have an impact on how well SMEs have

been able to meet their tax obligations during the 2011/2012 tax year. More than one third of SMEs with a lower income than before the earthquakes say they have been worse at meeting their tax obligations than before the earthquakes.

Figure 27: Tax compliance in 2011/2012 financial year (by income)



Source: Q5ci and Q4c
Base: Varies – see graph

An explanation of how changes in business income and business activity can impact tax compliance is included in the next part of this report section.

The mechanisms which impacted tax compliance

Some of the factors impacting on tax compliance have been noted in previous debt and tax compliance research, for example:

- the extent to which tax compliance is a priority versus other business priorities
- whether the business has appropriate and effective financial management and tax processes
- the use of cashflow to meet tax payments versus tax put aside.

These factors have again been highlighted in this research, with the earthquakes accentuating them, so that for instance tax compliance that may have previously been a priority becomes less of a priority and the heavy reliance on cashflow is exposed as a poor strategy for tax compliance, when income is unpredictably cut.

The earthquakes compounded already poor tax compliance strategies, by introducing new factors such as damage to business premises and records.

All of these existing (and accentuated) and new factors are discussed in more detail in the following sections.

A shift in priorities

Payment priorities tend to change in the case of an adverse event in order to address the key areas that could affect the SME's future viability. Business owners tend to focus on wages/salaries in order to retain valuable staff; they ensure that the mortgage is repaid, even if instalments have to be reduced; and they also keep enough to be able to feed their family. After these key areas come the payment of creditors and other debts. Tax payment comes next and is often down the bottom of the list. Due to increased daily challenges, meeting their tax obligations is not a priority any longer for many business owners, although they understand the importance of paying tax.

“My priority is to survive today. My obligations are: pay my staff. I can't let them go.”

Interview 14
SME, retail

Changes in business activity

Business owners, especially contractors and workers in trades (e.g. bricklayers), have had to work much harder and longer hours to find new contracts to earn an income. Although they use their networks to assist in their search for work, they realise that finding employment/new work contracts since the earthquakes is different from before and requires more time spent looking rather than doing administrative tasks (e.g. need to cold call and visit potential employers, no time to spend on paperwork).

SMEs with a dormant or declining business activity level following the earthquakes face financial challenges to meet their tax obligations. They lack a regular source of income to be able to pay their tax on time, and some

business owners consider that if they are unable to pay their tax on time or in full, there is no point in filing a tax return, thus they lag behind in both filing and paying.

Conversely, for SMEs with a growing business activity, two different situations exist. The growing SMEs that build up cash reserves understand the necessity to have a financial buffer to meet unexpected expenses in addition to the normal business expenses (e.g. suppliers, bills, wages). These SMEs are more likely to be able to meet their tax obligations in times of crisis. However, for the growing SMEs that reinvest their income/profit into the business, meeting their tax obligations may be difficult. These SMEs rely on their current cashflow to grow the business and do not always put money aside for tax, especially provisional/terminal tax. As discussed later in this report, these SMEs are likely to run into difficulty to pay their GST and PAYE taxes regularly and later meet their obligations of provisional/terminal tax.

Structural damage to buildings

Structural damage to buildings prevented some business owners and tax agents from filing and paying their tax fully and on time:

- Some premises have been destroyed or damaged to such an extent that landlords/tenants cannot resume their business from this location (i.e. premises 'red stickered'). In some cases, business owners have had the opportunity to go back under supervision and collect some of their documents, valuables and stock.
- Some business owners are locked out of their business premises, due to damage. However, no concerted and final decision is made about the safety and if the business should reopen in these premises. For example, one landlord told the tenant (café/restaurant owner) that it was safe to reopen, despite the kitchen and toilet facilities being out of order; this situation was confirmed by the owner's insurance company. However, the insurance company apparently delayed making an assessment of the cost of damage.
- A few business owners have had to shift premises several times, as new earthquakes have structurally damaged the new locations they had found. This situation has not been good for business, as for instance customers were not always able to know where the SME had gone and the associated costs of shifting were passed on to customers.

These issues shift a SME's focus away from meeting tax obligations to getting their business back up and running in the first instance.

Inability to access or recreate lost records

Due to damaged premises, some business owners and tax agents were unable to recreate all the lost records (e.g. cost and time involved, as well as some information

cannot be duplicated). They have to work out tax amounts as accurately as possible; for example, by relying on historical SME records and contacting other organisations to provide some of the records (e.g. banks can provide statements). This caused havoc among business owners and tax agents who had very little time to absorb the emotional impact of the quake and put their business back on its feet before addressing the issue of tax obligations. Many business owners and tax agents were in contact with IR to inform them of their situations and receive some support.

"We were locked out of the building for eight weeks. We had no access to records and no income. Impacts on staff? They worked from home. They were stressed, which impacted on work itself. We re-established computers two weeks later [i.e. within two weeks of being locked out]; we had to borrow them. But there was no network to access from home [yet]. There was a dramatic decrease in invoicing clients and what they could pay us also slowed down. We had to get the employment subsidy to pay staff."

Interview 24

Tax agent

Business and tax management practices

SMEs commented that prior to the earthquakes; some of their business practices and processes were not optimal and had led to them struggling to meet their tax obligations post-earthquakes. These included:

- Use of hardcopy records: A few business owners used only paper records and hard copy documents, rather than saving key records online/electronically, which meant that they lost all/most of their records when their business premises were damaged.
- Limited knowledge of financial position: some business owners had a limited knowledge of their business's financial position. So, when the earthquakes struck they were unable to estimate the amount of tax they owed.
- Previous non-compliant behaviour: some business owners were late in filing tax returns and paying the amount owed prior to the earthquakes, which impacted on their tax obligations following the earthquakes, as they had to catch up and also work out their new tax obligations.

Personal impact of an adverse event

Finally, as previously mentioned, the series of earthquakes over such a long period of time has increased stress and anxiety in people, and some have also experienced grief through the death of a family member, friend or colleague. This in turn has impacted on their ability to function and, for example, run a business.

“We had some cracks in the house after the September quake. We undertook some repairs. Then the February quake hit. We didn’t have more damage, but the current one worsened. We’re waiting for finalising the payment to do the repairs. We’re in limbo now. We’re waiting for EQC. We’ve reviewed our bills, changed power supplier, phone contract etc. We’ve managed to keep some costs down but generally costs go up.”

Interview 16

SME, building industry

Some business owners have been injured through the earthquakes and have had to deal with their injury and the administration related to it rather than focus on their business. This also applies when a family member has been injured. Managing a business becomes secondary to ensuring the safety and wellbeing of one’s family.

Some business owners have also experienced a loss of motivation and energy through the destruction of their business they have worked hard to set up. The

uncertainty surrounding the survival of their business also adds to demotivation and worry.

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 2011 to March 2012. Responses are presented in the table below.

In interpreting these results, the reader should again bear in mind that SMEs gave us their ‘top-of-mind’ responses to this question.

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 score figure gives the percentage of respondents that gave at least one of the more detailed suggestions (which are listed below the nett score).

Figures in **red** denote percentages in subgroups that are statistically significantly higher than percentages in other subgroups (or from the total sample).

Table 10: Factors that have helped SMEs meet their tax obligations in the 2011/2012 tax year

	All SMEs % (1161)	Currently in debt %	Never in debt %	Used to be in debt %
Savings/cashflow/loans/cost cutting	30	22	32	31
Business had savings/assets/loans/money for tax put aside	9	4	12	9
Good budgeting/planning/financial management	6	3	9	5
Used personal savings/assets/loans	5	2	3	6
Economising/cost cutting/reducing costs/running business efficiently	4	5	3	4
Increased cashflow/revenue/business	3	3	2	3
I had the ability/money/income to be able to pay	3	1	5	2
Alternative income/business	1	3	-	2
People paying their bills/collecting debt	1	1	1	1
No/limited effect of earthquakes	20	17	26	18
Turnover/income/cashflow unaffected by earthquakes	17	15	22	15
Business as normal/ability to carry on as normal/ unaffected by earthquake	3	2	2	4
Tax records unaffected by earthquakes	1	1	3	1
IR actions/support	9	16	3	9
Payment arrangement with IR	4	11	-	5
Extension of time arrangement to file/pay tax	4	5	2	5

IR waived penalties	1	3	-	2
Flexibility/help/support from IRD	1	2	1	-
No/minimal tax to pay	5	6	6	5
Didn't have much tax to pay	2	1	3	2
Got a refund	1	2	2	1
Haven't paid any tax	1	2	-	1
No tax to pay/business ran at a loss so nothing to pay	1	1	2	1
Financial assistance from other organisations	5	5	6	4
An understanding bank/bank funding	2	-	3	2
Insurance pay-out/cover/partial insurance cover	1	2	1	1
Grants/government assistance	1	1	2	1
Earthquake support subsidy	1	2	1	-
Nett other	17	18	17	17
Advice/support from accountant/tax agent	5	6	6	4
Hard work/working long hours	2	4	1	2
Having to pay it/awareness of penalties	2	1	3	2
Prioritised paying IR over suppliers	1	1	1	1
Perseverance/determination/resilience/tenacity	1	-	1	1
Other	7	7	5	8
Don't know	4	5	4	3
Nothing	17	19	14	18

SMEs cited a range of factors that helped them meet their tax obligations in the 2011/2012 tax year. The use of savings and other finances (30%) was the most common factor mentioned. The qualitative research findings show that finding a source of money was especially important for those SMEs that stopped conducting business, either temporarily or permanently. Business owners used their savings (business and/or personal), as well as a bank loan or overdraft. In some cases, banks put a freeze on mortgage repayments to enable business owners to keep the little income they had to use for other purposes (e.g. pay staff's wages). In many cases, business owners have used part or all of their insurance payout for business purposes (e.g. paying their mortgage, staff and tax).

“Cashflow is the biggest issue. Provisional tax has to be paid. It takes about three to six months to get even keeled again. At the end of last year [2011] I got even keeled again, eventually.”

Interview 15

SME, building industry

“What we bought [business] isn't here anymore, so we can't sell it. But we still have to pay tax. We'll foot the bill with personal money.”

Interview 4

SME, hospitality

“It’s been an incredibly difficult year for business. For some months we couldn’t draw wages. We had to use our savings, we sold personal items. We thought of closing shop. But on the plus side, our house is freehold and I received some inheritance. But we also did a reassessment of our household (e.g. spending) and we relied on overdrafts.”

Interview 16

SME, building industry

“One [of my] clients has [a] substantial [part of the] business not operating anymore in the CBD. His insurance is running out. His insurance money was less than expected, which is difficult. He’s managed to pay tax so far, but now he’s probably looking at other assets to free up cash to meet his tax obligations and live (e.g. food etc).”

Interview 25

Tax agent

Without prompting, IR actions were mentioned by around one in ten SMEs (9%), but more commonly among that currently in debt (16%). Whilst IR’s assistance and support is generally not ‘top of mind’ for SMEs, the findings in the next section of the report indicate that IR’s assistance and support was viewed as very helpful.

Section 5. Inland Revenue's presence

This section examines SMEs' and tax agents' responses to IR's assistance package and communications. For contextual understanding, first we present findings on how IR has been impacted by the earthquakes in Christchurch (sourced from the focus groups with IR staff based in Christchurch). IR's role in communicating with and assisting tax agents is then covered, followed by an assessment of how many SMEs accessed IR's assistance and the perceived value of this assistance. Finally, suggestions for improvements to IR's approach are discussed.

How IR has been impacted by the earthquakes

The earthquakes have impacted the organisation and its staff since they started in September 2010. Participants in the focus group with IR staff reported the following:

- The main building in central Christchurch had to close for a short period of time in September 2010 and then permanently in February 2011. During this period, staff members had relocated to various sites and one site had to shut permanently in June 2011. This created major workflow disruptions over several months since the start of the earthquakes.
- In addition, a large number of records were destroyed and/or could not be retrieved. This created a large 'data gap' for IR about many taxpayers and businesses in the Canterbury region. This is a problematic situation, as some data cannot be duplicated/recreated and for the data that can be duplicated/recreated there will be an extra cost to the organisation.
- During these disruptions, staff members were able to work only erratically. When the main building was closed and no location was found, staff could not

perform their tasks. Later on, some staff were able to work from their new work location or from home. Some even managed to work from sheds or garages. However, quite a few had no contact and direction with their team leader and/or colleagues for some time. Some staff members were very stressed and unable to perform their duties to the best of their abilities.

However, despite the severe disruptions, IR showed resilience:

- Some call centre staff from other locations within IR came to Christchurch to help out the Canterbury-based staff. They not only provided knowledge and technical skills but also some informal stress relief (e.g. sharing what is happening/emotions with an 'outsider' was helpful for some).
- New temporary work sites were found relatively quickly after the first September 2010 earthquake, thus enabling staff to resume their work and return to a 'normal' work pattern (e.g. work together as a team), even though this did not last long due to subsequent earthquakes.
- New work sites included some buildings occupied by other government agencies (e.g. Work and Income). The staff from these different organisations found it valuable to work alongside others, as it gave them a new perspective into, and better understanding of, other public sector services. This led to shared knowledge and education on processes and practices within government agencies.
- Instead of working at IR, some staff worked on secondments (e.g. Recover Canterbury) or in collaboration with other organisations (e.g. Civil Defence, CERA and Work and Income).

The earthquakes have had a major impact on IR but the organisation has been able to face the disruption and resume its activity. Although it may be a while for the organisation to reach the same level of activity as prior to the earthquakes, it has shown a great capacity to pull ideas and resources together in order to return to 'business as usual'.

IR's communication to SMEs through tax agents

The qualitative research findings showed that one key aspect of IR's communication campaign to reach SMEs was to reach them through their tax agents. Working in close collaboration with tax agents has enabled IR to assist a large number of SMEs and develop individual plans to help them meet their tax obligations. This has involved contacts between IR and tax agents over the phone (e.g. call centre and case manager), online and also face-to-face (e.g. case manager).

However, a few tax agents in the qualitative research mentioned that some of the information they received directly from IR through their case manager and/or call centre seemed to conflict with the more general communications directed at SMEs and the wider public. Given the general disruptions of services encountered across the region, these tax agents hypothesised that some of the communications were probably not up-to-date by the time they were released, or that their IR account manager may not have known the latest updates if they had not been in contact with their team leader for a while. These conflicting pieces of information were eventually resolved.

“Communication with IR was difficult last year. They are short-staffed, it's difficult to get in touch. Sometimes they don't know the latest updates. But one girl from the call centre was taken to work with my case manager. She has very good technical knowledge. She came to my office with the case manager, two or three times. We sorted all my problems in one go. We really need one person to support the account manager. It's better for him [account manager], he doesn't know everything. It's easier to get things sorted.”

Interview 22

Tax agent

Inland Revenue's assistance to tax agents

Some tax agents, like their SME clients and IR, have been negatively impacted by the earthquakes (e.g. loss of records, premises damaged or destroyed, need to find new location, personal problems related to the earthquakes). Some are struggling to resume their business activity and catch up on a backlog of work. All the tax agents in the qualitative research had been proactive and contacted IR to explain their situation and

what they could realistically achieve on behalf of their SME clients.

There has been a strengthening of relationships, negotiations and trust between IR and tax agents, with face-to-face meetings particularly helpful.

Tax agents report that the interventions provided by IR directly to tax agents have been helpful to them professionally (to manage their own workload) and to their SME clients. The most useful interventions have been:

- time extensions
- payment arrangements and penalties waived
- ability to negotiate what is provided and when
- use of estimates.

The following paragraphs provide more detail.

Most significantly, IR provided blanket extensions to tax agents and their clients with regards to filing returns and paying tax. Tax agents were given longer deadlines to sort out their clients' tax situations, which was very helpful, as tax agents had to recreate some of their clients' records and liaise with their clients to obtain duplicates. When tax agents required specific arrangements for their clients, they were able to contact IR and discuss what could be agreed upon and implemented by their clients. This discussion process was helpful to tax agents and clients.

IR's understanding that not all paperwork can be provided (some has been destroyed and cannot be duplicated) has enabled tax agents to work on their clients' tax situations from estimates and thus lodge returns considered valid by IR. IR has shown trust in tax agents, which has also contributed to a strengthening of the relationship between tax agents and IR.

Tax agents appreciate that IR was and is available and approachable to help them (e.g. answer queries, provide information). Some case managers were accompanied by call centre staff to visit tax agents at home/work and spend some time to work on their SME clients' unique situations. Tax agents who had visits from IR found them extremely valuable, as they were able to clarify many grey areas and finalise some of their clients' outstanding problems.

*“I applied for a grace period on behalf of my clients, and it worked fine. Inland Revenue has been **very** helpful. My case manager worked out of a garage...[IR implemented a] good initiative: every tax agent has a case manager and a person looking after them. For some queries, I contact my case manager. For others, I talk to the call centre, but it's slow and difficult. They*

are short-staffed in Christchurch, and I can't call after 5:30pm."

Interview 22

Tax agent

"I would expect IR to be forgiving for people in need. The same with ACC (they're approachable). I'm not sure what more they can do."

Interview 16

SME, building industry

Tax agent feedback on various channels of communication tends to be consistent with feedback from SMEs, in that while usual business channels of telephone and online are still appropriate, in an adverse event situation, these need to be supplemented with face-to-face meetings. More detail of the different forms of communication is as follows:

- Face-to-face meetings. Tax agents speak highly of face-to-face meetings in times of crisis, as they believe they can go through a higher number of questions and cases than by other means (e.g. online or phone). Besides, face-to-face meetings create a stronger relationship between the tax agent and IR than is possible via other means. This relationship is particularly important for tax agents who have been deeply impacted by the earthquakes (e.g. personally and work-wise) and feel at a loss. Being able to meet face-to-face with someone helps them deal with the stress of the situation.
- Phone calls: Tax agents feel that phone calls with IR are very useful when they need to check specific information or sort out a minor problem. Phone calls are aimed at queries that can be resolved quickly in order to be time-efficient. Tax agents explain that sometimes it takes a while to reach a call centre staff person and if the query is not straightforward they are passed on to other call centre staff and/or put on hold for a long time. This helps explain their preference for face-to-face visits when an adverse event has caused havoc and tax situations are unlikely to be straightforward. However, tax agents appreciate that despite IR's internal disruptions they were still able to answer the phone and help.
- Online services: Tax agents also find IR's online services useful, as they can file returns more efficiently and ask questions via email. However, they find that complex issues cannot be dealt with efficiently via email as IR's reply may lead to another set of questions from the tax agent. Although there is a useful paper trail associated with the case, tax

agents generally find this system awkward when under time constraints (e.g. filing a return within a tight deadline). However, tax agents value this method of interacting with IR and want to be able to keep using it in future.

SMEs' take up of IR assistance

Following the start of the earthquakes in September 2010, legislative changes enabled IR to provide new measures to support SMEs to meet their tax obligations in addition to the measures that were already in place to help struggling SMEs.

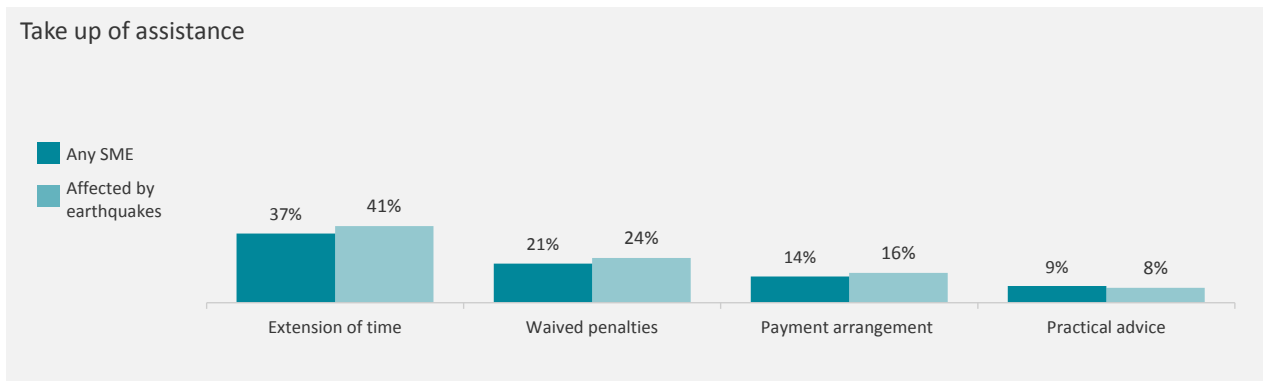
Following the earthquakes, SMEs that were not able to meet their tax obligations in full and on time were able to access some various types of assistance. To measure the extent to which SMEs took up the assistance, all SMEs in the telephone survey were asked whether they:

- or their accountant received an extension of time for their business to file a tax return or pay tax
- had a payment arrangement with IR whereby they agreed to pay off a tax debt in instalments over time
- had IR waive penalties for the late payment of tax
- were provided by IR with any practical advice – such as information on the importance of backing up or saving records off site, or tax software packages.

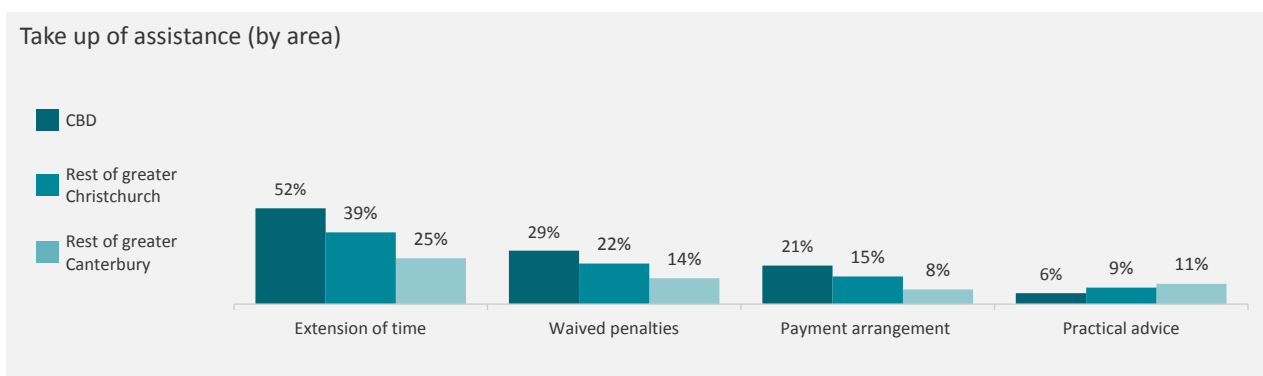
Results are presented in the next four charts overleaf.

Key findings are:

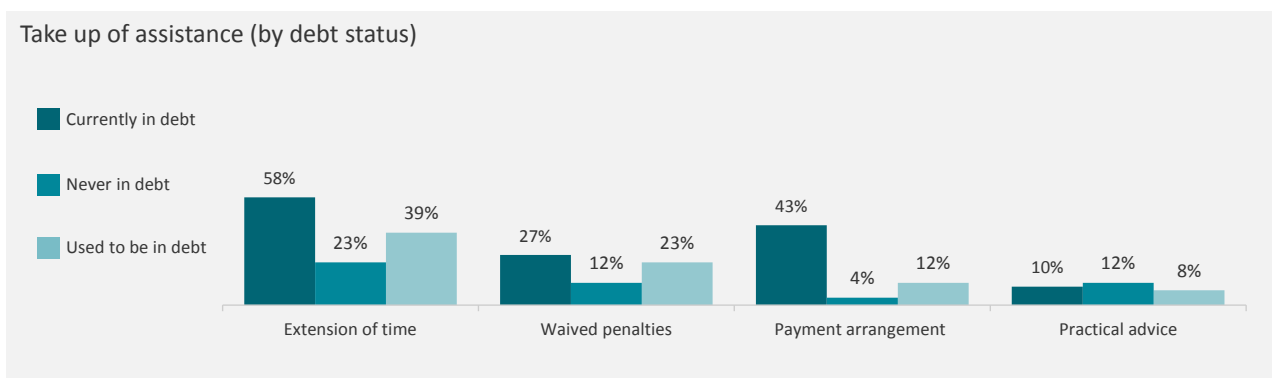
- IR granting an extension of time to file a tax return or pay tax, and waiving penalties, were most commonly experienced (37% and 21% of all SMEs in Canterbury respectively). IR negotiated a payment arrangement for the late payment of tax for around one in seven (14%) and provided practical advice for around one in ten customers (9%).
- Take up rates of IR assistance is higher among SMEs in the CBD and in the rest of greater Christchurch than among SMEs in the rest of Canterbury (with the exception of receiving practical advice). Further, CBD SMEs are more likely to have received an extension of time than SMEs in either of the other two locations.
- Sole-traders are less likely to have had penalties waived than employers.
- SMEs defined as currently in debt are most likely, and SMEs that have never been in debt are least likely, to have taken up each of the types of IR assistance (with the exception of the provision of practical advice).

Figure 28: Take up of assistance

Source: Q5a, Q5b, Q6c
 Base: All SMEs (1,161), all SMEs affected by earthquakes (806)

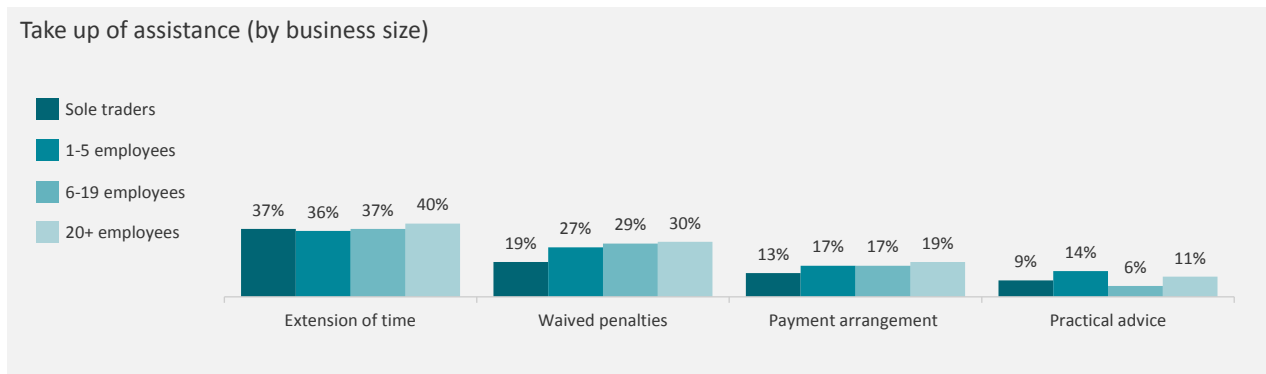
Figure 29: Take up of assistance (by area)

Source: Q5a, Q5b, Q6c
 Base: All SMEs in CBD (151), rest of greater Christchurch (691), and rest of Canterbury (319)

Figure 30: Take up of assistance (by debt status)

Source: Q5a, Q5b, Q6c
 Base: Currently in debt (262), Never in debt (221), Used to be in debt (678)

Figure 31: Take up of assistance (by business size)



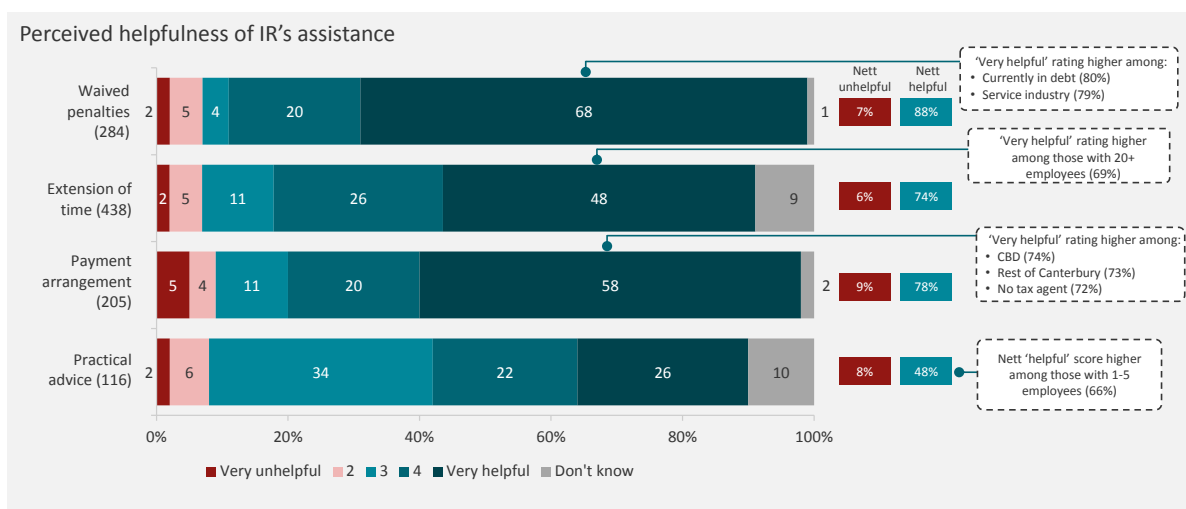
Source: Q5a, Q5b, Q6c
 Base: Sole traders (450), SMEs with 1-5 employees (337), SMEs with 6-19 employees (278), SMEs with 20+ employees (96)

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.

Figure 32: Perceived helpfulness of IR's assistance



Source: Q6d
 Base: Received type of support (see base sizes on graph)

Large majorities of SMEs rated the waiving of penalties (88%), a payment arrangement (78%) and being given an extension of time helpful, with small majorities considering the first two of these actions 'very helpful'. Understandably, those defined as currently in debt were especially appreciative of the waiving of penalties with 80% rating this as very helpful.

In comparison, the provision of practical advice is perceived to have been less helpful with only around half (48%) indicating it was helpful.

The qualitative research findings show that many business owners were enthusiastic about the support and assistance they received directly from IR or indirectly through their tax agent. They feel that IR was proactive, flexible and lenient from the beginning of the earthquakes, even though it had been hit by successive earthquakes. The measures IR developed were implemented rapidly.

SMEs appreciated that IR did not ask for proof of their situation when discussing an arrangement to help them meet their tax obligations. IR showed willingness to help SMEs and accept what business owners were saying about their situation. Some business owners had expected that IR would question what they said and want proof of their struggle. For example, some were worried, as they believed they would need to prove that their administrative files had been destroyed with no possibility to recreate them. However, IR accepted what business owners explained and worked on that basis, with them, to agree on a realistic payment arrangement.

"IR shouldn't charge late payment penalties and interest, if the business can carry on in due course. Potentially IR should also write some core debt off, if it's genuine hardship."

Interview 30
 Tax agent

“IR needs to look [at businesses] on a case by case. Some businesses have relocated several times, which involved huge costs and effort for the business to get back up and running again. My hairdresser moved four times. This was reflected in the cost of the cut. There’s a bidding war to get higher rents.”

Interview 2

SME, hospitality

“I negotiated extended terms with our creditors. We’re dealing with a company in Australia that allows it.”

Interview 14

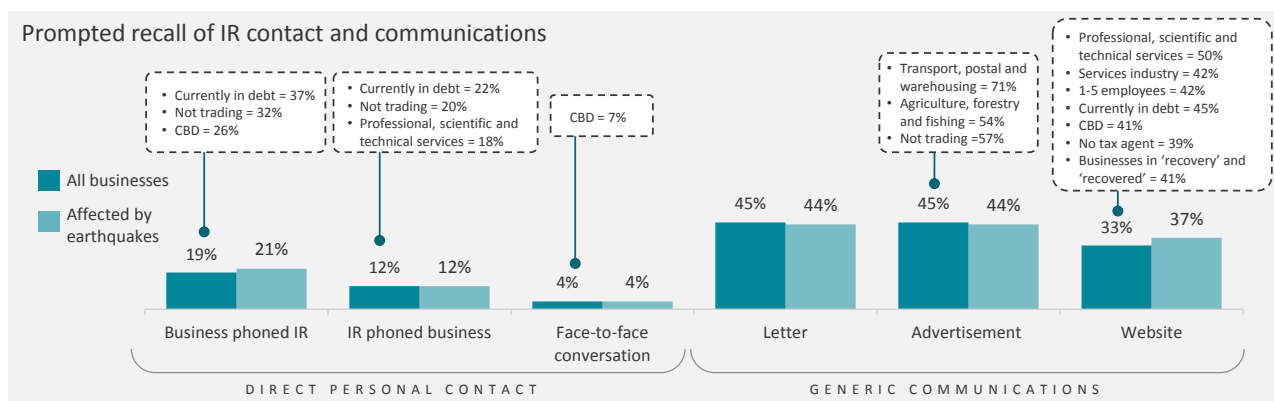
SME, retail

Wider communications strategy

IR used a variety of channels to reach SMEs in the Canterbury region as soon as the earthquakes started in September 2010. To measure the extent to which SMEs recalled the various communications, respondents were asked in the telephone survey whether or not:

- 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 received a letter from IR offering to help and a phone number to call
- they saw an advertisement from IR offering help and a phone number to call
- they visited IR’s website.

Figure 33: Prompted recall of IR contact and communications



Source: Q6c

Base: All SMEs (1,161), all SMEs affected by earthquakes (806)

A small minority of SMEs had direct contact with IR; the business phoning IR was most common with around one in five SMEs doing this (19%).

In terms of the more generic channels of communication, over four in ten SMEs recall the letter (45%) and the advertisement (45%). One third of SMEs visited IR’s website (33%).

The qualitative research findings indicate that generally, business owners were grateful that IR communicated the different ways in which IR could be of assistance to them and also gave them the opportunity to contact IR. Business owners were also pleased that IR was proactive in supporting SMEs. However, many business owners felt that the onus was on them to contact IR to receive assistance, rather than be automatically contacted by IR to discuss options. These business owners felt that in times of crisis, IR should ‘make the first step’, as business owners are overwhelmed with professional

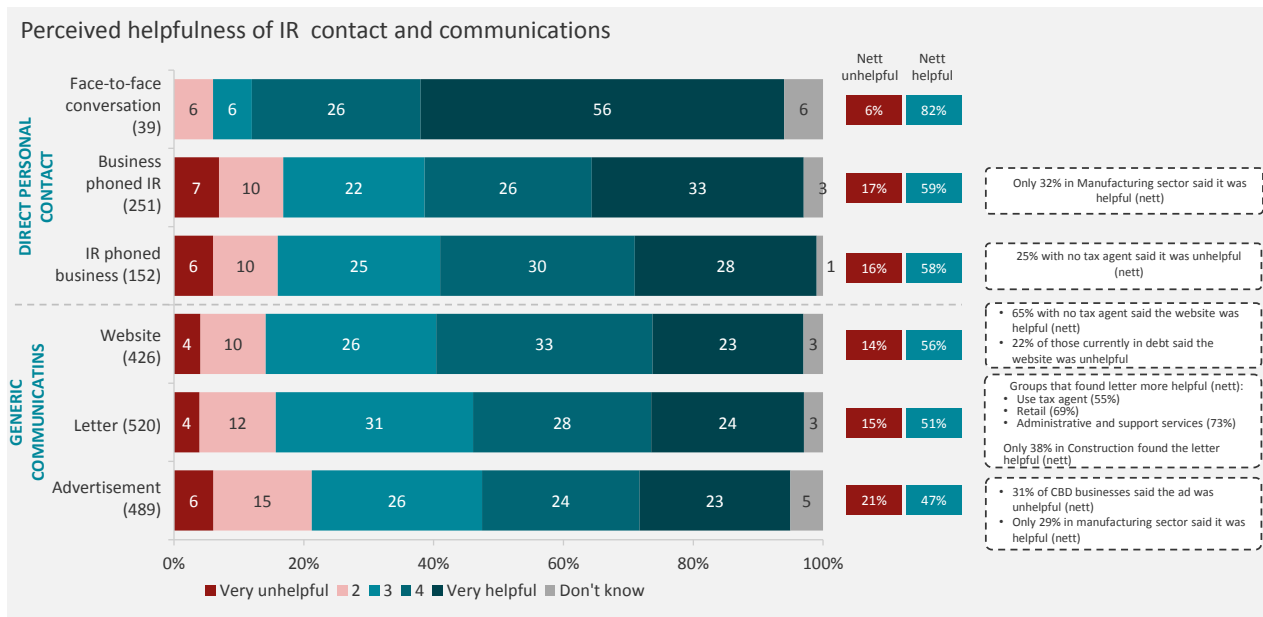
and/or personal problems due to the earthquakes. This led some business owners to avoid contact with IR. They gave the following reasons:

- Some feared that they would have to commit to a plan that they would not be able to uphold and consequently they would be in more trouble with IR.
- Some believed that their tax obligations were not an issue, and therefore did not feel the need to contact IR.
- Some were at a complete loss with their business and did not know where to start to ‘resuscitate’ their livelihood.
- Some had to deal with other emergencies that took priority over sorting out their tax situation (e.g. ensuring the health and safety of their family, dealing with injury and repairing the damage to their home).

Perceived helpfulness of IR direct 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.

Figure 34: Perceived helpfulness of IR contact and communications



Source: Q6d

Base: Received type of support (see base sizes on graph)

With the exception of face-to-face contact which is rated very highly, half (or a little more than half) of SMEs rate the various types of contact and communications as helpful. In interpreting these results, the reader should note that these channels of communication were rated as part of the same question that got respondents to rate the practical assistance they received from IR (extension of time to file/pay, waiving penalties etc.). This is likely to have lowered their ratings for the channels of communication.

Direct personal contact

Although few had face-to-face contact with IR, those who did rate the contact very highly with 82% saying it was helpful. The qualitative research indicates that such face-to-face contact enabled business owners to meet with IR staff to ask for clarification and discuss their situation. They felt having a face-to-face meeting was valuable, as they could discuss their concerns and receive reassurance that by contacting IR to sort out their situation they were doing the right thing.

Small majorities of SMEs feel their phone contact with IR was helpful (59% of those who were phoned by IR and 58% of those who phoned IR). The qualitative research findings provide the following insights into phone contact:

- IR's employees were perceived to be sympathetic and helpful (e.g. understanding tone of voice during the phone calls). They were approachable, and consequently business owners thought the organisation was "not the big, bad ogre".
- Business owners who had received a phone call from IR were surprised and pleased by the concern IR showed them, as the phone call was not only about their tax situation but also about their business and personal situation (e.g. if their family was fine and their house still standing).
- Some business owners contacted IR over the phone, but they felt they were in the queue for an inappropriate amount of time. Some chose the 'call back' option and were frustrated at having to stay near their landline for an extensive period of time. However, business owners appreciated that some IR staff from the head office in Wellington had come to Christchurch to help.
- Further, some business owners felt that communication over the phone was ineffective, as they were passed on from one department to another, or were told conflicting information about what actions they had to take.

However, business owners feel that once the Canterbury region experienced a slowdown in earthquakes (i.e. frequency and intensity) after the December 2011 earthquakes, the support and assistance they received from IR changed to some extent.

- Some business owners had to call IR and felt that the call centre staff had become unsympathetic and had 'moved on' compared to what they had experienced at the time of the earthquakes. Some business owners became frustrated at contacting IR outside of the Canterbury region, because the call centre staff from outside Canterbury did not seem to know about the special measures still available to local SMEs. Therefore, they could not receive appropriate advice on their situation.
- Some business owners wanted to meet face-to-face with someone at IR, as they felt their situation was still too complex to talk about over the phone. However, they felt that this was not possible any longer or met reluctantly by IR.

These business owners felt that, with regards to the business situation in Canterbury, IR was divided between the Inland Revenue office and staff who had lived through the earthquakes and the rest of New Zealand that had not experienced the earthquakes first-hand.

Generic communications

Only a little over half of SMEs that visited the IR website found it helpful (56%). The qualitative research indicates that some business owners went online to look for information and were disappointed at the lack of updates. The frequency of updates had been high when the earthquakes started and in the subsequent few weeks; some business owners expected that IR would keep using the website as a key channel of communication, especially as power had been reinstated and people could use the internet again.

Around half of SMEs that recalled a letter from IR offering to help and a phone number to call found the letter helpful (51%). It is possible that some of those who rated the letter as unhelpful felt overwhelmed by the volume of written correspondence they received. In the qualitative research, many business owners complained that during the earthquake period they kept receiving reminder payment letters, statements and letters about being fined for non-payment. This not only upset some of them who felt overwhelmed by bureaucracy, but also frustrated them if they had personally been in touch with IR to clarify their situation. They felt that the letters should have been stopped until their tax situation had been sorted.

"I received a letter every day for three weeks: PAYE, GST, personal income, FBT, dependents etc. In the end, I didn't open them anymore."

Interview 15
SME, building industry

Suggestions for improving support and assistance

Many of SMEs' and tax agents' suggestions for communication would also be appropriate in a business as usual context. However, in extraordinary situations and while in the survival phase, SMEs and tax agents suggest more extraordinary communication. SMEs and tax agents need IR to increase their visibility (e.g. face-to-face) and proactivity for an extended period of time and provide a more individualised/tailored approach, while reducing generic communication. More detail is provided below:

- Inland Revenue's visibility: many business owners believe that IR needs to be more visible during a crisis to enable people to meet with IR staff and receive advice and reassurance that their tax situation will be sorted. A few business owners gave the example of Orion (energy company) whose staff visited neighbourhoods affected by the earthquakes and held community meetings to discuss what Orion was doing to restore power. Local residents were not 'left in the dark' and felt more in control of their situation. Business owners would have liked to see IR set up a mobile caravan to visit affected areas and provide advice, information and assistance to local SMEs. Some business owners were unaware of the measures put in place by IR. They feel face-to-face contact is important and is a better way to provide information and reassurance than, for example, online communication or phone calls.
 - To be more visible, a tax agent suggested that IR appoints a spokesperson to discuss IR's initiatives with them and provide information to SMEs. This liaison role is important to provide the latest and most accurate information about what IR can do to help.
- Onus on Inland Revenue to contact SMEs: many business owners feel that IR should have contacted them (e.g. phone, email or text message) to enquire about the state of their business and help them work out their new tax requirements. Business owners feel that by leaving the onus on themselves to contact IR, they fell in the trap of delaying contact or not contacting IR at all, which meant that many were left in the dark as to what type of payment arrangement they could come to with IR. They may have been fearful of IR or tax was low on their priority list, therefore they did not address their tax situation immediately. Some have slipped into tax debt without understanding how much debt they have incurred. In hindsight, they realise they should have clarified their tax situation as soon as possible.

“I want to get a letter from IR to highlight my options, in the short term. For example, for three weeks we had no money (after the February earthquake). My trade ceased but I still have obligations. I need information on options to meet my obligations. We can come to an arrangement.”

Interview 16

SME, building industry

“People should be made aware straightaway of measures. That helps with stress. People don’t worry, it’s less about meeting payments.”

Interview 25

Tax agent

- Stop sending automated letters/statements: IR kept sending statements and other automated letters to SMEs, which confused and stressed many business owners because they had contacted their tax agent or IR and what they had agreed upon was contradicted by the letters. The letters showed accrued penalties for late filing and payment, which some business owners found excessive. A few business owners said they received at least one letter a week, and after a while they did not open them any longer. Business owners were also frustrated and upset at receiving information from IR’s automated letters that conflicted with what their tax agent had explained (e.g. letter stating increasing penalties when tax agent previously confirmed they had been waived). They feel that IR should have stopped all automated mailing to the Canterbury region after September 2010. Some felt that it would have been easy to do as they believe that automated mail is issued from Wellington, which had not been affected by the earthquakes.

“At times, a client gets a notice [from IR] before I get it, so the client is stressed and I have to calm them down. The letter is nasty. I have to calm them down.”

Interview 25

Tax agent

- Additional assistance to sole traders: these business owners feel that most of the assistance provided to local businesses was directed at SMEs with employees. Many are overwhelmed by their

personal and professional situation and feel left out. They believe they are struggling more than larger SMEs with employees and resources. They feel that the level and extent of financial support to sole traders was inadequate – the ‘funding’ they can apply for is too limited. Moreover, a few business owners feel they are financially unable to use a tax agent, therefore they do not receive timely and accurate information. They rely on their business networks and word of mouth to gather information, but it is not always the latest information. It would have been beneficial if they had been able to meet with IR staff or received personalised communication from IR (e.g. phone call, email, text message). More targeted channels are preferable to convey information to sole traders.

- Duration of survival phase reassessed: the earthquakes have lasted many months, thus disrupting business for a long period of time. Some business owners feel that IR was flexible and lenient for a period of time, but while the earthquakes continued IR’s understanding decreased. Many business owners feel that up until recently (March 2012) they have been in survival mode. Given the intensity and high frequency of the earthquakes, business owners believe they were unable to resume their ‘normal’ business until recently. They therefore think they should have received the same level of assistance they received from September 2010 up until March 2012. They believe that IR was wrong in assuming that the recovery phase had started long before March 2012, and therefore developed inaccurate expectations about filing and payment abilities. Moreover, some SMEs and tax agents have felt the consequences of the earthquakes much later and are still in survival mode (e.g. no insurance payout yet, no cash reserves left). For example, SMEs that have been marginally affected by the earthquakes and have debtors who have been deeply affected are now in a dire financial position.

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 table overleaf.

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 score figure gives the percentage of respondents that gave at least one of the more detailed suggestions (which are listed below the nett score).

Table 11: Tax agents' views on what would be useful for businesses to meet their tax obligations

	Tax agents % (100)
IR actions	37
Extension of time from IR to file a return or make payment	19
Payment arrangements/instalment arrangements with IR	19
IR waiving penalties for the late payment of tax	15
Waive interest rates	2
Flexibility in filing/payment of returns/overdue returns	2
IR contact and information	3
Face-to-face visit with IR staff member	3
Nett other	47
Offer help/support/understand client's situation	14
Insurance companies to settle on time/quicker	6
Assistance/support in the building industry	4
General business mentoring	4
Get on with the recovery/repairs	3
Improve trading conditions	3
Provide information/more publicity	3
Other	15
Don't know	13
Clients able to meet obligations/Nothing they require	11

Tax agents' suggestions for helping businesses meet their tax obligations largely centre on the same types of assistance that SMEs indicated were most helpful in the months following the earthquakes, namely extensions of time to file a return or make a payment, payment arrangement and the waiving of penalties.

In the qualitative research, tax agents provided other suggestions that were mainly about improving relationships through the provision of locally-based staff (see previous comments about visibility) and/or dedicated staff who were completely up-to-date with the situation in Christchurch. More detail follows:

- Staff training: tax agents would like IR to train their staff better, especially in call centres, when it comes to special measures in place in the Canterbury region. They have had to deal with staff based in Wellington and Tauranga who were not able to provide accurate information.
- Reminding staff of the Canterbury situation: tax agents feel that IR staff outside the Canterbury region are not sympathetic any longer to their situation. Tax agents are irritated by some staff's attitudes and would like them to be more

understanding and supportive as many businesses still struggle and need assistance.

- Relating to local SMEs and tax agents: tax agents would like to be able to deal with locally-based IR staff who have also experienced the earthquakes. They want to be able to relate to others on a more emotional level of shared experience. This connection is important as locally-based staff will not 'dismiss' tax agents' experiences of the earthquakes. It has been traumatic for many, which is why tax agents find it easier to relate professionally to locally-based staff.
- Local Inland Revenue office: after the closure of the Christchurch Inland Revenue office, SMEs and tax agents were obliged to send letters and cheques to the head office in Wellington. In some cases, cheques had been sent on time but received late, therefore incurring penalties. Tax agents explain that having a local office would be simpler for most business owners who would be able to pay their tax on time and also receive timely information. One tax agent would like to see a dedicated Inland Revenue post box reinstated.

“Still having payment arrangements: no penalty but interests. Keep allowing arrangements for businesses that struggle. Also, IR needs to go out and talk to them, and show them it’s not a big bad ogre. And keep applications available for hardship.”

Interview 22

Tax agent

“Tax agents have their own phone lines, but the calls go anywhere, for example Auckland or Whangarei. These staff are not aware of the concessions for Christchurch. It’s hard to grasp what’s happened [only] through television. IR, and others outside of Christchurch, don’t understand what we have to cope with.”

Interview 25

Tax agent

“We need another drop box in Christchurch. There wouldn’t be any need to send everything to Wellington then.”

Interview 22

Tax agent

In the qualitative research, many SMEs had only entered the recovery phase recently (March 2012) and did not feel they had enough perspective on their business activity during recovery to be able to suggest improvements. However, several commented on the value of business mentors (discussed in Section 7 of this report).

Section 6. The role of tax agents

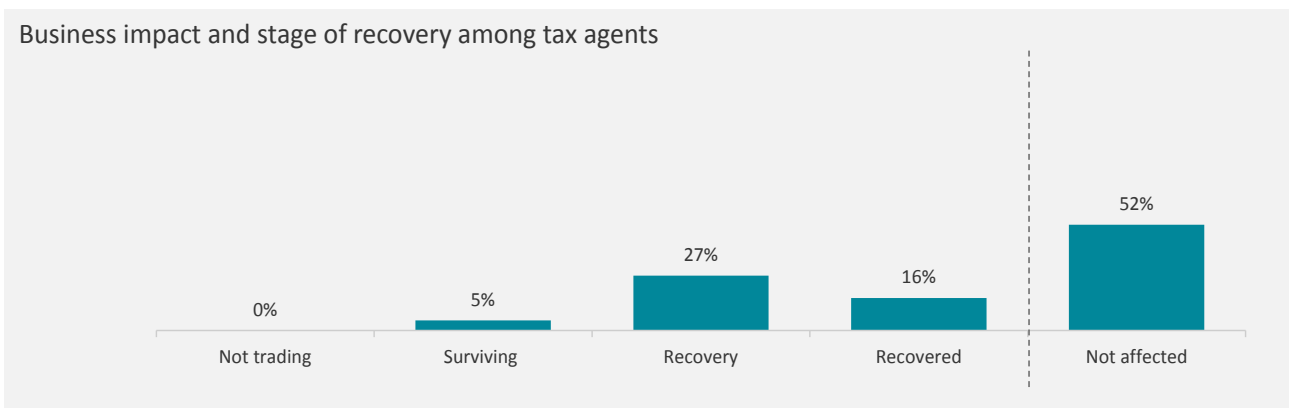
This section discusses the impacts of the earthquakes on tax agents including their own business's stage of recovery, as well as the increased work challenges they face in dealing with their clients' situations. Tax agents' views of their roles are also examined.

Personal and business impacts on tax agents from the earthquakes

On a personal level, many tax agents have had to deal with earthquake-related family issues, which have created concern and stress. For example, the parent of one tax agent in the qualitative research has had their own home destroyed and therefore had to move into the tax agent's home, which had also become their professional office. Another tax agent in the qualitative research has seen his health deteriorate, as well as that of close family members, which has impacted on his ability to work.

Tax agents' practices have also been affected as illustrated in the diagram below. Nearly half of the tax agents surveyed (48%) have been adversely affected¹¹ by the earthquakes. Of those who have been affected, most are now in the 'recovery' or 'recovered' stages.

Figure 35: Business impacts and stages of recovery among tax agents



Source: Q1b, Q1c, Q1d, Q1e and Q1f
Base: All tax agents (100)

¹¹ Tax agents were asked whether apart from the impact on their own clients, their own business has been adversely affected by the earthquakes.

On a professional level, many tax agents have had to cope with changing business circumstances. Some tax agents whose offices were located in Christchurch CBD and Kaiapoi have had to close down their premises, some temporarily and others permanently. A few tax agents have been able to retrieve some of their records, but many have lost a large proportion of their clients' records.

“My accountant contacted me. They were locked out, so I had to give him some of my records. He got an extension from IR for me.”

Interview 21

SME, building industry

“We’ve been in this location since April 2011. We were displaced from the CBD (our office was in the Red Zone), so we set up practice again here. We were closed for six to seven weeks after the quakes. We got new furniture, computers, software. We had been in the CBD for 25 years.”

Interview 25

Tax agent

The earthquakes have impacted tax agents' offices at different times. For example, some tax agents were affected by the September 2010 earthquake and had to relocate their office, while other tax agents were affected by the February 2011 earthquake. By the time the February earthquake struck, some tax agents were unable to relocate their office as only a few unsuitable premises were left (e.g. too small and/or out of town) or the rent was too high. These tax agents had therefore no other possibility but to work from their home or a colleague's, with their garage and/or shed used as the storage place for client records.

Some tax agents have seen experienced staff resign following the February 2011 earthquake. Due to the ongoing earthquakes and increased levels of stress, these employees decided to resign and move away from the Canterbury region. They believe their level of skills and experience will make them an asset to another organisation and therefore were not worried about leaving their current employer. Some tax agents mentioned that finding new skilled and knowledgeable staff was a difficult process and had driven wages higher.

Before the earthquakes, tax agents had to update their knowledge of tax matters, as some legislation had changed (e.g. legislation related to Loss Attributed Qualifying Companies). Some tax agents expressed that these legislative changes combined with the earthquakes made their work more complex and could

potentially lead to mistakes. They felt that IR needs to show leniency if errors were uncovered.

Increased work challenges for tax agents

Tax agents play two key roles in SMEs' survival and growth:

- Many keep a close eye on SMEs' financial situation and provide them with financial planning advice.
- They are an authoritative intermediary between SMEs and IR.

Given the personal and professional constraints they are under, some tax agents find it difficult to meet their clients' needs fully. They also have to deal with additional work pressures due to their clients' situations. Tax agents find it difficult to work out their clients' tax situations due to the following:

- Not having access to complete records.
- Having to recreate some records, which is time-consuming (e.g. asking banks to produce duplicates).
- Clients not always knowing their financial situation.
- Working from estimates based on the previous year's records.

It appears that the above factors may have caused many tax agents to be late completing and filing their clients' tax returns. Eighteen months on from the beginning of the earthquakes, many tax agents may still be behind in their filing of tax returns, although they are catching up slowly. They may require new filing extensions and other assistance from IR.

Many tax agents report that their workload has increased dramatically, as they are dealing with a variety of organisations on behalf of their SME clients. This means additional administration, which brings no added value to their own businesses. Some tax agents deal with insurance companies and financial organisations on behalf of their SME clients. In order to straighten their clients' tax situation, tax agents have to write individual letters to IR on behalf of all their clients who have been impacted by the earthquakes, as well as contact IR for complex individual cases.

“I’ve been in practice for 30 years, and that’s been my biggest challenge [earthquakes]. It’s very stressful. We tried to set up office as quickly as possible. I catch up with clients and try to meet their requirements that don’t stop. There’s an increase as a result of the quakes. For example, I have retail clients operating in the

central city. I need to assist them with advice on lease and insurance claims.”

Interview 25

Tax agent

“I wasn’t involved in GST and PAYE before the quakes, but now yes, because my clients are filing late... There’s more work on me. IR may have become harsher over time. I wrote a lot of letters to IR for my clients to ask for a grace period. It was hard work, and it’s hard to charge clients for that extra work. IR needs to put forms online to help tax agents.”

Interview 22

Tax agent

“We’re still catching up. We can’t employ more staff because we don’t have any room (we had seven staff before). There’s a huge amount of sickness among staff.”

Interview 25

Tax agent

“If they [clients] get out of a tax cycle, they need to catch up as soon as possible, so I talk to IRD. For clients in tax debt prior to the earthquakes, I tried to extend out the [payment] period, then they have to pay as before. Clients who have tax debt after the earthquakes need a payment plan with IRD. I’m proactive and talk with IR [to organise payment plans].”

Interview 24

Tax agent

Tax agents also have to develop new financial forecasts for their clients, as their financial situations have changed and they cannot rely on past business patterns to predict future ones. Most tax agents and SMEs believe that the Canterbury business environment has changed forever and they need to develop new business patterns to ensure their businesses’ survival. Some tax agents find it difficult to prepare these new financial forecasts as they are unsure how business will grow in the Canterbury region.

Extent of tax agents' views of their roles

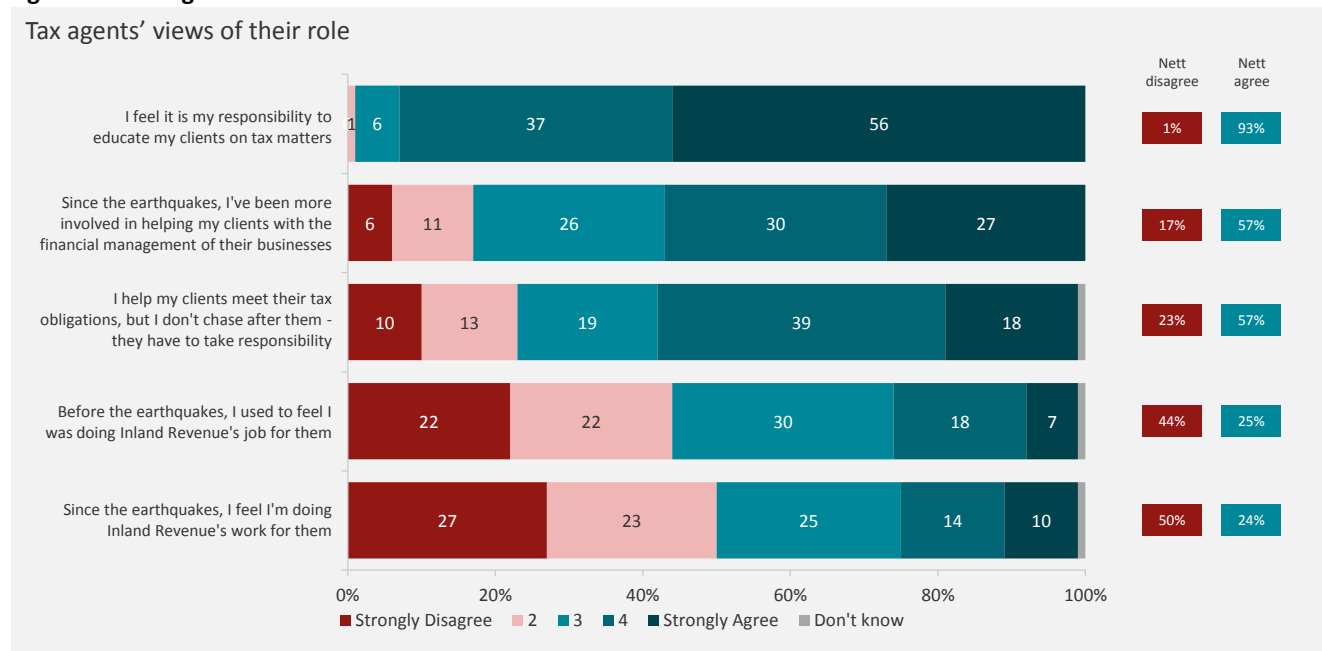
In the telephone survey, tax agents were asked to describe their views of their role by indicating the extent to which they agreed or disagreed with a series of statements.

Tax agents have a strong sense of responsibility to educate their clients on tax matters (93% agree with this) and over half (57%) agree that they have been more involved in helping their clients with the financial management of their businesses since the earthquakes.

Most tax agents, however, place the onus of responsibility to meet their tax obligations on SMEs with over half (57%) agreeing that they help their clients meet their tax obligations, but don't chase after them.

Although the qualitative research indicates tax agents' workloads has increased since the earthquakes, the results from the telephone survey provide no evidence that there is a greater sense among tax agents that they are now doing IR's work for them. Around a quarter of tax agents feel they were doing IR's job for them before the earthquakes (25%) and a similar proportion feel that since the earthquakes they are doing IR's work for them (24%)..

Figure 36: Tax agents' views of their role



Source: Q10
Base: All tax agents (100)

Section 7. Other support SMEs received

This section covers the assistance SMEs received from other organisations and how it helped them.

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.

Figure 37: Receipt of financial grant or subsidy from any organisation (last 12 months)



Source: Q6

Base: Varies – see graph

As shown in the chart above, 28% of all SMEs in Canterbury received a financial grant or subsidy from any organisation in the last 12 months. Among those affected by the earthquakes and still trading, SMEs in the 'recovery' phase were most likely to have received this type of assistance (46%).

Additional subgroup analysis shows that the following groups were more likely to have received this type of financial assistance:

- SMEs located in the CBD (51% compared to 30% in the rest of greater Christchurch and 15% in the rest of Canterbury).
- Employers (36% compared to 26% of sole traders).
- Currently in debt (41% compared to 28% of SMEs that used to be in debt and 22% of SMEs that have never been in debt).
- Manufacturing (45%) and Business and finance (39%) sectors.

Work and Income provided effective financial relief

Work and Income provided the 'Earthquake Support Subsidy' to a variety of business owners who had been impacted by the earthquakes, i.e. who could not conduct their usual business activity. The qualitative research findings indicate that the subsidy was widely advertised through a variety of channels (e.g. newspapers and radio), as well as promoted informally through word of mouth and business network channels.

The subsidy was widely available to a variety of SMEs (i.e. very few application criteria required). A large number of SMEs successfully took up the subsidy offer, which provided immediate financial relief to their business for a short period of time (i.e. for up to six weeks from 22 February 2011). This subsidy enabled business owners to pay the wages/salaries of their employees, thus preventing them from making their staff redundant and being unable to resume their business activity. A few business owners who had had to make some of their staff redundant explained that, since reopening their business, they have faced difficulties in recruiting skilled and experienced staff.

“The government subsidy was hugely helpful. I heard about it from Master Builders and the TV.”

Interview 15
SME, building industry

“The government subsidy scheme was a lifesaver for me. We kept all our staff on the roll. After the [first] earthquakes cashflow ceased, because people didn’t know where money would come from next. We had to stop [business] for one month.”

Interview 30
Tax agent

“The government subsidy was hugely beneficial. It took pressure off me, my business.”

Interview 25
Tax agent

However, some self-employed business people and sole traders believe that they cannot access the subsidy, as they do not employ any staff. However, some have been turned down from the subsidy because they do not draw a wage from their business and therefore are not eligible.

Business owners who have benefited from the subsidy believe that their business is in a better position than if they had not been able to access financial support. SMEs that qualify for financial assistance seem more likely to strengthen their financial viability than other SMEs during a time of crisis.

Note: some business owners believe that the subsidy was provided by IR rather than Work and Income.

Business owners feel Recover Canterbury’s assistance is too limited

Only a few business owners in the qualitative research had heard about the newly created organisation Recover Canterbury. They believe that this organisation has not been widely publicised, and therefore they did not know much about the type of support they could receive from it and if they qualified for it.

A few business owners tried to apply for some financial assistance for their business. However, they found that the criteria to access funding were too strict and therefore their business did not fall within the right range of businesses that could receive the funding. They did not pursue this avenue for assistance and did not tend to talk about it to their own business networks.

“There’s a grant available [from Recover Canterbury], but it’s hard to get. It’s to help establish businesses. It’s about who you know, not the criteria.”

Interview 24
Tax agent

Other sources of support were also beneficial to SMEs

Many business owners in the qualitative research explained that they received a combination of formal and informal assistance from the private and not-for-profit sectors during the crisis. This helped them cope with the earthquakes, primarily on a personal and family level and to some extent on a professional level. The impact was positive on business owners as they were able to receive advice, information and support that positively influenced their lives and business.

Banks show flexibility

Some business owners in the qualitative research were contacted by their bank manager to discuss how much they had been affected by the earthquakes and receive appropriate assistance from their bank. The following range of measures helped business owners:

- Freeze SMEs’ mortgage/loan repayments for a period of time.
- Extension to deadlines on mortgage/loan repayments.
- Refinancing of their mortgage repayments.
- Use of SMEs’ overdraft facilities and potentially discussion about overdraft repayments (e.g. lower interest rate).

These business owners are pleased at their bank’s proactivity and concern, as well as the practical steps the bank took to help SMEs out. These measures enabled business owners to access cash rapidly that they could put into their business.

“Banks provided overdraft facilities and concessionary loans, which is more favourable for businesses. No questions asked. That was very helpful.”

Interview 24
Tax agent

The Red Cross is proactive in various areas

Some business owners explain that the Red Cross provided them with a large range of support, which they found valuable. Although many of these measures were not aimed specifically at SMEs, business owners found

that the support they received on a personal level positively impacted on their business. For example, one stakeholder received some advice about family support from the Red Cross, which lifted a weight off his shoulders and enabled him to move forward and focus on his business.

The Red Cross implemented the following measures to help people and SMEs:

- Staff and/or volunteers provided advice, information and referrals to people and business owners, thus guiding them toward appropriate organisations that could help them solve specific problems.
- In some cases, people received some financial assistance and some business owners tended to put this money into their business.
- People emotionally affected by the earthquakes were able to receive some counselling.

Mobile caravans were a success

In Kaiapoi a successful system of a mobile caravan was implemented as soon as the earthquakes struck the town. It consisted of a collaboration of organisations from the private and not-for-profit sectors getting together in a common location in town in order to be a one-stop shop for people affected by the earthquakes. They provided advice, information and referrals. This common hub of information and assistance enabled local residents to take quicker action and sort their situation out.

Business owners commented that it had been useful for them, as resident and business owners, because they had been able to gather relevant information on the support and entitlements they could receive. Some explained that the insurance companies had been proactive in dealing with specific cases and helping their customers out.

“There are loads of organisations around, for example the Business Group in Kaiapoi and the Waimakariri Council. They inform people about services and issues. And Enterprise North Canterbury too. IR may have been part of the meeting. Work and Income was there too, with [financial] packages available. And the Salvation Army.”

Interview 2

SME, hospitality

Some professional bodies were helpful

Some business owners belong to professional organisations, and during the crisis they provided information to their members about the support they could receive. Professional bodies communicated to

their members via emails, newsletters, and also passed on new information through face-to-face meetings. Members value the proactivity of their industry when an adverse event impacts it and some would like to see a similar level of support throughout the year.

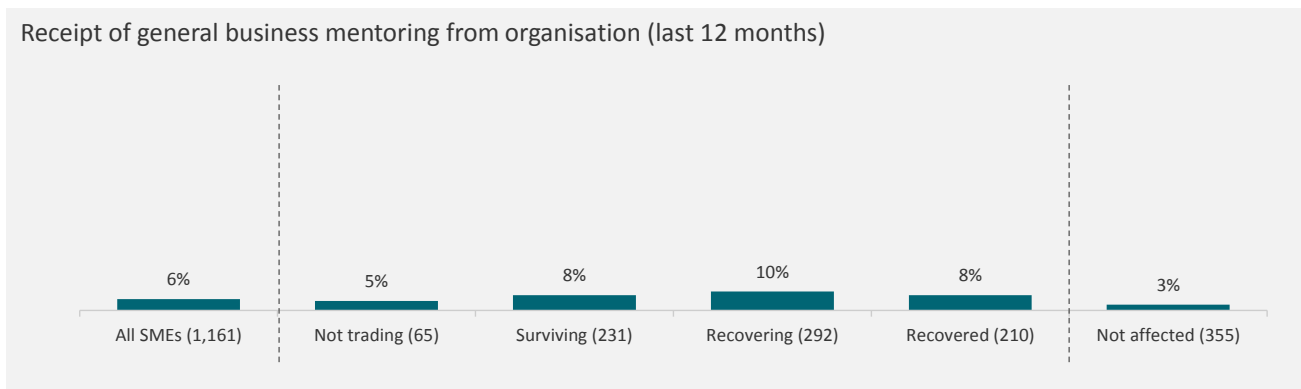
“I belong to NZICA and we had lots of meetings for Christchurch tax agents. It was very helpful. But it faded away very quickly. This professional body recognises the problems associated with the quakes. We can go to it for assistance.”

Interview 25

Tax agent

General business monitoring

Respondents in the telephone survey were asked whether they had received general business mentoring from any organisation in the last 12 months (graph overleaf).

Figure 38: Receipt of general business mentoring from organisation (last 12 months)

Source: Q6

Base: Varies – see graph

6% of SMEs in Canterbury have received general business mentoring from any organisation in the last 12 months. Subgroup analysis shows the following groups are more likely to have received this type of support:

- SMEs in the CBD (10% compared to 5% in the rest of Canterbury).
- Employers with 6-19 employees (14% compared to 8% of other employers and 5% of sole traders).
- Manufacturing sector (17%).

Several business owners in the qualitative research commented on the value of business mentors.

“CERA has business mentors. It’s a free service. They help to increase the momentum, build up the business again in Christchurch today. It’s been widely publicised in the newspapers and through referrals.”

Interview 3

SME, hospitality

“We need somebody to help financially. A business mentor is required. There’s no foot traffic in many areas, so we need [somebody to help] to know where we can set up again.”

Interview 4

SME, hospitality

Section 8. Expected tax compliance in 2012/2013 and 2013/2014

This section discusses perceptions of SMEs' ability to meet their future tax obligations, namely in 2012/2013 and 2013/2014.

Expected success in meeting future tax obligations

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

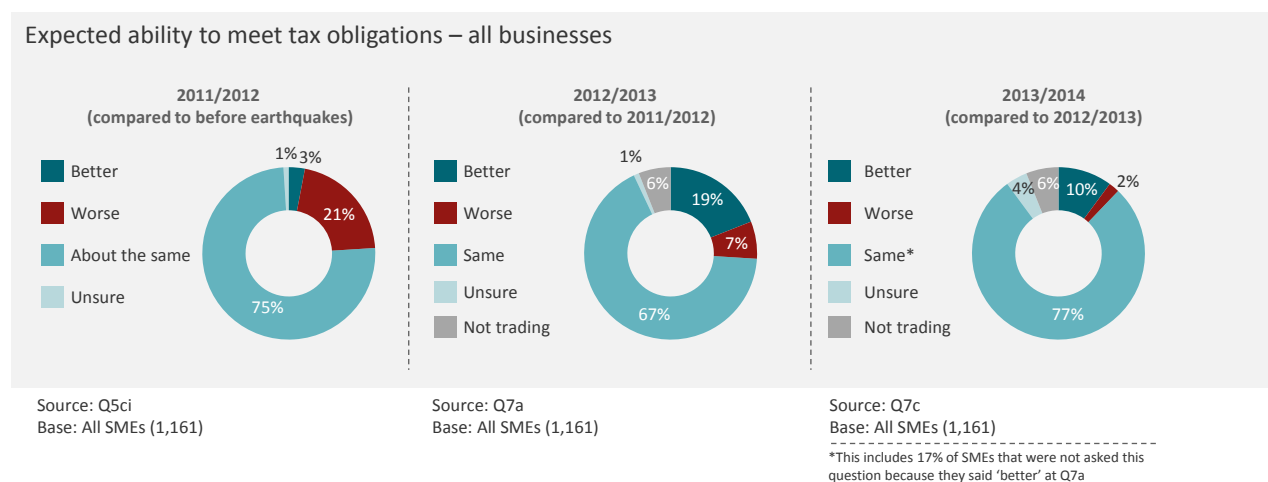
- whether, compared to last year, their business will be better, worse or the same in meeting its tax

obligations this tax year, that is, during the period of April 2012 to March 2013

- 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 2013 to March 2014.

Responses to these two questions are illustrated below along with the results to the previous question on how well the business met its 2011/2012 obligations compared to before the earthquakes.

Figure 39: Expected ability to meet tax obligations – all businesses

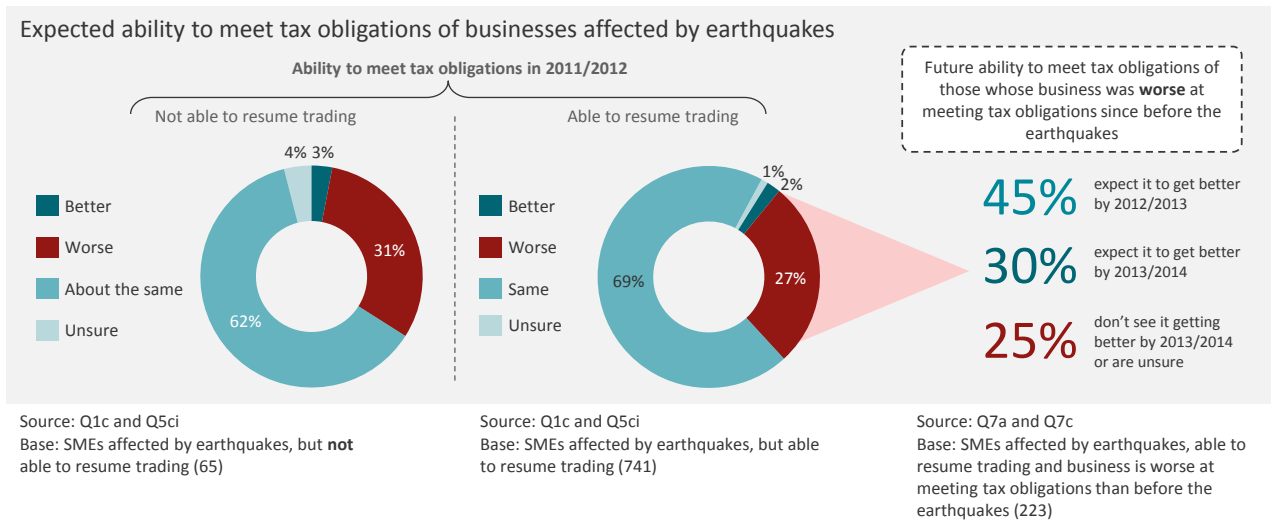


Most SMEs think their business will be about the same in meeting its tax obligations this tax year (2012/2013) compared to last tax year (2011/2012). The remainder (apart from those not trading) are more likely to predict an improvement rather than a worsening in their tax compliance.

A similar pattern exists looking ahead to 2013/2014, although there is a somewhat greater sense of stability in 2013/2014 than in 2012/2013.

The above analysis does not track individual SMEs (or groups of SMEs) across years. For example, of the 67% of SMEs that said they expect their business to be 'about the same' in meeting its tax obligations this tax year, some will have experienced stability in their tax obligations since before the earthquakes, some a worsening and some an improvement. The analysis presented in the chart below therefore assesses when SMEs that were worse at meeting their tax obligations in 2011/2012 (compared to before the earthquakes) expect to see an improvement.

Figure 40: Expected ability to meet tax obligations of businesses affected by earthquakes

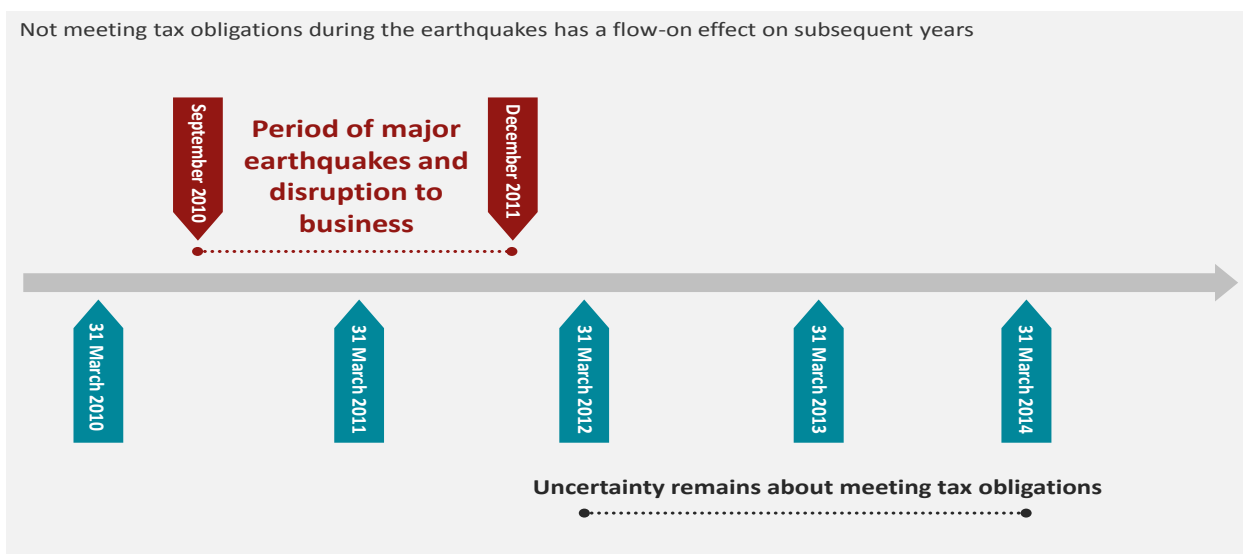


Of the quarter (27%) of SMEs affected by the earthquakes that are currently trading and report experiencing a worsening in tax compliance since the earthquakes, 45% expect to see an improvement in meeting their tax obligations by 2012/2013, 30% by 2013/2014 and 26% by 2013/2014.

On-going uncertainty

As we've just seen in the telephone survey results, SMEs were able to estimate whether their future tax compliance would generally be better, worse or the same. However, a more in-depth discussion with SMEs in the qualitative research reveals that there is an ongoing degree of uncertainty (illustrated in the diagram below).

Figure 41: Not meeting tax obligations during the earthquakes has a flow-on effect on subsequent years



In the qualitative research, many business owners explained that they feel uncertain about being able to meet their tax obligations for the financial year 2011-2012: many are still experiencing irregular business patterns and trying to adjust to the new economic environment. Most business owners find it difficult to visualise what the year ahead may be like for their business. The earthquakes have created much uncertainty, and business owners do not discount the possibility of another destructive earthquake in the future. Some business owners explain that they may be

in a position to meet their tax obligations at the end of the financial year 2013 if there is no damaging earthquake.

Other business owners still feel that it is too early for them to know if their business will be able to meet its tax obligations, regardless of whether new earthquakes hit the region or not.

Drivers of future tax compliance

Income/business activity levels drive expectations of future tax compliance

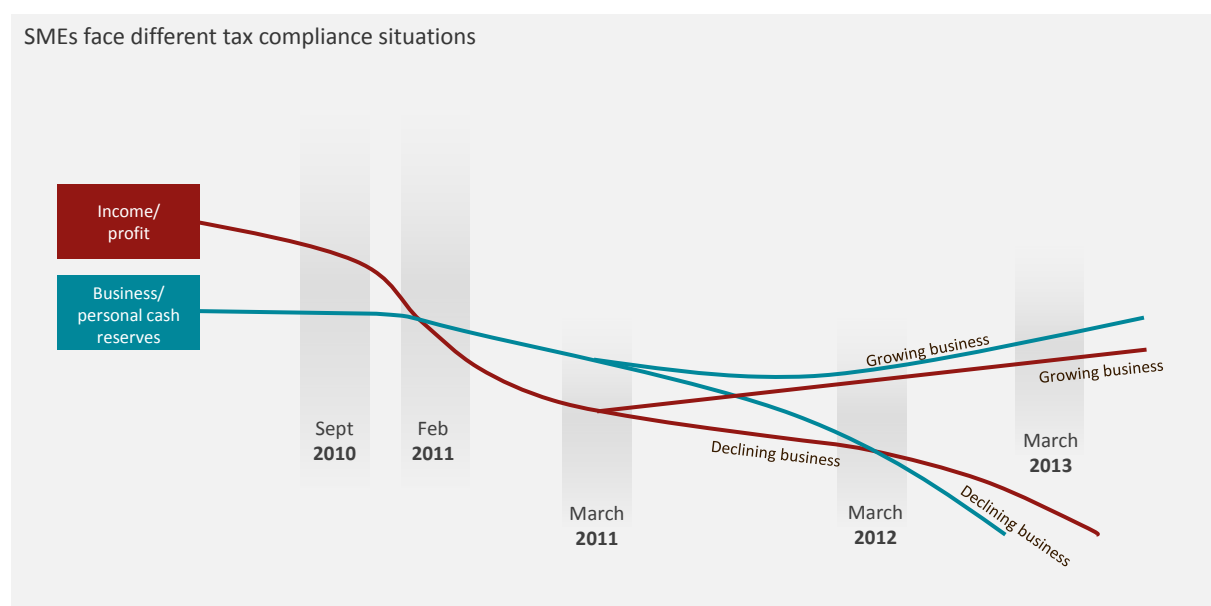
In the telephone survey, respondents who thought their business would be either better or worse at meeting their tax obligations in 2012/2013 compared to last year, were asked why that was the case. Detailed results to this question are provided in Appendix A.

The key findings are that SMEs' confidence in their business being better at meeting their tax obligations this year largely stems from an expected improved financial situation (67%). Related to this, some SMEs (18%) commented specifically about changes made to their business structure, staff, overheads and approach to business that will assist them in meeting their tax obligations. Conversely, business owners who expect a worsening in their tax compliance primarily attribute this to a worsening financial situation (80%).

The qualitative research sheds light on how income/business activity levels impact SMEs' ability to meet their tax obligations (discussed below).

Growing and declining businesses face different tax scenarios

Figure 42: SMEs face different tax compliance situations



The above diagram illustrates different scenarios about SMEs' ability to meet their tax obligations. Although most of the SMEs affected by the earthquakes have experienced a decline in income/profit, some have recovered and later experienced a growth in income/profit. In order to meet their tax obligations, many business owners have used their business and/or personal cash reserves.

"The cashflow projections are screwed. Money is very tight. There was a major downturn after the Sept earthquake. We had planned a sale for Fathers' day, but we didn't make much money."

Interview 14
SME, retail

"On the whole, clients are paying way more tax. What will their position be going forward? It'll be much more difficult for tax agents to plan for tax, because businesses look different. For example, the number of employees has increased."

Interview 22
Tax agent

Possible scenario for SMEs with a declining business activity

These SMEs may experience some difficulty in meeting their GST and PAYE tax obligations at the end of the 2013 financial year. For some SMEs, the pressure of meeting these tax obligations may be lessened through a cost-cutting review of the business and potentially by making some employees redundant.

Some of the reasons mentioned to explain GST and PAYE payment difficulties are:

- With a declining business activity comes a decreased earning potential for the SME.
- The business's income is directly used for the business (e.g. buying stock and paying wages).
- The business may have little or no cash reserves to fall back on when expenses are due (e.g. tax and also creditors).
- Business owners may have to use overdraft facilities or bank loans to cover some of their expenses and debts.
- They may also consider entering into a payment plan with IR in order to be able to meet their tax obligations through realistic payment options (e.g. no penalties but interests charged; deferred payments; small instalments) – however, it may become difficult for the business to catch up on overdue tax debt if the activity keeps declining.

SMEs with a declining business activity are also likely to face difficulty in meeting their provisional and terminal tax obligations. Some of the reasons given are:

- If they have no cash reserves to meet their more frequent tax obligations (e.g. GST), they are unlikely to have enough cash reserves to meet the end of year obligations that may involve much larger sums of money.
- If these SMEs have not entered into a payment arrangement to organise their GST and PAYE payments, they are likely to do so at this time of the year when business owners realise the extent of their tax obligations.
- If unable to meet their obligations, some SMEs may end up facing liquidation or bankruptcy (worst case scenario).

Possible scenario for SMEs with a growing business activity

SMEs with a growing business activity are more likely to meet their tax obligations than SMEs with a declining business activity, although meeting one's tax obligations requires a good level of personal resilience and business resilience (as explained in previous section).

With regards to GST and PAYE tax obligations, SMEs with a growing business activity are in a good position to file and pay their tax on time:

- With a growing income/profit, business owners can use part of it to build up cash reserves and/or put some money aside for tax purposes without negatively affecting the growth of the business (e.g. some of the income can be used to buy new stock or diversify the range).
- The increased GST payments mean that the SME will receive increased GST refunds, hence there is 'more' money available for the business.
- The increased business activity does not always correlate with an increase in staff number. Some SMEs can still provide a high level of service to their customers without requiring the employment of new staff.
- Some SMEs may require employing new staff, which translates into a higher PAYE value, but this needs to be covered by the increased income earned by the SME. **Note:** several business owners in different industries mentioned that they currently face staff shortages due to many resigning and moving away from Canterbury, thus driving wages up for skilled and experienced staff.

"It's not an issue to pay tax, because we have a huge cashflow. Our plan is to reduce debt and expand our business, but we may end up having to pay more tax."

Interview 2 SME, hospitality

Predictions are uncertain about the ease with which business owners may be able to meet their provisional and terminal tax obligations in 2013:

- Business owners have to work out their provisional and terminal tax for the year ended 2012 based on estimates. Their tax obligations for the following year run the risk of being inaccurate, as they will have to be based on the previous year's estimates.
- Some SMEs may find themselves in a position of owing more tax than expected and may need to enter into a payment arrangement with IR to meet their increased obligations.

"Some [clients] had tax debt before the quakes, and they still have tax debt. But I go after them to remind them to pay. Few have managed to catch up, even though they have increased cashflow... For successful clients (SMEs), it's a challenge. They have to pay more tax, but they're also short-staffed due to the recession."

Some were behind paying their bank etc.... Historical payments... Now they're playing catch-up and having more tax to pay. And they are not used to being in that position. They used to be living hand-to-mouth. So they need more planning. I do their forecast, their cashflow planning to make sure they stay successful."

Interview 22

Tax agent

Financial viability prior to earthquakes key determinant of future ability to meet tax obligations

Business owners understand that they need to meet their tax obligations and pay their tax debt to IR, regardless of whether the debt was incurred through the earthquakes or is historical.

In future, three scenarios are likely to result from the impacts of the earthquakes:

- Meeting tax obligations, albeit slowly: if SMEs were financially viable prior to the earthquakes and able to resume their business activity, they are likely to be able to meet their tax obligations. However, they may require payment arrangements from IR in order to do so.
- Struggling to meet tax obligations: if SME were financially viable prior to the earthquakes, but unable to resume their business activity since, they are likely to struggle to meet their tax obligations. These SMEs may require a thorough assessment of their potential to resume their business activity. Entering into a payment plan with IR may help them in the short-term.
- Unable to meet tax obligations: if SMEs were not financially viable prior to the earthquakes regardless of their level of activity today, they are unlikely to catch up on previous tax debt and be able to meet their current tax obligations.

One year on, many SMEs are still struggling to resume their business activity and have it reach similar levels to what it was prior to the earthquakes. SMEs still require support and assistance from IR to help them meet their tax obligations. Their situation needs to be assessed on a case-by-case basis to enable them to pay tax without compromising their business activity.

Other factors influencing SMEs' ability to meet their tax obligations

Other factors identified in the qualitative research that will influence business owners' ability to meet their tax obligations for the financial year ending 2013 are listed below:

On the positive side:

- Business owners and tax agents being generally in a better position to file and pay their tax on time (e.g. better data protection, less susceptible to disruption and utilisation of recent records as a new reference point).
- Business owners having entered into a payment arrangement with IR and catching up on their outstanding debt amounts.

However, on the down side:

- Business owners focusing their energy on and spending time growing their business (e.g. finding new contracts) rather than spending some of their time on managing the business's financial/tax situation. These business owners may overlook deadlines for filing and paying their tax, as well as accuracy of the tax amount they owe.
- Business owners focusing on repaying debt and/or investing in their business rather than putting money aside for tax purposes. These business owners may end up creating new business debt if they are unable to meet their new tax obligations.
- Business owners and tax agents not knowing the financial position of the SME and misevaluating the business's tax obligations (business owners too busy to pay attention and tax agent overworked/under-resourced to notice it on time).
- Business owners running the risk of under-declaring tax (e.g. inaccurate information on the business's financial position) and having to pay a large tax amount at the end of the financial year without necessarily having the financial means for it.

Appendix A. Reasons for expectations of improved or worsened tax compliance

Respondents who thought their business would be either better or worse at meeting their tax obligations in 2012/2013 compared to last year, were asked why that was the case. The results to this question 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) – each nett score figure gives the percentage of respondents that gave at least one of the more detailed suggestions (which are listed below the nett score).

Table 12: Reasons for improvement and worsening of tax compliance in 2012/2013

	Better % (243)	Worse % (95)
Improved financial position	67	8
Increased/more consistent cashflow/income/profits/improved financial position/turnover/business/customers/improved business forecast	55	4
Fewer business disruptions/earthquake related disruptions/more stable environment	10	-
Increased business opportunities due to earthquake/involved in rebuild	3	-
Hard work/working harder	2	3
Changes to business structure/staff/overheads/approach	18	3
We are more structured/organised/have restructured business/reduced overheads	14	-
We are employing more staff/new staff member/dedicated staff member	2	2
New accountant/changed accountants/working with accountant/accountant now back in business	2	-
We have improved processes/systems	2	-
Uncertainty	6	5
Depends if there are more earthquakes/disruptions/effect of earthquake	3	-
Depends on insurance pay-outs/timing of insurance pay-outs	2	2
Uncertainty/difficult times/lack of confidence	1	3

Worsened financial position	2	80
Downturn in business/income/cash flow/general economic downturn/late payments	2	75
Difficult to meet tax obligations	-	7
Increased costs	-	10
Nett other	24	23
Expect to meet tax obligations	5	-
Optimistic/confident for the future/Christchurch/recovery process	5	-
Don't expect to have tax to pay/to pay as much tax this year/will receive tax credit	2	5
Health issues are resolved/resolving	2	-
Have arranged payments/have a payment plan in place/working with IRD	2	-
Other	8	18
Don't know	-	-
Nothing	1	-

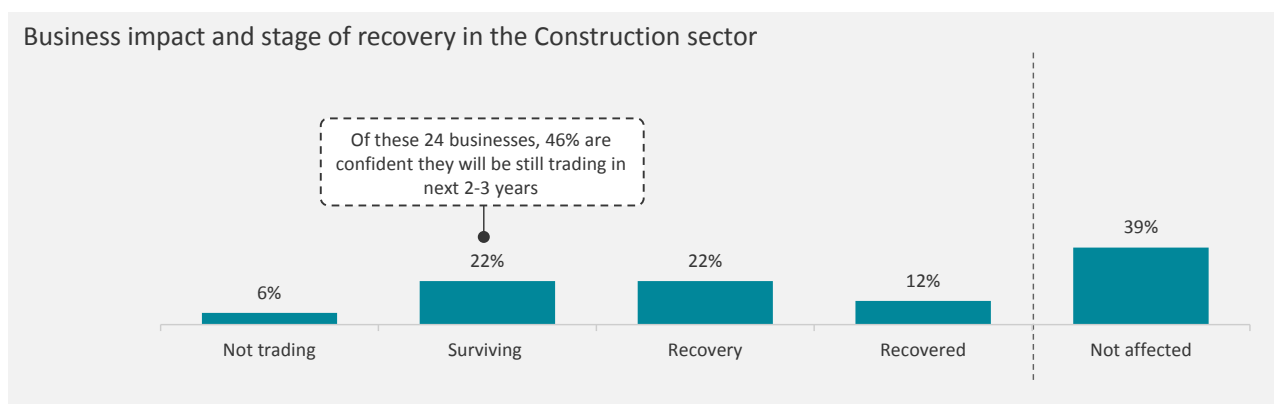
Appendix B. In-depth discussion on specific industries

This appendix provides an in-depth discussion on the industries that were the focus of the qualitative research.

The building industry has been badly affected but is expected to pull through in the next few years

The quantitative research findings indicate that the majority of SMEs in the Construction sector (61%) have been affected by the earthquakes. One half of SMEs in this sector (50%) are either in the 'surviving' or 'recovery' phases or not trading.

Figure 42: Business impact and stage of recovery in the Construction sector



Source: Q1a, Q1c, Q1d, Q1e and Q1f

Base: All SMEs in the Construction sector (153)

Many houses and buildings in and around Christchurch have been damaged by the earthquakes and require

immediate repair. Moreover, the extensive destruction and demolition of Christchurch CBD and other suburbs signal that the building industry will recover, as Canterbury is now in need of new premises to house businesses and new houses for people to live in. The future of the building industry seems to be relatively bright.

Some SMEs in the building industry have experienced a boom. These are mostly: painters, plasterers, electricians, plumbers, interior decorators and architects. These business people perform relatively small repairs to buildings and houses and are generally approved by insurance companies quickly and easily. The approval for smaller repairs is granted more easily than for larger repairs (e.g. crack in the house foundation) and the administration associated with it is also processed more quickly. The costs involved for smaller repairs are much smaller and less of a problem for insurance companies when compared with larger repairs.

“Plasterers, painters, electricians... They’re very busy at the moment. It’s emergency repairs. I don’t do emergency repairs.”

Interview 16

SME, building industry

“I got updates from Fletcher and EQC. It was good to know how much I could stretch, e.g. getting an overdraft to cover me for two weeks until work resumes.”

Interview 15

SME, building industry

However, within the building industry, some SMEs are struggling and have seen their activity level decline. Initial expectations for the building industry were that the whole sector would boom for several years due to the process of demolition and rebuild. However, many SMEs involved in the industry have yet to experience

this boom (e.g. bricklayers and builders of new home/commercial properties).

“We don’t talk about tax obligations. We talk about ‘are you busy? Some have to pay staff to retain them or work in another area (e.g. reframing). People hurt. Tax is a nail in the coffin.”

Interview 15

SME, building industry

“[From February 2011 until now] the cost of pricing work for EQC and building companies, and all the driving around... I’m incurring costs but not getting work.”

Interview 16

SME, building industry

The building industry faces a number of issues that need to be resolved to enable the sector to recover and grow. These are as follows:

- In order to gain access to large demolition/building contracts, SMEs need to register their interest with the large building companies (e.g. Fletcher and Mainzeal). If they do not go through this registration process, they limit their work capacity to, for example, sporadic residential work they can find through their own networks.
- Some SMEs have complained that Christchurch City Council has been very slow in releasing building consents, and when it does, it releases a bunch of them at the same time. That means these SMEs do not have the opportunity to spread out their work over several months and recruit staff for long periods of time (e.g. when they are certain to obtain a contract, some business owners recruit the right number of staff for this specific contract and have to lay them off until the next contract is available).
- Some SMEs have also explained that insurance companies and the Earthquake Commission (EQC) have also delayed their decisions to approve repair work on residential and commercial properties, although contracts have officially been attributed to builders. The result is that some of these builders have had to recruit staff to perform the work, yet with approval delayed by several weeks or months, they have then had to lay them off until work can start and the SME earns an income.
- Many builders living and working in the Canterbury region expected that the demolition/rebuild contracts would be primarily offered to them as they feel they are key stakeholders in the rebuild of Christchurch. However, they have been disappointed when contracts have been awarded to builders who

have moved to Canterbury to be part of the rebuild process. Cantabrian SMEs now have to compete with an increased number of building companies and feel that more time is spent ‘fighting’ to obtain a contract rather than doing the job.

“Before the earthquakes, there was the financial recession and we had a downturn in business. After the earthquakes, we rubbed our hands with glee, but it’s a battle. Every time there’s an aftershock, the money stops coming. Insurance companies stop paying out.”

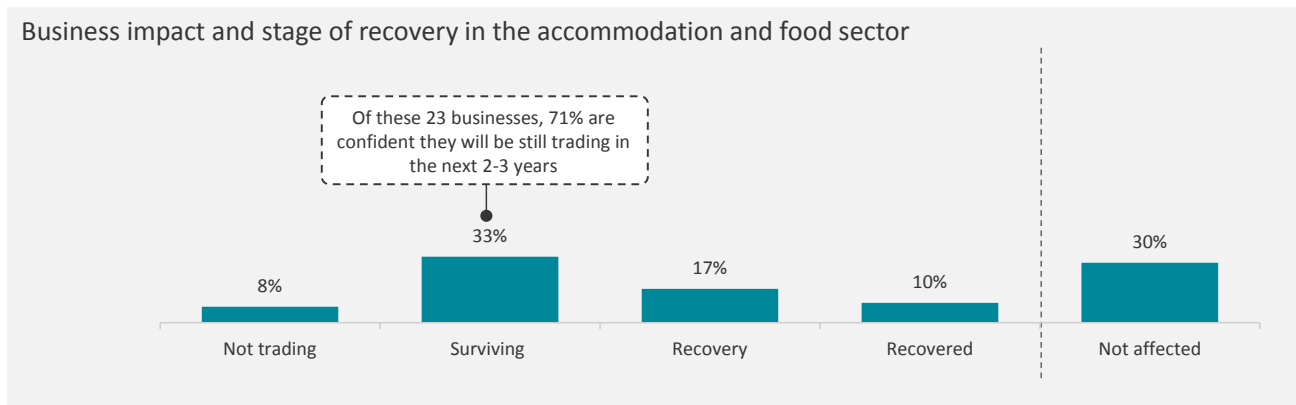
Interview 16

Building industry

Despite these ‘teething problems’ in organising and coordinating the demolition/rebuild of Christchurch, and the uncertainty about the amount of work available, builders are confident that the industry as a whole will experience a boom that will last for the next 10-15 years.

The hospitality/tourism sector has also been seriously impacted by the earthquakes

The quantitative research findings indicate that a large majority (70%) of SMEs in the accommodation and food sector have been affected by the earthquakes. One third (33%) of SMEs are still in the ‘surviving’ stage. Although many of these (40%) are confident they will still be trading in two to three years’ time.

Figure 43: Business impact and stage of recovery in the accommodation and food sector

Source: Q1a, Q1c, Q1d, Q1e and Q1f

Base: All SMEs in the accommodation and food sector (85)

The qualitative research findings present a contracted view of SMEs that are doing well and those that are struggling in the hospitality and tourism sector.

The growing SMEs have benefited from the destruction caused by the earthquakes. These are: cafés, bars and restaurants in the outskirts of town (i.e. new business satellites of Christchurch) and accommodation in Canterbury (e.g. motels, hotels, lodges and backpackers). The former (i.e. eating and drinking places) are doing well because a lot of their competitors have had to close down, and given their location away from the earthquakes' centres, these eating and drinking places have not been damaged. The latter (i.e. accommodation) are also doing well, because numerous houses have been destroyed or are unliveable, therefore people have had to move into paid accommodation to have a shelter. Additionally, people who are part of the rebuild process (e.g. engineers and builders) and have come from outside Canterbury also require accommodation. Since the beginning of the earthquakes, the accommodation sector has grown dramatically – some have even requested a building consent to expand their current premises to cater for more customers.

However, within the hospitality and tourism industry, some SMEs are struggling. These are: cafés, bars and restaurants in Christchurch CBD and other centres affected by the earthquakes (e.g. Kaiapoi centre), as well as tourism and leisure operators (e.g. gift shops). Location has had a strong impact on their business activity (e.g. cordon around the Red Zone, depopulation). Some of these SMEs have not had the ability or opportunity to relocate, but may still induce costs related to their business (e.g. rent). Their future is uncertain and these business owners need to objectively assess their business operations.

“We have a high occupancy rate. It relates to EQC. People live in motels today. I don't know if tourism has changed. But we have long-term bookings for most of our units – we keep a couple [of units] free for our 'usuals' [customers]...It was a stressful time because of the September quake. We had to refuse bookings. The phone rings all the time, but we have to do our daily job. Motels are full with engineers and Recovery people.”

Interview 2 SME, hospitality

The hospitality and tourism sector has also suffered from changes in customers' attitudes and behaviours:

- Financial worries affect people's spending: a large number of people have been directly affected (e.g. damaged house) and indirectly affected (e.g. family members moving in) by the earthquakes. However, a lot of people are concerned about the financial cost of the earthquakes and have cut back on their spending or redirected it (e.g. eating at home instead of going out).
- Christchurch's vibrancy has changed: today, many people view Christchurch as a different city from what it was; its vibrancy and entertainment feel have been lost through the earthquakes and some people no longer see Christchurch as a fun city. With international and national media coverage of the earthquakes, SMEs in the hospitality and tourism sector have noticed a decrease in international visitors, as well as domestic ones.

The earthquakes have been very active, yet random, over a long period of time. People have been (and still are) 'on edge' and stressed about when the next earthquake will strike and how strong it will be. Several

business owners reported that some of their key staff resigned and left Christchurch because of the continuous stress caused by the earthquakes. Some business owners explained that it would take time to replace these valuable employees (e.g. training new ones and building trust), but these employees would be able to find another position easily because they had acquired transferable, soft skills.

Some cafés, bars and restaurants have had to close down their business, as well as some motels, hotels and backpackers, because of the extent of the damage to their premises. Many of them have been unable to reopen their business, due to the following reasons:

- Inability to find new premises to relocate the business: those SMEs affected by the first earthquakes have had the opportunity to look for new premises immediately, but some of those affected by the later earthquakes have 'missed out' on well-located and affordable premises.
- The costs involved in a relocation may render the business unprofitable: some SMEs are still bound by their current lease, although they are not earning an income, yet they have to enter into a new lease agreement to access new premises; and some landlords have also increased the rent following the increased demand for undamaged premises; the refitting and decorating costs of new premises are expensive and need to be paid for 'upfront' (e.g. setting up a kitchen to building code standards to be able to open a café).
- Slow insurance payout: some SMEs have experienced protracted dealings with their insurance companies (e.g. business damaged by successive earthquakes and requiring several insurance claims to be lodged), and payments have been released slowly and not always to their full amount.
- Red Zone still locked off: the SMEs located in the Red Zone have no indication as to when they may be able to return to Christchurch CBD and resume business. A large area of Christchurch central is still cordoned off, thus keeping businesses and customers away.

"Before my business was growing at a steady pace. The one in town was busier [than the one in the suburb]. There was some anticipation [of good money] with the Rugby World Cup, but the earthquakes shattered my dream. After the earthquakes, I couldn't measure the performance of my two cafes, because I was down to one. My business took a step back... We have to look at the stability of the building, going through council reports etc. It may cost more to set up a business now. Also, insurance is a key factor [in increasing overall cost]. A lot more people are in the market to lease so it's harder to relocate."

Interview 3
SME, hospitality

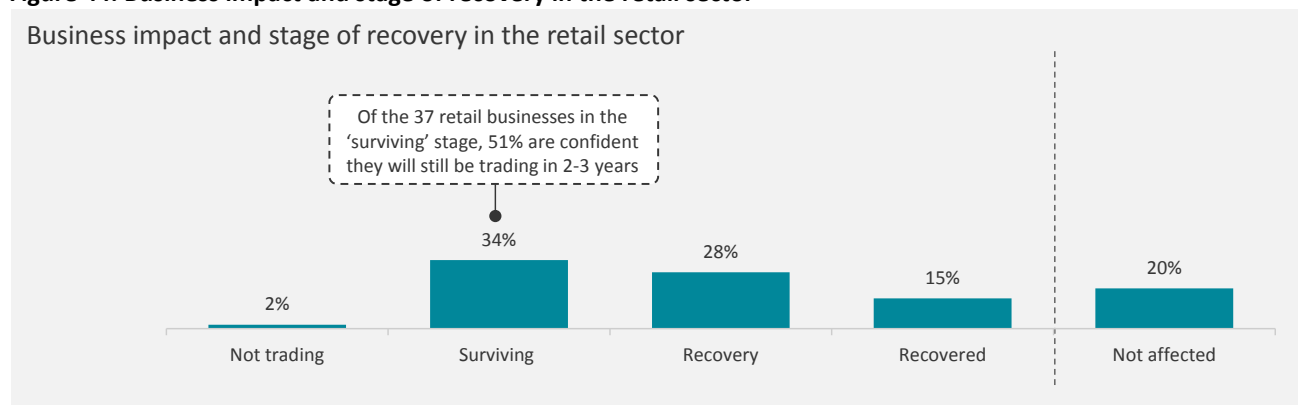
"The fishing season is from September to March. The earthquakes happened at the worst time. People don't buy fishing gear when there's a crisis."

Interview 14
SME, retail

The retail sector has experienced a severe downturn

The quantitative research findings indicate that a very large majority (80%) of SMEs in the retail sector have been affected by the earthquakes. Nearly two-thirds of retail SMEs (62%) are either in the 'surviving' or 'recovery' phases. SMEs in the 'surviving' stage show little confidence that they will still be trading in two to three years' time.

Figure 44: Business impact and stage of recovery in the retail sector



Source: Q1a, Q1c, Q1d, Q1e and Q1f
Base: All SMEs in the retail sector (113)

The qualitative research findings indicate that a combination of factors has affected the retail sector and the ways in which customers spend money:

- Location compounded with inability to resume business: many retailers located in the Red Zone or other centres affected by the earthquakes (e.g. Kaiapoi) have struggled to reopen their business, and many have been unsuccessful in doing so. As a consequence, customer numbers and overall foot traffic have decreased dramatically in these retail areas. Additionally, the demolition and rebuild process is perceived by retailers and customers as very slow. Some shopping areas have been closed for several months without any indication of when they may reopen. A few retailers explained that for business to be good, retailers need to be close to each other and open to enable customers to come to a shopping area and spend money. This is not currently the case, and this situation impacts on the level of profit that the remaining retailers (i.e. those still open) can make. However, some retailers are hopeful that when the Red Zone reopens, other retailers and businesses will come back and recreate a new vibrant city centre.
- Customer spend has changed: for many customers, the uncertainty of the earthquakes (e.g. duration, frequency, intensity) means that they have a more cautious approach to their lifestyle and have changed some of their spending patterns. For example, some customers focus on essential items (e.g. safety, food and fuel for the car) and do not want to spend money on items now seen as superfluous (e.g. new fishing rod).
- Difficulties in reopening a business: many retailers have had their stock damaged or destroyed during the earthquakes and have had to reinvest in new stock to resume business. Those SMEs relying on wholesalers and distributors outside of Christchurch have found it easier to rebuild their stock than those dependent on other SMEs in Christchurch. Also, some retailers are struggling to access their insurance payout while others have spent it all on their business and need a new source of cash. Further, some SMEs that have successfully reopened their business after relocating have found it hard to attract customers. They have not been able to communicate their new location well (e.g. advertising is perceived to be too expensive and money is prioritised for wages and stock).

“Lawyers etc [businesses affected by earthquakes] moved in a hurry. They signed up leases for ten years. They’ll be out of town for a long time. It’s hard to get people back in town.”

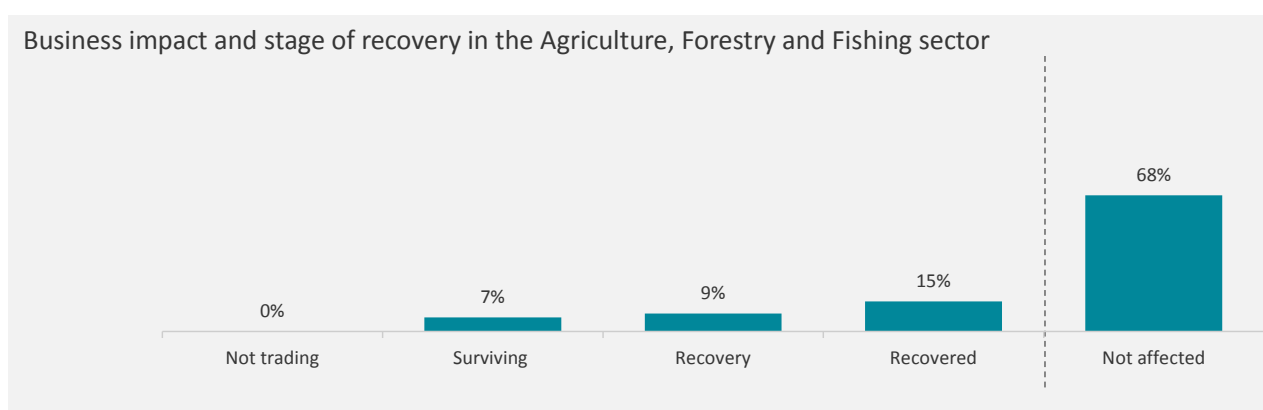
Interview 4
SME, hospitality

The agriculture sector has been less affected by the earthquakes

The quantitative research findings indicate that a minority of SMEs in the agriculture, forestry and fishing sector have been affected by the earthquakes (32%).

Further, many of those that have been affected are now ‘recovered’ (15% of all SMEs in the sector).

Figure 45: Business impact and stage of recovery in the Agriculture, Forestry and Fishing sector



Source: Q1a, Q1c, Q1d, Q1e and Q1f

Base: All SMEs in the agriculture, forestry and fishing sector (155)

Appendix C. Questionnaire

Good morning/afternoon my name is ... from Colmar Brunton, an independent research company.

I'm ringing about a letter from Inland Revenue that was sent to your business.

We are doing an important survey on behalf of Inland Revenue about how the Christchurch earthquakes have impacted small and medium-sized businesses.

May I please speak with the owner of **BUSINESS NAME**?

REINTRODUCE AS NECESSARY.

IF PERSON SAYS THEY HAVE AN EXTERNAL TAX AGENT/ACCOUNTANT: That's fine. For this survey we need to talk to taxpayers, so we'd like to get your business's perspective. May I please speak with the owner?

IF PERSON SAYS THEY HAVE NOT BEEN AFFECTED BY EARTHQUAKES: That's fine. It's really important we talk to both businesses who have been affected and businesses who have not been affected by the earthquakes.

IF SPEAKING WITH EXTERNAL TAX AGENT, EXPLAIN NATURE OF RESEARCH AND ASK FOR BUSINESS CONTACT DETAILS.

IF PERSON SAYS THEY HAVE SOLD THE BUSINESS, ASK IF THEY SOLD IT BEFORE OR AFTER THE EARTHQUAKES AND CODE NQ.

IF BUSINESS OUTSIDE OF CANTERBURY REGION, CHECK WHETHER IN CANTERBURY BEFORE EARTHQUAKES. IF YES, RESPONDENT QUALIFIES. IF NO, CODE NQ.

IF TAX AGENT

*Good morning/afternoon may I please speak with **[INSERT NAME]**.*

My name is ... from Colmar Brunton, an independent research company. We are doing an important survey on behalf of Inland Revenue about how the Christchurch earthquakes have impacted small and medium-sized businesses, and we are interested in your views as a tax agent. You may have received a letter in the mail about this from Inland Revenue.

READ TO ALL: This study involves speaking with (FROM SAMPLE: businesses/tax agents) now, and then speaking with them again in about two years' time to see how their (IF BUSINESS: situation has changed/IF TAX AGENT: clients' situations have changed). When we contact you again in about two years' time, you can decide then whether you want to take part in the second survey.

Today's survey will take about 12 minutes to complete, depending on your answers.

Everything you say is confidential. Only Colmar Brunton and researchers in the Inland Revenue Research Unit will have access to your individual answers. No one else at Inland Revenue can access your answers.

May I run through today's survey with you now, or can I arrange a time to call back?

MAKE APPOINTMENT IF NECESSARY. THANK RESPONDENT AND TERMINATE INTERVIEW IF RESPONDENT NOT WILLING TO CONTINUE.

Thank you for agreeing to take part in this research. Our calls are recorded for training purposes.

DO NOT PAUSE. CONTINUE TO NEXT SCREEN UNLESS RESPONDENT IS UPSET.

IF NECESSARY: The purpose of recording is to check that I have conducted the survey correctly.

IF NECESSARY: All recordings are stored securely and can only be accessed by authorised staff.

Business stage – survival/recovery

ASK BUSINESSES:

1a First, how many businesses, if any, do you own that have been adversely affected by the earthquakes?

IF NECESSARY: By adversely, we mean negatively impacted.

CODE ONE ONLY.

None – no businesses affected by earthquakes	1	
1	2	
2	3	
3 or more	4	

IF NO BUSINESS AFFECTED (CODE 1), GO TO 4c.

IF ONE BUSINESS AFFECTED (CODE 2): I'd like you to answer the questions in this survey in relation to your business that has been affected by the earthquakes. **NOW GO TO 1c.**

IF MORE THAN ONE BUSINESS AFFECTED (CODES 3 OR 4): I'd like you to answer the questions in this survey in relation to your business that has been most affected by the earthquakes. **NOW GO TO Q1c.**

ASK TAX AGENTS:

1b Apart from the impact on your own clients, has your own business been adversely affected by the earthquakes?

CODE ONE ONLY.

Yes	1	GO TO 1c
No	2	GO TO 2a
Don't know	3	GO TO 2a

1c Since the earthquakes, has your business been able to continue or resume trading?

CODE ONE ONLY.

Yes – able to continue /resume trading		GO TO 1e
No – not able to continue/resume trading		ASK 1d

- 1d How confident are you that your business will resume trading in the next two years? Please use a scale of 1 to 5 where 1 is not at all confident and 5 is very confident.

CODE ONE ONLY.

1 = not at all confident	1	GO TO 2b
2	2	GO TO 2b
3	3	GO TO 2b
4	4	GO TO 2b
5 = very confident	5	GO TO 2b
DO NOT READ: Don't know	6	GO TO 2b

- 1e We understand that Christchurch businesses are in different stages of recovering from the earthquakes. Which of the following best describes your business today?

READ ENTIRE LIST BEFORE ACCEPTING ANSWER. CODE ONE ONLY.

1. <u>Surviving</u> – that is, your business is focussed on doing what it takes just to survive	1	ASK 1f
2. <u>Recovering</u> – that is, your business has passed the survival stage, but is still focussed on minimising the impacts of the earthquakes	2	GO TO 2a
3. <u>Recovered</u> – your business is as strong, or stronger, than before the earthquakes	3	GO TO 2a
DO NOT READ: Don't know	4	GO TO 2a

- 1f How confident are you that your business will still be trading in the next two to three years? Please use a scale of 1 to 5 where 1 is not at all confident and 5 is very confident.

CODE ONE ONLY.

1 = not at all confident	1	
2	2	
3	3	
4	4	
5 = very confident	5	
DO NOT READ: Don't know	6	

CATI SET-UP INSTRUCTION: IF BUSINESS AND CODE 1 AT 1e (SURVIVING) OR DON'T KNOW AT 1e, ASK 2b FOLLOWED BY 2a. IF BUSINESS AND CODES 2 (RECOVERING) OR 3 (RECOVERED) AT 1e, ASK 2a FOLLOWED BY 2b. IF TAX AGENT, ASK 2a FOLLOWED BY 2b.

- 2a What things have helped your business (IF CODE 1 OR 4 AT Q1e: survive since/ IF CODE 2 OR 3 AT Q1e: recover from) the earthquakes?

IF TAX AGENT: Now, I'd like you to think about how the earthquakes have affected your business clients. What things have helped your business clients recover since the earthquakes?

RECORD VERBATIM. PROBE FOR CLARIFICATION.

- 2b What things have made it difficult for your business to (IF CODE 2 AT 1c: resume trading/IF CODES 1-4 AT 1e: recover) from the earthquakes?

IF TAX AGENT: What things have made it difficult for your business clients to recover from the earthquakes?

RECORD VERBATIM. PROBE FOR CLARIFICATION.

TAX AGENTS, NOW SKIP TO Q5cii. BUSINESSES, CONTINUE.

Location

- 3a Since the earthquakes, has your business moved location? **IF YES, PROBE:** Have you moved once or more than once?

CODE ONE ONLY.

Yes – moved once	1	ASK 3b
Yes – moved more than once	2	ASK 3b
No – have not moved location	3	GO TO 4
DO NOT READ: Don't know	4	GO TO 4

- 3b Is your business currently located inside or outside of the CBD? By CBD, I mean the area within or on the four avenues, that is, Bealey Avenue, Fitzgerald Avenue, Moorhouse Avenue, and Deans Avenue.

CODE ONE ONLY.

Inside CBD	1	GO TO 4
Outside CBD	2	ASK 3c
DO NOT READ: Don't know	3	GO TO 4

- 3c Prior to the earthquakes, was your business located in the CBD?

CODE ONE ONLY.

Yes – was located in CBD	1	ASK 3d
No – was not located in CBD	2	GO TO 4
Don't know	3	GO TO 4

- 3d Have you relocated outside of the CBD permanently for the foreseeable future or do you plan to move back to the CBD once the rebuild provides an opportunity to do so?

CODE ONE ONLY.

Relocated permanently	1	
Plan to move back to CBD	2	
DO NOT READ: Don't know	3	

Impact on staff numbers

IF BUSINESS NOT RESUMED TRADING (CODE 2 AT 1C), GO TO 4b.

4a What impact has the earthquake had on the number of staff you employ? Have you increased or reduced the number of staff you have, or has there been no change?

CODE ONE ONLY.

Increased	1	GO TO 4c
Reduced	2	GO TO 4c
No change	3	GO TO 4c
DO NOT READ: Didn't have any staff before the earthquakes	4	GO TO 4c
DO NOT READ: Don't know	5	GO TO 4c

4b Before you stopped trading, did you employ staff?

CODE ONE ONLY.

Yes	1	GO TO 5a
No	2	GO TO 5a
Don't know	3	GO TO 5a

Business income

4c Would you say that your current business income is higher, lower or about the same as before the earthquakes?

CODE ONE ONLY.

Higher	1	
Lower	2	
About the same	3	
DO NOT READ: Don't know	4	

4d And, looking ahead over the next year or so, do you think your business income will be higher, lower or about the same as now?

CODE ONE ONLY.

Higher	1	
Lower	2	
About the same	3	
DO NOT READ: Don't know	4	

Changes in tax compliance

5a Now some questions about filing tax returns and paying tax during the period April 2011 to March 2012.

First, can I just check, did Inland Revenue give you or your accountant an extension of time for your business to file a tax return or pay tax?

CODE ONE ONLY.

Yes	1	
No	2	
Don't know	3	

5b Can I also check, did you have a payment arrangement with Inland Revenue whereby you agreed to pay off a tax debt in instalments over time?

IF NECESSARY: This is for the period April 2011 to March 2012

CODE ONE ONLY.

Yes	1	
No	2	
Don't know	3	

5ci This next question is about how well you have been able to meet your tax obligations.

By this, I mean whether your business filed its tax returns and paid its tax on time (IF CODE 1 AT 5a: or within any extensions of time given), and paid the correct amount (IF CODE 1 AT 5b: including any amounts agreed to as part of your payment arrangement).

So...would you say that during the period of April 2011 to March 2012 your business was better, worse or about the same in meeting its tax obligations compared to before the earthquakes.

CODE ONE ONLY.

Better		ASK 5d
Worse		ASK 5d
About the same		GO TO 6
DO NOT READ: Don't know		GO TO 6

5cii **TAX AGENTS:** This next question is about how well your business clients have been able to meet their tax obligations.

By this, I mean whether they filed their tax returns and paid their 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 with Inland Revenue.

I'd like you to tell me what percentage of your clients you think have been better at meeting their tax obligations during the period April 2011 to March 2012, compared to before the earthquakes; what percentage have been worse and what percentage have stayed the same.

INTERVIEWER, ENTER THREE PERCENTAGES. ENSURE THEY ADD TO 100%.

5d BUSINESS: For what reasons do you say that? **PROBE:** What else?

TAX AGENT: ASK IF PERCENTAGE GREATER THAN ZERO FOR 'IMPROVE' AT 5CII: For what reasons do you think some businesses' tax compliance has improved since before the earthquakes?

ASK IF PERCENTAGE GREATER THAN ZERO FOR 'WORSE' AT 5CII: For what reasons do you think some businesses' tax compliance has worsened since before the earthquakes?

DO NOT READ. CODE EACH MENTIONED.

Better		
Business is financially stronger/better cashflow		
Other (specify)		
Don't know		
Worse		
Lack of income/poor cashflow		
Stopped trading		
Loss of financial records		
Focussed on getting business up and running		
Premises damaged/destroyed		
Shifting premises		
Other payment priorities – e.g. staff/mortgage/food/other creditors/other debts		
Focussed on finding new contracts/work		
More tax to pay		
Accountant affected/delayed filing returns		
Other (specify)		
Don't know		

IR actions

6a What things helped you meet your tax obligations during the period April 2011 to March 2012?

IF TAX AGENT: What things do you think have helped your business clients meet their tax obligations during the period April 2011 to March 2012?

DO NOT READ. CODE EACH MENTIONED.

Advice/support from accountant/tax agent		
Turnover/income/cashflow unaffected by earthquakes		
Tax records unaffected by earthquakes		
Used <u>personal</u> savings/assets/loans		
Business had savings/assets/loans/money for tax put aside		
Didn't have much tax to pay		
Inland Revenue waived penalties		
Payment arrangement with Inland Revenue		
Extension of time arrangement to file/pay tax		
Earthquake support subsidy		
Prioritised paying IR over suppliers		

Other (specify)		
Nothing		
Don't know		

TAX AGENTS NOW SKIP TO Q6e. BUSINESSES CONTINUE.

6b In the 12 months or so following the earthquakes, did you receive...

READ... CODE YES, NO OR DON'T KNOW FOR EACH. DP: ROTATE LIST.

General business mentoring from any organisation		
A financial grant or subsidy from any organisation		

6c Now I'm going to read out some types of support from Inland Revenue. In the 12 months or so following the earthquakes, did you receive or do these things? Please answer yes or no for each one.

READ... CODE YES, NO OR DON'T KNOW FOR EACH. DP: ROTATE LIST.

Inland Revenue waived penalties for the late payment of tax		
Inland Revenue phoned you to ask how you were getting on and see how they could help		
You phoned Inland Revenue to ask for advice and assistance		
You spoke to an Inland Revenue staff member face-to-face		
You visited Inland Revenue's website		
You received a letter from Inland Revenue offering help and a phone number to call		
You saw an advertisement from Inland Revenue offering help and a phone number to call		
Inland Revenue provided you with any practical advice – this could have included things like information on the importance of backing up or saving records off site, or tax software packages		

ASK FOR EACH ITEM CODED YES AT Q6c (PLUS 'EXTENSION OF TIME' ITEM IF YES AT 5a AND 'PAYMENT ARRANGEMENT ITEM' IF YES AT 5b):

6d How helpful or unhelpful was (ITEM – SEE DESCRIPTIONS BELOW) in helping you meet your tax obligations? Please answer by using a scale of 1 to 5 where 1 is very unhelpful and 5 is very helpful.

CODE ONE ONLY.

1 = very unhelpful	1	
2	2	
3	3	
4	4	
5 = very helpful	5	
DO NOT READ: Don't know	6	

USE DESCRIPTIONS BELOW

...the extension of time from Inland Revenue to file a return or make a payment	
...Inland Revenue waiving penalties for the late payment of tax	
...the payment arrangement with Inland Revenue	
...the phone call Inland Revenue made to you	
...the phone call you made to Inland Revenue	

...the face-to-face conversation you had with an Inland Revenue staff member	
...Inland Revenue's website	
...the letter you received from Inland Revenue offering help and a phone number to call	
...the advertisement from Inland Revenue offering help and a phone number to call	
...the practical advice you got from Inland Revenue	

ASK TAX AGENTS ONLY:

6e *Now thinking ahead, what would be most useful in helping your business clients that have been affected by the earthquakes meet their tax obligations in the next 12 months?* **DO NOT READ: CODE EACH MENTIONED.**

Extension of time from IR to file a return or make payment		
IR waiving penalties for the late payment of tax		
Payment arrangements/instalment arrangements with IR		
Phone calls from IR to see how you're getting on/provide help		
Face-to-face visit with IR staff member		
Information on IR's website		
Practical advice from IR, e.g. information on backing up or saving records off site, tax software pages		
General business mentoring		
Other (specify)		
Don't know		

TAX AGENTS NOW SKIP TO 9a. IF BUSINESS NOT RESUMED TRADING (CODE 2 AT 1C), SKIP TO 8a. ALL OTHER BUSINESSES CONTINUE.

7a Compared to last tax year, do you think your business will be better, worse or the same in meeting its tax obligations this tax year, that is, during the period of April 2012 to March 2013?

CODE ONE ONLY.

Better	1	
Worse	2	
About the same	3	
DO NOT READ: Don't know	4	
DO NOT READ: Don't expect to have tax to pay		

7b For what reasons do you say that?

RECORD VERBATIM. PROBE FOR CLARIFICATION.**ASK IF CODES 2 OR 3 AT 7a. OTHERWISE SKIP TO Q8a.**

7c Now looking further ahead. Do you think your business will be better, worse or the same in meeting its tax obligations next tax year, that is during the period of April 2013 to March 2014?

CODE ONE ONLY.

Better	1	
Worse	2	
About the same	3	
DO NOT READ: Don't know	4	

Tax compliance attitudes

8a Now, I'm going to read out some statements about how some businesses feel about paying tax. Please tell me how much you agree or disagree with each statement, using a scale of 1 to 5 where 1 is strongly disagree and 5 is strongly agree.

READ. REPEAT SCALE IF NECESSARY.

DP SET UP: SCALE IS 1=STRONGLY DISAGREE, 2, 3, 4, 5=STRONGLY AGREE, DON'T KNOW

By paying tax you are contributing to New Zealand society		
You resent paying tax		
You accept responsibility for paying your fair share of tax		
Paying tax is the right thing to do		
Paying tax is important because it contributes to the Christchurch rebuild		
Businesses affected by the earthquakes shouldn't have to pay previous tax debts until they are fully operating again		
Businesses adversely affected by the earthquakes should pay a lower tax rate		

ASK IF AGREE (CODE 4 OR 5) WITH SECOND STATEMENT AT Q8a (RESENT PAYING TAX):

8b You agreed with the statement about resenting paying tax, what are your reasons for feeling that way?

RECORD VERBATIM. PROBE FOR CLARIFICATION.

Hidden economy

BUSINESSES AND TAX AGENTS ARE BOTH ASKED 9a TO 9d:

9a I now have some questions about payments businesses receive for work completed that they do not declare for tax purposes. This includes cash payments, which are sometimes referred to as payments made 'under the table'.

BUSINESSES: In your own industry, do you think these types of payments have increased since the earthquakes, decreased or do you think there has been no real change?

TAX AGENTS: Among your own business clients, do you think these types of payments have increased since the earthquakes, decreased or do you think there has been no real change?

CODE ONE ONLY.

Increase	1	ASK 9b
Decrease	2	GO TO 9c
No real change	3	GO TO 9d
DO NOT READ: Some businesses are doing it more and some are doing it less	4	ASK 9b
DO NOT READ: Don't know	5	GO TO 9d

9b For what reasons do you think there has been an increase?

DO NOT READ. CODE EACH MENTIONED.

Labour shortage/competition		
More small/cowboy operators		
Competition to win/get work		
Disorganised/busy/no time for paperwork		
Mistakes/accountant too busy to look at books		
Opportunities for it not to be noticed/slip through the cracks		
Small work contracts are not monitored closely		
Other (specify)		
Don't know		

IF CODE 1 AT 9a, NOW GO TO 9d.

9c For what reasons do you think there has been a decrease?

DO NOT READ. CODE EACH MENTIONED.

More electronic transactions/online banking		
More bureaucracy/red tape in place		
Involvement of professional organisations (e.g. CERA, EQC, HANZ)		
Large contracts/ business to business contracts/not cash		
Large companies winning tenders need correct paperwork		
IR takes action/IR visible		
Growing businesses don't want to risk it/want to do the right thing		
Other (specify)		
Don't know		

9d I'm now going to read out several statements some people have made about 'under the table' cash payments. Please tell me how much you agree or disagree with each one by using a 5 point scale, where 1 is strongly disagree and 5 is strongly agree.

READ. CODE ONE ONLY FOR EACH STATEMENT.

DP: RANDOMISE STATEMENTS

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

IF NECESSARY: By lenient, I mean less harsh or strict.

Inland Revenue should take a hard line in dealing with 'under the table' cash payments, with fines and prosecution.

ASK TAX AGENTS ONLY:

10 Finally, I'm going to read out some statements about your role as a tax agent. Please tell me how much you agree or disagree with each one by using a 5 point scale, where 1 is strongly disagree and 5 is strongly agree.

READ. CODE ONE ONLY FOR EACH STATEMENT.

<u>Before</u> the earthquakes, I used to feel I was doing Inland Revenue's job for them		
<u>Since</u> the earthquakes, I feel I'm doing Inland Revenue's work for them		
Since the earthquakes, I've been more involved in helping my clients with the financial management of their businesses		
I feel it is my responsibility to educate my clients on tax matters		
I help my clients meet their tax obligations, but I don't chase after them – they have to take responsibility		

Close

Thank you very much for completing this survey. We really appreciate the time you have given us as your opinions are very important to Inland Revenue.

As I mentioned before my name is _____ from Colmar Brunton, an independent research company. If you have any questions, please call us on toll free 0508 787 839 and my supervisor's name is _____

Appendix D. Definitions

Sudden large-scale adverse events (adverse events)

When events have large-scale adverse consequences for individuals, organisations and communities they become disasters. The more the event results in unravelling the community fabric, the greater the disaster and the harder it is for recovery to occur (Alesch & Holly, 2008; Alesch et al, 2001). The defining feature of such an event is a loss of productive capacity that is sufficiently large in relation to the income and wealth of the affected country that it reduces national consumption and welfare (Phaup & Kirschner, 2009). Disasters have a great impact on large concentrations of people, activity and wealth. Their effects spread beyond the region originally affected and they can generate widespread anxiety (OECD, 2004).

SME customers

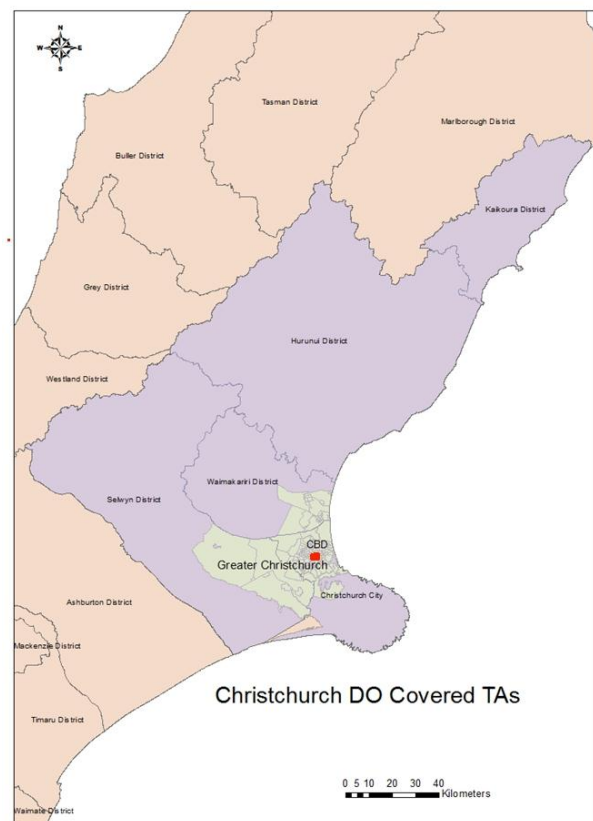
In this report, SME population is:

- All non-individual customers that are not non-profit organisations and not registered in a corporate service centre area, and
- Individual customers that are registered for tax types of 'GST' and /or 'PAYE', with annual GST turnover less than \$100 million.

The SME customers in the analysis include all active entities that meet the above definition at 4 Sep 2010. An active SME customer is defined as a client status that is 'Active' and whose tax registration is 'Active'.

Locations

- Christchurch CBD was directly impacted by the 2011 quake (four avenues and vicinity) and is defined based on a list of 120 meshblocks within Christchurch CBD;
- Rest of Greater Christchurch earthquake impacted areas excluding CBD is defined based on a list of 143 area units which exclude CBD meshblocks;
- Rest of Canterbury is defined based on IR Christchurch district office area which excludes Greater Christchurch.



Monthly Employee count

- Number of people employed by selected businesses, including part-time employees.
- Annual employee count: Number of employment time, if a person employed by a selected business twelve months in a tax year, it will be counted as 12.

Major industry sectors

- Primary (A. Agriculture, Forestry and Fishing; B. Mining).
- Secondary (C. Manufacturing; D. Electricity, Gas, Water and Waste; E. Construction).
- Tertiary (F. Wholesale Trade; G. Retail Trade; H. Accommodation and Food Services; I. Transport, Postal and Warehousing; J. Information Media and Telecommunication. K. Financial and insurance services; L. Rental, Hiring and Real Estate Services; M. Professional, Scientific and Technical; N. Administrative and Support Services; P. Education and Training; Q. Health Care and Social Assistance; R. Arts and Recreation Services; S. Other Services).
- Quaternary (O. Public Administration and Safety).
- Unknown (No sic code).

Tax debt

Tax debt is the total debt types recorded in the IR debt system. In this report, tax types limited to "PAY", "GST".

References

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