

CENTRE FOR TAX SYSTEM INTEGRITY



Small Business rural taxpayers and their
agents: Has tax reform affected
their relationship?

Marianne Savage



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TAXPAYERS AND THEIR AGENTS:
HAS TAX REFORM AFFECTED
THEIR RELATIONSHIP?**

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THE CENTRE FOR TAX SYSTEM INTEGRITY WORKING PAPERS

The Centre for Tax System Integrity (CTSI) is a specialised research unit set up as a partnership between the Australian National University (ANU) and the Australian Taxation Office (Tax Office) to extend our understanding of how and why cooperation and contestation occur within the tax system.

This series of working papers is designed to bring the research of the Centre for Tax System Integrity to as wide an audience as possible and to promote discussion among researchers, academics and practitioners both nationally and internationally on taxation compliance.

The working papers are selected with three criteria in mind: (1) to share knowledge, experience and preliminary findings from research projects; (2) to provide an outlet for policy focused research and discussion papers; and (3) to give ready access to previews of papers destined for publication in academic journals, edited collections, or research monographs.

Abstract

Prior to the introduction of the Goods and Services Tax in Australia most small business taxpayers had little if any direct contact with the Australian Taxation Office, preferring instead to employ the services of tax agents to represent them in taxation matters. With the commencement of the recent tax reform program, the Tax Office departed from its usual practice of communicating through tax agents, targeting an educational campaign directly at taxpayers. For the Tax Office, this direct communication link provided an opportunity to influence taxpayer attitudes. However, it may also have affected the relationship that previously existed between taxpayers and their tax agents, which could potentially impact on compliance behaviour.

This paper presents the findings of a field study undertaken in Proserpine North Queensland, one year after the introduction of the Goods and Services Tax. The paper first examines the relationship that existed between small business taxpayers and their tax agents in rural Australia, prior to the introduction of tax reform. It then reports on the experiences of the participants from the educational phase, through the early stages of GST and the BAS, to the current situation. This is followed by a brief discussion on what the future might hold and whether and how the relationship the participants had with their tax agents before tax reform has changed. Finally, a discussion of the possible effects of the perceived changes concludes with an assessment of the likely impact of reduced educational support and increased compliance activity by the Tax Office if directed at rural taxpayers.

The findings indicate that participants in the study experienced initial difficulties when GST and the BAS reporting requirements were introduced but that these difficulties are being resolved as they become more educated in their taxation responsibilities. It is clear that the traditional relationship between small business taxpayers in rural areas and their tax agents has changed, and these taxpayers, armed with their new level of understanding of taxation, are likely to be more demanding of their tax agents in the future. It is essential that the Tax Office is aware of, and understands these changes, and the possible consequences of moving from a supportive educational role to a strict compliance role in the future.

Small Business rural taxpayers and their agents: Has tax reform affected their relationship?

Marianne Savage

1. Introduction

Prior to the introduction of tax reform in Australia, the majority of small business taxpayers¹ were totally dependent on their tax agents² for advice and assistance when lodging their income tax returns, having no direct communication with the Australian Taxation Office³ themselves. However, apart from this ‘once a year’ activity, many had little if any contact with their tax agent at other times.

Commencing in 1999, the Australian Federal Government implemented a series of major tax reforms. These reforms included the introduction of a Goods and Services Tax (GST) from 1 July 2000, together with the requirement that most business taxpayers complete and lodge a regular Business Activity Statement (BAS) accompanied by an appropriate payment of tax.

To prepare taxpayers for the new system, the Tax Office targeted an extensive educational campaign at the taxpayers themselves, rather than relying on tax agents to disseminate this vital information to their clients. From a Tax Office perspective, every effort has been made to ensure that:

- business taxpayers are educated with regard to their GST obligations
- the BAS reporting requirements are simple and straightforward, and
- compliance costs are minimised by eliminating the need for tax agent assistance.

The clear message from the Tax Office to small business taxpayers registered for GST has been ‘You can do this yourselves! You don’t need your tax agent for this! We will help you!’

¹ For the purposes of this study, a small business is defined as one with a turnover of less than \$A2 million on their 2000 income tax return

² This term is used throughout the paper, and includes all tax practitioners registered as tax agents in Australia.

³ Referred to as the Tax Office throughout this paper.

Since July 2000 the Government has been quick to respond to perceived difficulties, making several changes to the system where it was seen to be causing problems. These include simplifying the quarterly calculation of GST, simplifying the BAS and extending the time allowed for lodgment.

The educational campaign, together with the rapid implementation of changes where needed, has had the effect of re-opening a communication channel between the Tax Office and business taxpayers. The Tax Office has had an opportunity to learn about and better understand small business taxpayers, to improve the relationship they have with these taxpayers, to improve the image of the Tax Office and positively influence taxpayers' attitudes towards compliance. Many small business taxpayers have turned to the Tax Office for advice and assistance and, as they have become more adept at completing and lodging their BAS, they are doing so without the assistance of their tax agents.

However, by actively encouraging small business taxpayers to comply with their GST and BAS obligations independently, the Tax Office may have caused a change in the relationship that previously existed between this group of taxpayers and their tax agents. As they become, at least in their own eyes, more educated and capable with regard to their taxation obligations it is possible that small business taxpayers will begin to question the need to employ a tax agent and some may attempt to comply with their Income Tax obligations without assistance.

Any change in the relationship between small business taxpayers, their tax agents and the Tax Office has the potential to affect compliance behaviour, either intentional or unintentional. Ensuring ongoing compliance may depend on the Tax Office continuing to pour resources into education, and supporting this group of taxpayers in their efforts to comply. However, the current level of assistance may not be sustainable in the long term and the Tax Office may need tax agents to once again take on the primary role of advising and assisting their clients with their taxation affairs. Dissatisfaction with their tax agents' accessibility, service or fees could see these taxpayers decide to bypass their agents, choosing instead to deal directly with the Tax Office. Should this occur, a lack of commitment and/or ability to 'go it alone' on their part could pose a real threat to

compliance. In addition, in the absence of ongoing educational support, any lack of adequate compliance activity will prevent the Tax Office from monitoring the extent of the problem and taking steps to maximise compliance levels in the future.

It must be recognised, however, that the impact of the Tax Office's educational efforts on the taxpayer-tax agent relationship will not be the same throughout Australia. Rural areas present a significant challenge, given their comparative isolation, limited access to tax agents, the continuing reduction in Tax Office services, together with a lack of affordable and adequate communication facilities.

Anecdotal evidence from Tax Office field staff in North Queensland indicates that the introduction of tax reform, in particular the Tax Office's educational campaign, has caused a change in the relationship some small business taxpayers in rural areas have with their tax agents. Some taxpayers are content to leave the new reporting requirements to their agent. They expect their agent to provide this additional service and are prepared to pay for it. However, others, now better informed about their taxation obligations than ever before, are said to be disillusioned with their agents for a variety of reasons, which include a decline in service, inaccessibility and the perceived increase in the level of fees being charged. While some are prepared to 'shop around' for an agent who will provide an acceptable level of service at a reasonable price, others are re-thinking the whole issue of using a tax agent at all.

This paper reports on a recent exploratory study undertaken in North Queensland to establish whether the relationship between taxpayers and their tax agents is changing within an identified rural population of small business taxpayers. The study seeks to explore the nature of those changes and assess their likely impact on future compliance.

Before presenting the study and its findings, the paper reviews some current literature on the relationship between small business taxpayers, their tax agents and the Tax Office. This is followed by a description of the goals of the study and its methodology. The interview findings are then presented and discussed, followed by stories told by participants which

indicate that, while they perceive that others are experiencing problems, they consider themselves to be coping quite well.

In conclusion, the paper explores the possible impacts of this changing relationship on compliance, and suggests that the Tax Office might take alternative approaches to ensure that small business taxpayers in rural areas are encouraged and supported in their efforts to comply with their tax obligations.

2. Literature

Since the introduction of self assessment in 1986, the number of Australians using the services of a tax agent has risen dramatically from approximately 20% in 1980 to 72% in 1992 and 77% in 1999. (Boreham, 1994; Marshall, Smith & Armstrong, 1997, Sakurai & Braithwaite, 2001). According to Tan (1999), owners and managers of business firms are most affected by the growing complexity of tax laws, turning to tax practitioners for advice and assistance in meeting their tax obligations. Tax Office statistics show that in 1992, 93% of individuals who received business income lodged their return through a tax agent (Bird, 1994). Braithwaite (2000) supports this, reporting in the Australian based *Community Hopes, Fears and Actions Survey* that 89% of business taxpayers who responded used a tax agent to prepare and lodge their 1999 Income Tax Return.

With the commencement of tax reform, the Tax Office launched an extensive education campaign designed to assist business taxpayers in the transition to the GST and regular BAS reporting. The extent of the campaign can be seen by examining the Commissioner of Taxation's 1999-2000 Annual Report, which states that:

In relation to the new system alone, our tax officers responded to more than 2.4 million telephone enquiries and about 39 000 written or e-mail enquiries. More than 12 million publications, fact sheets and booklets were distributed ... More than 200 000 people attended 1000 seminars conducted by us across Australia. Videos were provided to business, and our tax reform website had more than 100 million hits (p. 2).

In addition, it reports that 156 000 requests for GST advisory visits were received during the year. The Commissioner's 2000-2001 Report confirms that ongoing support has been provided, stating that:

... We conducted 232 000 advisory visits and around 27 000 one-on-one BAS help interviews. We also responded to ... 4.1 million phone calls on GST related matters and more than 68 000 written requests for technical advice (p. 2).

Thus, in addition to being passive recipients of information, business taxpayers have been pro active in seeking assistance from the Tax Office in the past two years.

Clearly, compliance with a new tax system is unlikely to occur unless taxpayers have a sound understanding of what is required of them. The purpose of educational campaigns is to meet this need, but does not, of itself, ensure continued compliance. Indeed, evidence gathered in an earlier Australian study (McKerchar, 1995) suggested that educating taxpayers may not be the most effective strategy for improving compliance. While agreeing that they may be influenced by Tax Office activity such as public education, the study concluded that:

... Once small business taxpayers believed they understood what was required of them they did not go back and reconsider their practices, seek advice or revisit the documentation provided by the ATO. As a result many were unaware of subsequent changes or misinterpretations they had made initially (p. 35).

With regard to GST and BAS reporting, it is imperative that taxpayers are encouraged to keep up to date with recording and reporting requirements. The McKerchar study supports the notion that, unless tax agents are willing and able to fill the gap, the eventual withdrawal of educational support by the Tax Office could have a negative impact on compliance, albeit unintentional.

Other research raises questions about whether some groups in the population are less willing or able to learn about taxation than others. The *Community Hopes, Fears and Actions Survey* (Braithwaite, 2000) raised concerns about the willingness of small business and rural taxpayers to cooperate with the Tax Office. In their analysis of the results of the

study from a rural perspective, Morgan and Murphy (2001) found that taxpayers who live in rural communities are less educated than urban taxpayers and:

... are more likely to question the legitimacy of the Tax Office as a fair institution, and as a result have distanced themselves from the Tax Office and their obligation towards paying tax (p. iv).

In support of this argument, Hawkins (1984) found that in an environmental regulatory context, people who live on the land are characterised by regulatory officers as particularly troublesome, and Coleman and Freeman (1997) have also reported that people living in rural sectors are more hostile towards Government.

Conversely, Blondell (2000) found that tax reform has placed added pressure on many rural businesses saying that ‘the onerous compliance and education issues that go with tax reform could be the straw that broke the camel’s back’.

Whichever view is correct, it is essential that the Tax Office recognises the need to take appropriate action to assist this group of taxpayers in their attempts to remain compliant.

In the past, the central role of tax agents was as major providers of tax information for their clients. With this in mind, there were serious concerns among tax agents prior to the introduction of tax reform about how they would cope with the demand made on them by their clients, as a result of the impending changes. Rowland (1999) predicted that:

Grappling with all the developments faced by the (accounting) profession as we head into the next century, while still dealing with tax as it already exists in this century will be an enormous task (p. 45).

Rowland also suggested that the burden on tax agents to learn and keep up to date with developments would be so great for some as to be intolerable. Tax agents were already anticipating the complexity of tax reform and the difficulties they might face in providing an adequate service to their clients, which raises the question of whether the agents themselves received sufficient support from the Tax Office during the introduction of GST.

While this is not a topic which will be addressed in this paper, the results of the study will indicate how participants felt their tax agents coped with the changes.

The interdependence of the Tax Office, tax agents and taxpayers is such that any change in the system is likely to affect the nature of the relationships between them. Renshaw (1999) pointed out that one of the principal issues for tax agents was their relationship with their clients. He suggested that, with the introduction of GST, they as professional advisers, would be the first source of information for the majority of those clients and warned of the need to be able to provide GST advice. At that time, it appears that the vast scope of the Tax Office education campaign directed at taxpayers was not fully appreciated by tax agents, and they were expecting an increase in business activity. Renshaw suggested that 'the accounting profession is at liberty to set fees at an appropriate level as provided by a competitive marketplace' (p. 186). This is an interesting statement, which may have encouraged tax agents to increase their fees to reflect the perceived complexity of the GST and BAS reporting.

The pressure that tax agents expected from their small business clients with the introduction of GST, was not without foundation. According to Thomasic (1991) smaller accounting firms tend to deal directly with the owners of small business which places them far under greater pressure from their clients than larger firms who deal with large corporate clients represented by an employee having no financial stake in the advice being given. This is particularly relevant in rural areas where the majority of small business taxpayers use a local agent, who is often a friend and may be a well known and respected member of the local community.

According to Tan (1999) there are many factors which are taken into account by a business when deciding to retain or terminate an adviser, including the magnitude of fees, the quality of service, the degree of interest in the client's business and communication skills. Of particular importance in the decision to retain or change tax agent is the working relationship that exists between the taxpayer and the agent. A study of small businesses in New Zealand by Cameron (1992) found that clients change accountants if they believe they are receiving poor service or if the 'personal chemistry' is not good. The converse is

also true. Clients tend to be loyal to their agent if a good working relationship is maintained. It would appear, therefore, that if taxpayers feel that their tax agent has 'let them down' in relation to the GST and/or the BAS, the damage caused may result in their seriously considering the need to change tax agent or to take responsibility for their own taxation obligations.

In their paper on rural taxpayers' attitudes toward the Australian tax system, Morgan and Murphy (2001) also acknowledged the importance of the role of tax agents, stating:

People living in the country will now have to look to their accountants and advisers (which is an additional financial burden) to provide them with assistance and education to comply with the range of tax changes that have come into effect (p. 4).

In summary, the literature recognises that, in the recent past, most Australian taxpayers with business income used a tax agent to assist with their taxation obligations. Tax professionals anticipated a difficult time keeping up to date with tax reforms, but assumed that they, and not the Tax Office, would be the first source of information and advice for their clients. However, the Tax Office launched an extensive education campaign, providing taxpayers with a variety of educational information, and responding to requests for assistance from those taxpayers who were proactive in requesting help.

McKerchar's study has suggested that educating taxpayers may not be the most effective strategy for improving compliance. Taxpayers need continuing support, and there could be negative consequences for the Tax Office if it cuts back on the type of personal assistance available to taxpayers since the introduction of GST. There are various factors influencing taxpayers in retaining or terminating a tax adviser, and taxpayers in rural areas who are said to be less well educated and less committed to the tax system than urban taxpayers, present a particular challenge for the Tax Office. If the close relationship, which has developed between small business taxpayers and the Tax Office, cannot be sustained, is their relationship with tax agents sufficiently stable and enduring to fill the gap in the future?

If small business taxpayers in rural areas continue to require assistance with their GST and BAS obligations but are not committed to the tax system, any withdrawal of Tax Office support if accompanied by a deteriorating relationship with their tax agents, must jeopardise their capacity to comply in the future.

3. The study

Much attention has recently been given to the difficulties faced by rural Australia. This study therefore focussed on the impact of tax reform in rural Australia where expertise is likely to be scarce and resistance high (Morgan & Murphy, 2001).

The objectives of the study were to:

- (a) understand the factors that drove taxpayer/tax agent relationships in rural areas prior to the introduction of the GST.
- (b) examine the impact of the introduction of the GST, and the Tax Office's educational campaign on the small business taxpayer/tax agent relationship in rural areas.
- (c) assess whether or not appropriate support mechanisms are in place to assist this group of taxpayers in their attempts to comply with their tax responsibilities in a self assessment environment.

The study was conducted in a small rural town in North Queensland, using interviews and short questionnaires to gather information and opinions. The results of these activities were analysed to first identify the issues affecting the relationship small business taxpayers in rural areas have with their tax agents. The likely consequences of observed changes to that relationship were then examined, and the impact of the Tax Office educational initiative on taxpayers' confidence to cope with the new reporting requirements were assessed.

Context of the study and its design

Proserpine was identified as being representative of many small rural communities in North Queensland. Although not regarded as really remote, it typically does not have the range of services available in the larger towns and cities in Queensland.

Proserpine is located on the Bruce Highway, 1120 km north of Brisbane. The closest large towns are Mackay, 1½ hours⁴ south, and Bowen ¾ hour to the north. The closest city is Townsville, which is 3½ hours up the road. Proserpine is the administrative centre of the Whitsunday Shire. The Shire has an estimated population of 15 500 (AECeconomics, 2001), and with the major industry in the region being sugar cane production and milling, the town is dominated by the Proserpine Co-operative Sugar Mill. However, the region is probably better known for its tourism, centred around Airlie Beach, 26 km away on the coast. The area boasts over 450 businesses, but most are very small with over 60% employing less than five workers and 90% having fewer than 20 employees (AECeconomics, 2001).

Tax Office records currently show ten tax agents registered in the locality while the 'Proserpine & Whitsunday District Telephone Guide' lists nothing under tax agents but has eight Accountants listed, four in Airlie Beach, three in Proserpine and one with offices in both locations. Of those listed, one has now left the area and another, who previously had offices in both locations, has closed the Proserpine office. In addition, at least one entry relates to an accountant who has an office elsewhere and only operates in Proserpine one to two days a week. There is also one tax agent not listed who has recently set up practice in the town.

In summary, there are eight accountants actively offering their services as tax agents in the area but only three appear to have offices in Proserpine.

The Target Population

Purposive sampling (Sarantakos, 1993) was used to select participants based on the following characteristics, considered the most likely to influence the relationship that exists between small businesses and their tax agents:

- Size of the business –level of turnover
- location of tax agent – local, remote or interstate
- BAS lodgment pattern - monthly or quarterly

⁴ Approximate driving time.

Large businesses were not included in the study, as they tend to employ staff specifically for record keeping purposes. The record keeper is likely to have adequate record keeping skills, resulting in less reliance on the tax agent to assist with the BAS. As a result, irrespective of whether the BAS is lodged monthly or quarterly, the physical location of tax agent is not critical.

Smaller businesses tend not to have a regular or qualified record keeper and may need more assistance from their agent to comply with their BAS obligations. Prior to tax reform, they would have only used a tax agent to assist in lodging their income tax return and the location of their tax agent may not have been important. With the need to lodge a regular BAS, the ability of their record keeper and the accessibility of their tax agent become far more important, particularly for those who are lodging their BAS monthly.

The study focuses on businesses with the following profile:

- Business location within Postcode 4800 (Proserpine and close surrounds)
- With an Australian Business Number (ABN) and registered for GST
- Business income in 2000 < \$2 million
- Tax agent lodged the 2000 Income Tax Return

It was decided to concentrate on businesses with income below \$2 million and registered for GST as these businesses are more likely to have been affected by the introduction of tax reform. They have less staff, less sophisticated accounting methods and likely to have been less self reliant with regards to taxation in the past.

Using Tax Office data, 267 businesses were initially identified within the postcode and further analysis divided them according to income, location of tax agent, and BAS lodgment pattern.

After careful scrutiny, 58 businesses were rejected as unsuitable, leaving a pool of 209. Thirty of those rejected had business income below \$6000 with other reasons for rejection including: duplication (two ABNs with same business owner), current compliance activity

by the Tax Office, bankruptcy, cancellation of registration, and a business address in Proserpine but the taxpayer living outside of the area.

Sample Selection

The study was based on 20 interviews, which is approximately 10% of the pool.

Letters on Tax Office stationery were sent progressively to 109 businesses (52% of the pool), explaining the nature of the study and inviting participation. The aim was to obtain interviews with as representative sample as possible, given the fact that only 20 interviews were planned.

Of the 109 businesses contacted, two letters were returned as unknown and only two business representatives called to volunteer an interview. The remainder of the interviewees were persuaded to participate through follow up phone calls, but it was not easy to reach the magic 20! Some claimed never to have received a letter. Some were no longer in business. Some were too busy with school holidays/the end of the financial year/the beginning of the cane season and so on. Some were simply too busy as sole traders, or the person who dealt with the agent had a full time job elsewhere and was too tired to participate after work. Some were in hospital or out of town, and one, while expressing a desire to help, kept stalling until the researcher gave up calling for fear of being accused of harassment! Many never answered the phone, or responded to messages left on the answering machine, and some promised to call back but never did. Several phone numbers had been disconnected, and in some cases it proved impossible to locate a phone number at all, which is strange for a business. Twenty may not sound many, but for a while, it certainly seemed unachievable!

A courtesy letter was also sent to the tax agent of each business contacted, explaining the nature of the project and providing contacts at the Australian National University to verify its authenticity or obtain further information if required. Forty-eight tax agents were contacted and interestingly, none responded, although one of the letters was returned

unknown (the agent who had left town) and one businessman told the researcher that he checked with his agent prior to agreeing to an interview.

It is acknowledged that those interviewed may not be representative of all small business taxpayers in rural Australia. In particular, their willingness to participate must bias the results to some extent. However, statistically, they are fairly representative of the small business population in Proserpine, as can be seen from the table appearing as Appendix 1. The major discrepancy is with regard to income as it proved very difficult to gain the participation of those with business income less than \$50 000. Surprisingly, this group makes up 46% of the total pool, even though, in most cases, it is optional for them to register for GST. By comparison, larger businesses were more willing to participate, mainly due to the presence of a full or part time record keeper, often one of the owners of the business.

Procedure

The study was made up of two components. First, interviews were conducted with 20 business representatives. Participants were then asked to complete and return a questionnaire containing a subset of relevant questions from the *Community Hopes, Fears and Actions Survey* (Braithwaite, 2000).

Interviews

Interviews lasting from 45 minutes to two hours were conducted with representatives of 20 businesses. Although not formal interviews, they were structured to ensure coverage of a range of pre-selected topics as well as allowing other issues to emerge. In general, the interviewee was the proprietor of the business, although in several cases others, such as spouse/partner/employee were also involved in the conversation, and often expressed very different views, all of which were recorded and incorporated in the results.

The interview schedule covered the following topics:

- | | |
|---|--|
| (a) The nature of the business | (b) The record keeper and records kept |
| (i) Size, employees, industry | (i) Qualifications and experience |
| (ii) Complexity with regard to GST | (ii) Computerised or manual system |
| (c) The tax agent | (d) The BAS |
| (i) Location | (i) Preparer |
| (ii) Length of relationship/recent changes | (ii) Assistance from agent |
| (iii) Services provided prior to tax reform | (iii) Future plans |
| (iv) Assistance with GST | |
| (v) Current services provided | (e) The Tax Office |
| (vi) Fees | (i) Previous contact |
| | (ii) Assistance with GST |

All those interviewed agreed to be recorded, although one tape proved difficult to transcribe due to the quiet voice of the interviewee. On another occasion the tape was put on pause due to an interruption and then not switched on again until the interviewer remembered about it some time later! In all, 18 of the tapes were fully transcribed and analysed under several major headings to assist with collation and interpretation of the results.

All but one interviewee expressed an interest in receiving a copy of the final report.

Questionnaires

In order to establish how the participants in this study compared to rural small business nationally, all those interviewed were asked to complete and return a short questionnaire, replicating the questions concerning tax preparation and tax advisers in *The Community Hopes, Fears and Actions Survey* (Braithwaite, 2000, see Appendix 2).

Of the 20 interviewees, 14 responded, and their answers were analysed and compared with those obtained in the national survey (see Appendix 3). The Proserpine taxpayers proved to be more conservative when assessing their understanding of what the tax office expected of them. However, a higher percentage considered themselves good record keepers and fairly competent to do their own return, which they do not put off until the last minute. Because of the selection criteria, they had more assistance from a tax agent when preparing

their returns (100%), but also had more help from employees, business partners, family and friends, and the Tax Office. The areas of most difference were:

- (a) Having a tax agent who is clever at minimising tax.

This quality was of more importance in Proserpine than nationally, which supports Morgan and Murphy (2001).

- (b) Having a tax agent who deals with problems, does their tax honestly and with the minimum of fuss and without taking risks.

These were all high priorities nationally but the top priorities in Proserpine, which supports Sakurai and Braithwaite (2001).

- (c) Having a tax agent who knows what the Tax Office is checking.

This was a low priority in Proserpine, but high elsewhere.

Although there were differences between the small group in Proserpine and the rural businesses who responded to the national survey, this may, in part, be due to the small sample size in Proserpine and the bias created by their initial willingness to participate in the study. There is nothing in the results to indicate that the Proserpine taxpayers are vastly different from the national sample so it is assumed that they are fairly representative of small rural businesses as a whole.

4. Interview Results and Discussion

In order to establish whether there has been a change in the relationship between small business taxpayers in rural areas and their tax agents, interviews were conducted with representatives of 20 small businesses in Proserpine, and their responses were analysed to determine the following:

- The nature of the relationship which existed prior to the introduction of GST
- Their experiences throughout the educational phase of tax reform
- The level of assistance expected and received in the early stages of GST and preparation of the BAS
- The current situation
- Future directions

4.1 The relationship prior to GST

Participants were asked to talk about the relationship they had with their tax agent prior to the introduction of GST. This is important, as it demonstrates the level of loyalty they had towards their tax agent prior to tax reform. It also helps to establish the level of service and fees they had come to expect in previous years, which may have affected the expectations they had of their tax agent once the educational phase of tax reform commenced.

4.1.1 The loyalty factor

Other people think anyone in Proserpine, be it a solicitor or accountant or doctor or dentist, can't be any good. We are fine with ours. I can't see the point of having one far away. You need to be able to get to them (Interview 4).

I have an accountant in Bowen. It's good for me when it's not in this area. I've been with them for 15 years. We've got a fairly good one-on-one relationship, which I think you need (Interview 19).

This year we've decided to change. Our agent closed the Proserpine office and I'm one for sticking locally, because that's where our bread and butter comes from, and that's why we changed (Interview 14).

Because of the criteria for selection, all participants in the study have used a tax agent to assist with their annual tax obligations in the past. Several have had the same tax agent for many years, whereas others have recently changed agent or are actively considering it.

Immediately prior to tax reform, eight participants had tax agents outside the local area and others indicated that they previously had a remote or interstate agent. Although some said it might have been more convenient to have a local agent, it was not considered to be a major problem in the past. Three participants said they like to have a remote agent because they have no confidence in any of the local agents, while two participants on moving their businesses to Proserpine, changed to local agents because they felt it would be convenient to have an agent near by. One participant stayed with the same agent even when they closed their Proserpine office, because she has been with them for over 25 years and likes

to work with someone she knows, while another chose to change agents under similar circumstances.

Those who have changed, or are considering changing tax agents had obviously put a lot of thought into it, gaining information and opinions from business acquaintances, evaluating the service they require and comparing fees. Several participants complained about high fees in the past, and had changed or were changing agents as a result. However, one of them rejected an agent for being too cheap, his rationale being:

If he's going to do it for half the price of the other fellows then he's desperate, and he's likely to go out the door next year. You don't change your agent like changing your shirt! You can't go to a different one each year, you want some continuity (Interview 12).

In general, the participants valued being able to speak directly to the tax agent rather than an employee, or at least to the same person every time, and appreciated a speedy response to queries. They liked to be seen as a client rather than just a number on a piece of paper and wanted value for money, receiving the level of service they expected for a reasonable fee. In some cases the level of service expected was quite basic, just to do the tax returns and nothing more.

4.1.2 The basic service

Before GST he just did the once a year books. I'd just take the statements and all the receipts, pass that to the accountant and he would crunch through all that and come up with an annual return (Interview 20).

I just went with all my tax stuff and gave it to them. We gave him about a month to do it and then we made an appointment, and he had everything ready for us to go ahead (Interview 8).

I normally send all the stuff down – just the piles of paper – and he goes through it (Interview 13).

All participants used a tax agent to prepare and lodge their annual returns, however, the extent to which they were used for this purpose varied greatly. The record keeper's ability in many cases determined the amount of work performed by the tax agent. The expectation of those with basic records was that, having done what they could (or would), everything was handed to the tax agent who then prepared the income tax returns. Most of those with computers spoke of printing reports and sending them off, or of the agent attending the business and printing off what was needed. Only one participant was required, due to the nature of his business, to have an audit.

Two participants, both employing a qualified part time bookkeeper, described the agent's input as minimal - merely rubber stamping and lodging the returns. At the other extreme was the sole trader who previously kept everything in a box - just piles of paper - and sent it off at the end of the year for the agent to sort out. That has all changed since the introduction of GST, with his partner keeping 'proper' records on the computer.

Only two participants, both with turnover in excess of \$700 000 spoke of the tax agent reviewing their records throughout the year, but several mentioned additional services provided by their agents.

4.1.3 Extras

Before tax reform they just did our tax returns. Usually they'd give you a comparison with the year before. It was useful but they didn't talk to us about it, just gave it to you and let you make your own decisions (Interview 12).

They have a newsletter – every now and then we get one (Interview 2).

We don't ask him for advice – we just regard him as someone who does our tax. Just 'Here it is – sign it!' If his figures are right and our figures are right, we don't need any advice (Interview 20).

Three participants indicated that all they wanted and received from their agent in the past was the completion of the necessary accounts and tax returns. However, the record keeper of one such business expressed dismay at this, considering that additional services would

be beneficial. Several agents discussed the annual results with their clients, making comparisons with previous years and also with other similar businesses. This extra service was considered helpful by all who received it.

Some agents sent out a newsletter, but opinions differed as to its usefulness. While some found it interesting and informative, others considered the information irrelevant to their business.

The most commonly provided advice, at the request of the taxpayer, was financial advice concerning whether to lease or buy new equipment. Several participants also told of their agent assisting them in setting up or restructuring their business. In one case the agent was highly praised for preparing financial information for a legal case and appearing as a witness.

The most negative comments were made by three participants, concerning unsolicited investment advice. Their feelings were that if they wanted that sort of thing they would ask for it. But they don't want it!

Only one participant used two tax agents, one for the business and another for personal taxes. She had considered putting everything in the hands of one agent but concluded that having two sources of information was excellent. If she gets advice from one and is concerned about its accuracy she just calls up the other one for confirmation. According to her 'It is always exactly the same!' so she is very happy with the arrangement (Interview 4).

Summary

Prior to the introduction of tax reform, participants were loyal to their tax agent, most having had the same agent for over five years. Apart from when preparing their annual accounts and income tax returns, most of them had no other contact with their agent, unless they requested assistance. While receiving what they perceived as adequate service and not

paying more than they considered reasonable, they were content to stay with the same agent. Having a remote agent was not perceived as much of a problem.

While this may indicate satisfaction, it could be that even when not entirely satisfied with their agent, with such limited contact taking place, it was simply too troublesome to make a change. As will be seen below, opinions changed with the introduction of the GST and the BAS reporting requirements.

4.2 Experiences through the educational phase

The participants obtained their knowledge from a variety of sources, including their tax agent, the Tax Office and industry sources as well as from friends, family and business acquaintances.

4.2.1 The tax agent

All the information went to him first and then he forwarded it on to me. We read it and what we weren't sure of we went to see him about and he helped us out. It was up to us to decide whether we wanted any help (Interview 8).

They invited us down to a free conference – it was about three hours it was quite good (Interview 1).

There was only one bit of advice the agent gave me and I didn't think it was right. I didn't expect a lot because at that time it was still early days and I figure they didn't have a lot of experience anyway. We were all in the dark to start off (Interview 9).

The vast majority of participants received and accepted offers of assistance from their tax agent although two were obliged to request assistance. One claimed not to need assistance as he had a qualified bookkeeper, however, it transpired that the bookkeeper had been in touch with the tax agent on several occasions.

Many agents ran seminars for their clients which were generally well received, but surprisingly only five participants claimed to have had a private meeting with their agent to

discuss their particular requirements. Three participants with remote agents expressed disappointment at not being able to attend seminars or individual sessions with their agent, although they had attended seminars locally.

Three participants mentioned satisfaction concerning the assistance given by their tax agent in adjusting their Pay As You Go (PAYG) instalment rate and most declared that they had phoned their agent on numerous occasions for advice and assistance.

The level of satisfaction with the assistance given varied from excellent to very poor. Some asked the agent questions and got the answers they needed but would have appreciated more explanation. Several mentioned occasions when the answer they received proved incorrect. This indicates an increasing interest in, and awareness of taxation issues among the participants as the educational process advanced. The level of tolerance towards tax agents giving incorrect information, or having to find out and get back to the client later, was surprisingly high. One participant said in connection with the GST, 'I don't think they knew what they were doing at the time', but about the agent in general, 'I'm satisfied with what they do' (Interview 13).

4.2.2 The Tax Office

All the booklets that came through were like a bible. All the discs came to me. Three of everything, but they were all for separate ABNs so who was to realise? I found it all useful and I still have it and still look it up – it's really good (Interview 14).

We had an advisory visit. She was good. I took lots of notes. I found it good (Interview 13).

The reason I went with the Internet rather than phone is the one time I did phone I got put on hold for 20 minutes and the person who helped me didn't have a clue what they were talking about (Interview 17).

The majority of Tax Office publications initially went to the tax agents. Some agents passed everything on to their clients, some passed on nothing and some passed on what

they considered important. One participant was happy to have the material screened by his tax agent, two others were unhappy that it did not come direct to them, and others were quite overwhelmed by the quantity of material, which made it difficult for them to decide what was important. Several felt that the material was too general for their needs, preferring, where possible, to consult their tax agent who could give specific advice about their business.

Half of the participants attended Tax Office presentations but only six had advisory visits. Several others had thought about having a visit, but when GST started they felt they didn't really need it. While some found the visits helpful, others were unimpressed with the knowledge exhibited by the advisory officers and did not display the same tolerance as that extended to their agents.

The area causing most dissatisfaction was the phone helpline. Many had tried it, several had trouble getting through and nearly all complained about the contradictory answers they received. One participant, operating a business which is complex with regard to GST, told of requesting written confirmation of the status of some of his products. He was told that could not be done by phone, which he felt was unsatisfactory. He could not understand why someone would give him verbal advice and then refuse to put it in writing. He was advised to put in a written request for advice, which he did but:

It was actually five weeks, but it was also about 6 phone calls by me and the agent called them three times and the Ombudsman twice, before we got a reply. I understand they were swamped, but the thing was, there was never an indication when we rang to say it's going to take a while, or it's going to take so long. It's a basic PR thing (Interview 15).

4.2.3 Other influences

I thought the Cane Growers⁵ would put more out on the GST but I suppose they reckoned it was a government thing (Interview 1).

⁵ The Canegrowers Association, an industrial organisation looking after the interests of cane growers.

The taxi industry had some material and they ran seminars. And there was a bloke too – he owns a cab and he came here twice – he ran a small seminar, but that was early ... when you combine that with what the tax office sent out I was able to work things out (Interview 9).

Talking to a few people that I knew who were in small business-they gave me some information and I picked it up and ran with that (Interview 13).

While acknowledging the assistance from their tax agent and the Tax Office, several participants expressed disappointment at the lack of industry assistance. The taxi industry provided excellent support but the cane industry was seen as doing nothing, although the researcher is aware of sessions run by the Tax Office at the request of the Burdekin Sugar Experimental Station (BSES). Several participants mentioned attending seminars run by the Queensland Chamber of Commerce and Industry (QCCI) which were well received by all.

Computer consultants provided assistance to those using their programs, and of course, people talked among themselves, with friends, business associates and relatives, some of whom had sufficient knowledge and, more worrying perhaps, some who did not! As one participant said:

There was a massive amount of information and disinformation thrown at you in the first place (Interview 19).

Summary

In general, the participants appreciated the Tax Office's attempts at education, but while they found it useful to contact the Tax Office for general information, when they attempted to obtain specific information often became frustrated. As a result, most turned to their tax agent for specific advice for their business. The bookkeeper of one business claimed to use the Tax Office where possible, rather than the tax agent, because it was free. Those who decided to deal with the BAS themselves appeared to have made the most use of Tax Office assistance.

Most participants seemed to have received sufficient information and advice to cope with the GST and BAS reporting, but they were then faced with translating the theory into practice.

4.3 The early stages of GST and the BAS

I get on the phone quite often if I've got any questions I need to ask. I did have plenty with GST. They did ring me a couple of times to see if I had problems and could they help me in any way (Interview 16).

He came and went through the BAS with me. The first quarter he came here and went through it all with me. The second time I worked it out and had him come and check it (Interview 18).

We never involved him with our BAS. We might have asked him once for a bit of advice in the first one. If there are any new events he keeps tabs on it and let's us know how it might impact on us (Interview 6).

Although it may have seemed straight forward in theory, it is widely acknowledged that with both Taxable and GST free acquisitions to be identified, and transitional arrangements for goods and services spanning the implementation date, the first quarter of GST was anything but simple.

Those businesses dealing in mixed supplies had an added complication, needing to ensure that they charged the correct rate of GST (either 10% or GST free) and passed on the correct amount to the Tax Office. Of the businesses that took part in the study, four involved the provision of mixed supplies and all related the initial difficulties experienced when classifying their goods and services as either taxable or GST free.

Four businesses with computer records reported problems with their programs in the early stages while those with inadequate records prior to GST complained about the extra work needed to comply with their BAS requirements. Several reported frequent calls and/or visits to the tax agent at the beginning, although one record keeper considerably said:

I didn't want to worry the tax agent too much. He was under extreme pressure so I went to the tax office as often as I could (Interview 5).

Several participants called on the Tax Office for assistance and two remarked on the usefulness of BAS Basics, a publication sent out by the Tax Office each quarter with the BAS.

At the recommendation of their tax agents, four participants had opened a new bank account, planning to deposit money regularly to pay their tax at the end of each quarter. This worked well for three of them but not for the fourth who said 'I opened a GST account with the bank but I've never put anything in it' (Interview 19).

The assistance given by the tax agent in completing the first three BASs varied greatly:

- Seven interviewees prepared their BAS without the assistance of their agent right from the start, although three of these had assistance from a friend or relative. In general, these participants were confident of their ability, two claiming to have had no problems. However, two of these participants had been contacted by the Tax Office concerning BAS errors.
- Three had assistance from their agent for the first BAS and since then, two have prepared the BAS themselves, while the other has failed to comply
- Three had assistance from the agent for the first two and completed the third alone
- Six had assistance from the agent for the first two and had the agent check the third
- One has had all the BASs to date prepared by their tax agent, which they claim, was due to computer problems preventing them from doing it themselves.

Several participants complained about the fees charged by tax agents in connection with the BAS. The amounts reported ranged from \$40 to \$700. Others found difficulty contacting their agent immediately when they required assistance, or found they must 'make do' with an employee, rather than speak directly to the agent.

In this study, no attempt was made to assess the accuracy of record keeping or the real ability of the participants to successfully complete their BAS. It would be pleasing to think

that, where the tax agent prepared or checked the BAS, that ensured accuracy, and several participants alluded to the fact that their agent checked the records and assisted them in making corrections. However, there is no obligation on tax agents to ‘audit’ the records and it is the taxpayer rather than the agent who is held responsible by the Tax Office for errors. This fact had been mentioned in BAS Basics, and prompted one participant, who claimed to have paid his agent \$700 per BAS, to ‘go it alone’ for his third BAS with the assistance of a bookkeeper rather than the tax agent.

Summary

The early days proved quite stressful for most participants but only four complained about the Government causing them extra work. The others had previously kept good records, or were appreciative of the added benefit to the business of being obliged to keep better records. When completing their first BAS, participants varied in the amount of assistance needed from their tax agent, some managing alone while others needed quite a bit of help. Apart from the fees charged, none complained about the service they received from their tax agent in the early days, once again appearing sympathetic to their plight. However, one participant with a manual record keeping system and an interstate tax agent, while not dissatisfied with his agent, found it difficult to manage and decided early on that he needed to change to a local tax agent.

4.4 The current situation

They come in when it's BAS time and see I've done everything right. I haven't had any trouble with the BAS. The most trouble I've had has been in my head thinking it's going to be a lot of trouble (Interview 4).

We do the BAS quarterly and it's due yesterday. I might get it done by the end of the week. The hard bit is getting all the tax invoices together (Interview 12).

I do the BAS. I've done it right from the beginning, even the very first one. I double checked. I didn't believe my computer so I did it all manually and it all worked out. I'm happy now that the computer's giving me the right information (Interview 16).

Of those businesses trading in mixed supplies, none expressed ongoing problems so it is assumed that, from their point of view anyway, they are now coping adequately.

Two participants admitted to being behind with their BAS lodgment, one by only a few days, but the other having failed to lodge any but the first quarter.

Several had considered using the simplified system, paying the same amount of GST every quarter and then lodging a year-end BAS, but, all but one rejected the idea. Most said they have got used to it now, their record keeping is providing the necessary information and they prefer to pay the correct amount as the year progresses. Those in the cane industry have some quarters where they are entitled to a refund, so they decided not to change for that reason.

At the time of this study, conducted when the fourth BAS for the year was due, two additional participants had decided they would prepare it themselves. Three claimed not to be quite confident enough yet, with one of those (the participant who had paid \$700 per BAS) planning to get the Tax Office to check it, rather than the agent. He is also actively looking for a new tax agent. Two other participants, both currently using a remote agent, are also looking for new agents as they feel a local agent would be beneficial. Another participant with a remote agent thought everything was going well so far, but was also considering changing to a local agent, saying he would see how it went at the year end before deciding.

Summary

The ultimate aim of the Tax Office is to keep compliance costs low by assisting businesses to manage their BAS reporting obligations without recourse to their tax agent. For this group of taxpayers at least, it appears that life is settling down to a routine again, and most of them consider themselves to be coping quite well, slowly weaning themselves off their tax agent as they become more capable in preparing their BAS. Those experiencing problems with their tax agents, either due to high fees or inaccessibility, are actively taking steps to rectify the situation by finding a new agent.

4.5 The future

I'm confident I can do the BAS myself but I know the ATO can be a little bit pickie sometimes, so it's easier for me to get that peace of mind and get an accountant to check it. I will do that as long as the BAS is around (Interview 17).

We've got to the stage of being weaned off them. Apart from the end of the year I'm not really going to need to go back to them. The tax agent's the one who said 'You've got it right, there's really no need for you to be using me for that' (Interview 15).

I don't think I'll get to do it myself. I'd like someone to check on it and make sure it's right. I'm not that smart (Interview 1).

Looking to the future, only three participants said they will continue to get their BAS checked by their tax agent, and another five, while a little hesitant, think they are nearly at the stage of doing it alone. So, in the second year of tax reform, the vast majority of participants in the study are, at least in their own opinion, 'up and running' with the GST and the BAS and hope to return to the 'once a year' relationship with their tax agent. Both participants who were behind with lodgment said they would be catching up in the near future, but their current status has not been confirmed.

Three participants are planning to change over to a complete computer system soon. However, one of the largest participating businesses is still using a manual system. While thinking about going over to a computer, they consider that there is no urgency.

In spite of all the upheaval of the past two years, eleven participants claim to be happy with their tax agent. Although some feel that the fees are high, seven are quite accepting that it is necessary to pay for the service you need, while four are still concerned about the additional costs involved. Those seeking new tax agents hope to do so before the 2001 tax returns are due and are looking for an agent who will provide the level of service they require, at a cost they consider reasonable. The other participants, while non-committal, have not expressed dissatisfaction or indicated that they intend to change agents. Some

participants expressed the hope that, in future, their tax agent will reduce the year end fee now that they have such excellent bookkeeping records to work with!

It is interesting that, given the contact they have had with the Tax Office, four participants stated that, in spite of the cost, they will still go to their tax agent with queries, and let the agent approach the Tax Office if necessary. Three participants are now happy to call the Tax Office with their queries, and another three said they will call whichever seems most appropriate.

Two participants, unhappy with their tax agent, and feeling that they now have adequate tax knowledge, mentioned the possibility of doing their Income Tax themselves, but neither appeared to be seriously considering it.

Six participants in the study had business income below \$50 000. Of these, one was a taxi driver and obliged to be registered for GST. Of the other five, only one (the participant who had only submitted one BAS at the time of the study) was considering cancelling his GST registration as a result of all the extra work involved in preparing the quarterly BAS.

Summary

The future looks bright for most of the participants in this study. They consider that they can cope with the BAS themselves, although three will continue to get it checked by their tax agent. Several now keep better records than before and while some are using these as a management tool in their business others consider they only benefit the Tax Office. Most are happy with their current tax agent, and although some are concerned about the level of fees, others are optimistic that fees will be reduced in future due to the improved standard of their bookkeeping. Perhaps this group of small businesses is typical, and there is no cause for concern. However, many had tales to tell of others who were less happy than themselves.

5. Stories

At the seminar there was a chap sitting next to me and he had no idea! He used to do his books and he sent out his bills and he was quite happy with the way it was. Now GST was coming and things were going to change. I wonder how he got on? I've often thought about him. I think a lot of the problems were because people thought 'Well, if I ignore it, it will go away' It doesn't though, does it (Interview 4).

Building workers, they're working long hours – a lot of them wouldn't be terribly well educated and if they're single its even worse – they've got no wife to do it for them. I've heard guys moan about how much they pay and I say 'Well, you're mad', but that's part of the evil of not being in a master-servant relationship. These are the people the tax agents don't want. I think if you need someone to be doing your books you shouldn't be in business (Interview 19).

I went into one of the businesses in Airlie Beach and said 'How are you getting on with the GST? And he said, 'The worst person I'm having trouble with is my accountant. I've got a letter from him – I'm the treasurer of a club – and the letter says he doesn't want to do the club any more because he's not going to earn sufficient money to make it worth his while. As far as I'm concerned, if he doesn't want their business, he's not getting mine either' (Interview 5).

The group of taxpayers who participated in this study consider that they have coped quite well with the introduction of GST, with most now preparing their BAS without the assistance of their tax agent. However, in addition to talking about themselves, many participants told stories relating to other small businesses, almost invariably less fortunate than themselves. The majority of stories about tax agents concerned them charging very high fees, telling clients they were unable to represent them in future or providing poor or incorrect advice. However, some participants recognised that many problems faced by other businesses resulted from poor record keeping in the past, poor cash management once GST began and lack of willingness to accept the new system. Some even expressed surprise that other businesses were finding it so difficult and time consuming to cope with the BAS requirements.

Summary

While these stories are interesting, it must be remembered that their main function for the participants has been to provide a backdrop against which they can measure their own experiences. With so many 'horror' stories being told by others, those who find themselves in less dire circumstances are likely to perceive themselves as fortunate, even if they are experiencing problems of their own. Interestingly, it is likely that the negative stories relating to other people's tax agents actually refer to the same agents as those retained by the participants, the majority of whom claim to be happy with their own tax agent!

6. Conclusion

This paper presents the findings of a field study undertaken in Proserpine North Queensland, one year after the introduction of the Goods and Services Tax. The study examined the relationship that previously existed between small business taxpayers and their tax agents in rural Australia and whether and how the relationship has changed.

Prior to the introduction of tax reform, the participants in this study had a dependent professional relationship with their tax agents, paying an annual fee for the preparation of the business accounts and income tax return, and occasionally contacting the agent for advice during the year. They did not generally question the quality of the work performed, regarding the agent as an expert and, because of this, considering that they themselves had no need to understand taxation matters. Most were loyal to their tax agent, expressing their satisfaction in terms of the factors mentioned by Tan (1999), being happy with the level of service received from the agent and considering that they had a good, settled working relationship. The level of fees charged was clearly an important issue, but accepted as necessary in order to receive the expected standard of service. Those who were dissatisfied took the same factors into account when deciding to find a new agent who more closely met their expectations. Having a local tax agent was not seen as necessary, some participants even preferring an agent from outside the immediate area.

With the introduction of the GST in July 2000 the Tax Office encouraged small business taxpayers to learn about the new tax system. The participants obtained their knowledge

from a variety of sources including their tax agent and the Tax Office. Interestingly, while tolerating less than perfect information, advice and service from their tax agents at that time, they were not so tolerant of the Tax Office, expecting perfection, and being quick to criticise anything less. They also talked with business associates, family and friends who may not always have known sufficient to be a reliable source of information. By the time GST started they considered themselves to be generally well informed, but in reality, of course, that may not have been the case. Many participants told stories of other small business taxpayers who had fared less well in the educational phase, either because of lack of service by their agent or the inability to appreciate the implications of the new tax system.

During the educational phase the relationship many participants had with their tax agents changed. Prior to tax reform they had very little contact with their tax agent and had accepted the work they performed without question. Armed with their new knowledge and a better understanding of the tax system, many found that, when questioning their agents, they were better able to understand and evaluate the responses given. Those with remote tax agents found themselves at a disadvantage, and some decided at this point to make the change to a local agent. Most recognised that there was no longer a need to be totally dependent on their tax agent, and felt empowered to handle at least some of their taxation obligations themselves. This feeling was further enhanced by the knowledge that others appeared to know and understand far less.

In the early stages of GST most participants contacted their tax agent frequently to ask for advice. Approximately one third completed their BAS unaided, the remaining participants having varying levels of assistance from their tax agent throughout the first year. Several commented on the high level of fees being charged for this additional service, which in a few cases had prompted them to consider changing agent. Others expressed concern that they were not able to contact their agent immediately, when they needed help. No doubt some agents were thorough in checking that record keeping was accurate and all claims were legitimate. However, with no obligation on them to do this, it is likely that some were too busy, or too conscious of the level of fees being incurred by their clients, to have done

so. It cannot therefore be assumed that BASs prepared with the assistance of a tax agent were correct, although their clients may have made just such an assumption.

None of the participants had received a compliance visit⁶ from the Tax Office since the commencement of GST, although six had contacted the Tax Office for assistance. The Tax Office had contacted two participants concerning minor BAS errors, but, apart from that, none had had their BASs confirmed as accurate at the time of the study. Under the Australian self assessment system of taxation it is the responsibility of taxpayers to lodge correct returns, and it is likely that the participants in this study took that responsibility seriously, believing that they were submitting correct returns.

Only one participant took up the new simplified BAS option introduced during the year. This option allows taxpayers to pay the same amount of GST each quarter and prepare an annual BAS return at the end of the year. Such a system, if accepted by taxpayers, could reduce non-compliance to some extent if it required a reconciliation of the annual BAS with the annual income tax return. However, the overwhelming majority of participants considered and rejected the simplified option. They believed the record keeping systems they had put into place were working well and preferred to pay the 'correct' amount or receive a refund each quarter. They saw no need to revisit the accounting records of earlier periods. This meant they were unlikely to discover errors or early misinterpretations, and may be assuming that their tax agent will detect any discrepancies at the end of the year.

Most participants expressed ongoing satisfaction with their tax agent, and although several were concerned about the increase in the level of fees over the past year, others were anticipating a reduction in the fee charged for their year end work due to the perceived improvement in their record keeping. If tax agents recognise this need to keep their clients happy by keeping fees reasonable, it is unlikely that, even given the time to do so, they will take on the additional work required to fully check business records or reconcile the BAS figures with the annual accounts.

⁶ Previously, this would have been known as an audit.

By the end of the first year of GST, three participants said they would continue to involve their tax agent in the completion of their BAS. However, the majority were confident that they could comply with the BAS requirements without their agent, envisaging that they would be returning to the traditional 'once a year' relationship. Whether that relationship will change in the long term cannot yet be determined as this study took place before the participants approached their tax agents for completion of their annual accounts and income tax returns. It is envisaged that additional demands may be placed on tax agents as a result of their clients' improved knowledge and understanding of taxation. Although it is impossible to say what will happen with regard to fees, it appears that this group of taxpayers will not be prepared to tolerate increased fees without a corresponding increase in the level of service received.

Of major concern must be the research carried out by McKerchar (1995) which found that taxpayers who believe they understand what is required may not keep up to date with subsequent changes or initial misinterpretations. In general, these taxpayers either think that their tax agent is submitting correct BASs on their behalf, or consider that they are submitting correct BASs themselves. While reluctant to pay additional fees to their tax agent, some are willing and able to incur the lesser expense of employing a bookkeeper who, they rightly or wrongly assume, is qualified to assist them in complying with their BAS obligations. However, others are not financially able to do this and, with the reduction in Tax Office educational activity, there will be no alternative review mechanism available to them to ensure that they are complying correctly, unless the Tax Office implements new measures to support these taxpayers.

The legislation and administrative requirements are still being refined and, as with all legislation, changes and improvements will continue to occur over time. It is essential, if compliance is to be maximised, that adequate assistance and checking mechanisms are put into place to ensure that these taxpayers are made aware of all changes which affect them, assisted in their understanding of those changes and encouraged to comply. The BAS Basics Newsletter goes some way to achieving this, and some tax agents send out regular newsletters to their clients, highlighting changes that may affect them. However, the results of *The Community Hopes, Fears and Actions Survey* (Braithwaite, 2000; Morgan &

Murphy, 2001) indicate that rural taxpayers are less well educated and less committed to the tax system than urban taxpayers. If this is correct, not only will they need more than a newsletter to assist them in understanding and implementing changes, but they will also need more assistance and encouragement from the Tax Office to do so.

The educational campaign by the Tax Office over the past two years has provided an excellent opportunity to reopen communication between the Tax Office and small business taxpayers. Its multifaceted approach has recognised the differing abilities and learning needs of taxpayers, by making excellent use of videos, tapes, seminars, a phone helpline and individual visits, in addition to the more traditional print material. It has assisted small business taxpayers in their initial understanding of the GST, in complying with their BAS reporting obligations and keeping compliance costs to a minimum. If this assistance is discontinued, or reduced to periodic written communication, not only will the Tax Office once more become distanced from these taxpayers but there is also a serious risk that compliance levels will deteriorate.

Given the findings of Morgan and Murphy (2001), Hawkins (1984), and Coleman and Freeman (1997), it seems unlikely that the planned increase in compliance activity is the best way to ensure tax compliance in rural Australia. Having put so much effort and so many resources into building a sound relationship with this group of taxpayers, it would be a great loss if all that goodwill were to be eroded, and future compliance threatened, by a lack of appreciation for their special needs.

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Appendix 1

Comparison of small businesses in Proserpine and participants in the study:

		<u>Proserpine</u>		<u>Participants</u>	
		Number	%	Number	%
Income	\$700 000 +	22	8	4	20
	\$200 000-699 000	53	20	5	25
	\$50 000-199 000	70	26	5	25
	<\$50 000	122	46	6	30
	Total	267	100	20	100
Tax agent location	Local	159	60	12	60
	Proserpine/Airlie Beach				
	Remote	89	33	7	35
	Queensland				
	Interstate	19	7	1	5
	Total	267	100	20	100
BAS Lodgment	Quarterly	252	94	17	85
	Monthly	15	6	3	15
	Total	267	100	20	100

Appendix 2

Small Business taxpayer study – Questionnaire:

The Centre for Tax System Integrity conducted a nationwide survey in 2000, to obtain a snapshot of the beliefs, attitudes and motivations held by Australian citizens in relation to taxation. The survey included questions relating to taxpayers and those who assist them in their taxation affairs and those questions appear below. The responses of business taxpayers who responded to those particular questions have already been analysed.

In order to compare small businesses in the Proserpine area with the businesses who responded to the earlier survey, it would be greatly appreciated if you would complete this questionnaire and return it in the stamped addressed envelope supplied.

Instructions: Please read each question carefully and circle the appropriate answer. There are no right and wrong answers. Just give your own personal opinion.

1. When you were preparing for the lodgment of your 1999-2000 income tax return, how well did you understand what the Tax Office expected of you? Would you say your understanding was ...


Extremely good	1
Good	2
Reasonable.....	3
Partial.....	4
Poor.....	5

2. Did you rely on the following people in preparing your 1999-2000 income tax return?

2.1. Family member or close friend	Yes	No
2.2. Tax agent or advisor (tax accountant or lawyer)	Yes	No
2.3. Business partner	Yes	No
2.4. Someone from the Tax Office.....	Yes	No
2.5. Someone from your industry association.....	Yes	No
2.6. One of your employees	Yes	No


3. Do you generally use a tax agent or advisor to prepare your income tax return?

Yes1
No2

■ skip to 5 

4. **If yes**, how well do the following statements describe his/her approach to taxation matters?

	Strongly disagree	Disagree	Neither	Agree	Strongly agree
4.1 I have a tax agent who is clever in the way she/he arranges my affairs to minimise tax.....	1	2	3	4	5
4.2. My tax agent is a very honest person.....	1	2	3	4	5
4.3. My tax agent helps me interpret ambiguous or grey areas of the tax law in my favour.....	1	2	3	4	5
4.4. My tax agent has suggested complicated schemes I could get into to avoid tax.....	1	2	3	4	5
4.5. My tax agent has warned me against getting involved in tax planning schemes.....	1	2	3	4	5

 5. What priority would you place on the following qualities if you were to choose a tax agent or advisor?

	<u>Priority</u>			
5.1. Someone who just does it and doesn't bother me with it.....	Low	Medium	High	Top
5.2. Someone who knows their way around the system to minimise the tax I have to pay.....	Low	Medium	High	Top
5.3. Someone who will take advantage of grey areas of the law on my behalf	Low	Medium	High	Top
5.4. Someone who is able to deal with any problems that arise.....	Low	Medium	High	Top

5.5. Someone who is well networked and knows what the Tax Office is checking on at any particular time	Low	Medium	High	Top
5.6. A creative accountant.....	Low	Medium	High	Top
5.7. Someone who can deliver on aggressive tax planning.....	Low	Medium	High	Top
5.8. Someone who will do it honestly and with minimum fuss.....	Low	Medium	High	Top
5.9. Someone who does not take risks and only claims for things that are clearly legitimate	Low	Medium	High	Top

6. How much are the following like you?

	Not at all	A little bit	A fair bit	Very much
6.1. I feel competent to do my own income tax return	1	2	3	4
6.2. I don't keep my income and expense documentation very well for tax purposes	1	2	3	4
6.3. I tend to put my income tax return off until the last minute.....	1	2	3	4
6.4. Preparing an income tax return is a low priority in my life.....	1	2	3	4
6.5. Other things always seem to get in the way of doing my tax	1	2	3	4
6.6. I have someone else who looks after my tax matters for me	1	2	3	4

Many thanks for your time. Please use the reply paid envelope attached to return the completed questionnaire no later than 15 August 2001.

Appendix 3

Comparison of Proserpine sample with the results of the *Community Hopes, Fears and Actions Survey* questions concerning the preparation of tax returns and tax agents:

In the National survey 244 respondents indicated that they were business taxpayers, and of those, 108 were identified as living in rural areas.

The questionnaire in Appendix 2 was left with each person interviewed in Proserpine for completion and return to the Australian National University in a reply paid envelope. 14 of the 20 small business taxpayers interviewed returned the questionnaire. A basic analysis was done comparing their responses with small business respondents nationally and those identified as being from rural areas, the primary purpose being to determine whether or not the Proserpine sample is representative of rural small business nationally. (n.b. Q numbers in brackets refer to National Survey).

		Small Business Nationally %	Small Business Rural %	Small Business Proserpine %
Q1 (9.10)	Understanding what the Tax Office expected of you			
	Extremely good	13.0	13.0	0.0
	Good	40.0	40.2	23.1
	Reasonable	38.1	41.3	69.2
	Partial	4.7	3.3	7.7
	Poor	4.2	2.2	0.0
Q2 (9.11)	Who helped prepare return			
	Family friend	16.1	16.2	21.4
	Tax agent/adviser	93.5	92.6	100.0
	Business partner	14.4	17.9	35.7
	ATO	5.2	4.4	14.3
	Industry	2.6	1.5	0.0
	Employee	0.7	0.0	21.4
Q 3 (11.10.1)	Generally use a tax agent to prepare return			
	Yes	88.7	90.6	100.0
Q 4 (11.10.2)	What is the tax agent like			
	Clever at minimising tax			
	Strongly disagree	5.0	3.5	0.0
	Disagree	13.1	10.5	0.0
	Neither	40.7	41.9	38.5
	Agree	37.7	40.7	46.2
	Strongly agree	3.5	3.5	15.4

	Small Business Nationally %	Small Business Rural %	Small Business Proserpine %
Honest			
Strongly disagree	2.0	1.1	0.0
Disagree	0.5	1.1	0.0
Neither	5.9	6.8	0.0
Agree	54.2	47.7	53.8
Strongly agree	37.4	43.2	46.2
Grey areas in my favour			
Strongly disagree	3.0	1.1	7.7
Disagree	13.4	14.9	0.0
Neither	35.3	32.2	46.2
Agree	41.3	43.7	38.5
Strongly agree	7.0	8.0	7.7
Suggests schemes			
Strongly disagree	34.8	26.4	53.8
Disagree	46.3	51.7	23.1
Neither	15.4	16.1	23.1
Agree	1.5	3.4	0.0
Strongly agree	2.0	2.3	0.0
Warns against schemes			
Strongly disagree	5.0	3.4	23.1
Disagree	15.1	13.8	7.7
Neither	46.2	46.0	53.8
Agree	25.6	28.7	15.4
Strongly agree	8.0	8.0	0.0

Q 5 (11.11) Qualities of a tax agent

Does it & doesn't bother me

Priority	Low	54.7	54.4	57.1
	Medium	27.2	26.2	28.6
	High	13.8	14.6	7.1
	Top	4.3	4.9	7.1

Knows how to minimise tax

Priority	Low	9.0	14.7	14.3
	Medium	30.3	22.5	21.4
	High	46.2	51.0	64.3
	Top	14.5	11.8	0.0

Takes advantage of grey areas

Priority	Low	36.8	42.2	64.3
	Medium	36.3	31.4	21.4
	High	23.1	24.5	14.3
	Top	3.8	2.0	0.0

		Small Business Nationally %	Small Business Rural %	Small Business Proserpine %
Deals with problems				
Priority	Low	0.4	0.0	0.0
	Medium	6.8	9.7	14.3
	High	57.4	61.2	28.6
	Top	35.4	29.1	57.1
Knows what the ATO is checking				
Priority	Low	14.0	17.5	35.7
	Medium	28.9	22.3	21.4
	High	44.3	51.5	21.4
	Top	12.8	8.7	21.4
Creative accountant				
Priority	Low	24.1	24.5	30.8
	Medium	33.6	30.4	46.2
	High	31.0	35.3	15.4
	Top	11.2	9.8	7.7
Aggressive tax planner				
Priority	Low	25.2	24.5	46.2
	Medium	40.0	38.2	46.2
	High	28.7	30.4	7.7
	Top	6.1	6.9	0.0
Honest & minimum of fuss				
Priority	Low	0.4	1.0	0.0
	Medium	5.5	4.8	21.4
	High	54.0	51.9	14.3
	Top	40.1	42.3	64.3
Takes no risks/legit claims				
Priority	Low	3.8	2.8	0.0
	Medium	8.8	9.4	28.6
	High	50.0	46.2	21.4
	Top	37.5	41.5	50.0

Q 6 (11.12) What the taxpayer is like

Competent to do own return

Not at all	44.5	51.5	35.7
A little bit	24.6	24.8	28.6
A fair bit	24.6	19.8	35.7
Very much	6.4	4.0	0.0

Don't keep records well

Not at all	42.1	45.1	64.3
A little bit	20.0	21.6	7.1
A fair bit	17.4	14.7	7.1

Very much	20.4	18.6	21.4
	Small Business Nationally %	Small Business Rural %	Small Business Proserpine %
Put off return till last minute			
Not at all	51.7	52.0	64.3
A little bit	22.0	28.4	35.7
A fair bit	17.8	15.7	0.0
Very much	8.5	3.9	0.0
Tax return a low priority			
Not at all	46.4	47.6	50.0
A little bit	27.0	27.2	35.7
A fair bit	15.6	13.6	14.3
Very much	11.0	11.7	0.0
Other things get in the way			
Not at all	49.1	47.5	57.1
A little bit	26.9	31.7	35.7
A fair bit	15.0	14.9	7.1
Very much	9.0	5.9	0.0
Someone else does it			
Not at all	31.4	32.4	21.4
A little bit	11.4	9.8	28.6
A fair bit	26.3	26.5	35.7
Very much	30.9	31.4	14.3

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- No. 3. Braithwaite, V., Reinhart, M., Mearns, M., & Graham, R. *Preliminary findings from the Community Hopes, Fears and Actions Survey.* April 2001.
- No. 4. Mearns, M., & Braithwaite, V. *The Community Hopes, Fears and Actions Survey: Survey method, sample representativeness and data quality.* April 2001.
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