

**Curtin Business School
School of Economics and Finance**

**Corporate Income Tax Compliance Costs of Small and Medium
Enterprises in Thailand**

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**This thesis is presented for the Degree of
Doctor of Philosophy
of
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DECLARATION

To the best of my knowledge and belief this thesis contains no material previously published by any other person except where due acknowledgment has been made.

This thesis contains no material which has been accepted for the award of any other degree or diploma in any university.

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Date: 17 June 2013

ABSTRACT

This thesis is the first attempt to estimate tax compliance costs of Small and Medium Enterprises (SMEs) in Thailand. The study focuses on SMEs which are registered as companies and limited partnerships that have a duty to pay corporate income tax.

Small and Medium Enterprises are an important component of Thailand's economy and accounted for 99.6 percent of all enterprises in 2010. The significance of SMEs lies in their provision of employment, distribution of income to many provinces and contribution to the GDP of the country. In order to allow SMEs to run their businesses in the global competitive market, tax compliance costs should not burden and distort their businesses. The issue of largely hidden tax compliance costs has been long neglected in Thailand. The development of tax compliance costs in the policy area in Thailand can be improved. This study is an initial step in this direction.

A mixed methodology approach was used to study the corporate income tax compliance costs of SMEs in Thailand. The mixed methods of this study were divided into two phases: Phase I was the major quantitative research phase, followed by the minor qualitative research in Phase II. A survey questionnaire that followed the Sandford model was designed to collect the primary data for the estimation of corporate income tax compliance costs in Thailand.

The analysis was based upon 206 usable responses, with a response rate of around 10 percent. The quantitative findings demonstrate that the disaggregate corporate income tax compliance costs of SMEs were 253,708 baht for the tax year 2010, made up as internal staff costs (72,927 baht per SME), miscellaneous costs (117,357 baht per SME) and external costs (63,425 baht per SME). The findings indicate that SMEs have high miscellaneous costs. The high miscellaneous costs seem to be a significant factor affecting tax compliance costs.

The aggregate amount of tax compliance costs was 49,461 million baht for the tax year 2010 for the sampled firms. Total net compliance costs by subtracting cash flow benefits (714 million baht) and tax deductibility (7,537 million baht) were 41,210

million baht in 2010. The findings clearly show that net tax compliance costs (41,210 million baht) compared with tax revenue (38,509 million baht) are a significant burden and a hidden cost.

In terms of qualitative analysis, 38 respondents participated in the interviews. The qualitative findings found that tax was a difficult issue and that tax compliance created high costs for SMEs which not normally did not have an accounting department. Among the SMEs which had an internal accounting department, most did not have a problem with tax compliance costs and they obtained managerial benefits from using the numbers in their businesses.

A better tax policy which not only recognises the burden of tax compliance costs but actually reduces their impact upon SMEs is recommended. The major conclusions of this thesis are: (1) the definition of SMEs in Thailand should be updated in order to bring it in line with common international practice; (2) the importance of tax compliance costs to the economy should be recognised and should be reduced; (3) tax reform is needed in order to carry out a process of tax simplification in Thailand; and (4) tax policy to continually monitor tax compliance costs should be introduced.

Some limitations of this thesis include the low response rate and the respondents' concerns about disclosing their tax information. In addition, the concept of tax compliance costs is new in Thailand, and may not have been easily understood by the SME representatives in this study. Further, some specific revenue data are not published in Thailand, and an unusual definition of SMEs is used in the Thai setting. Future research could study tax compliance costs in terms of diary entries in order to help increase the response rate, with greater reliability of findings. The selection of a third party to support the data collection process is also recommended for future research.

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KEY GLOSSARY

- Cash flow benefit : The benefit which accrues to a corporate income taxpayer because it is legally permitted to withhold the tax for a period after the completion of the economic transaction giving rise to the tax liability.
- Corporate income tax : A direct tax levied on net profit by subtracting all allowed deductible expenses from total sales.
- External costs : Those costs that are incurred outside of the business in relation to the corporate income tax under consideration, comprising professional fees, such as from a tax accountant, tax auditor, auditor and lawyer.
- Internal costs : Those costs that are incurred within the business in relation to the corporate income tax under consideration, comprising mainly staff costs plus any other (miscellaneous) costs.
- Internal staff costs : Those staff costs that are incurred inside of the business in relation to the corporate income tax under consideration, comprising mainly the time costs of manager/accountant, account clerk, administration staff and other staff.
- Managerial benefits : The monetary value of improved decision making brought about by the need to have more stringent record-keeping in order to comply with the requirements of tax law.

- Miscellaneous costs (Additional/overhead/indirect costs) : Those other costs except internal staff costs that are incurred inside of the business in relation to the corporate income tax under consideration, comprising mainly other costs, such as stationery, postage, travelling, software and computers.
- Mixed method : The method that mixes both qualitative and quantitative methodologies; it can be a practical way for researchers to use various methods to answer research questions.
- Net compliance costs : Gross compliance costs minus the value of cash flow benefits, tax deductibility and other benefits that may exist but are very difficult to measure.
- P.N.D. 50 : The form of income tax return for companies or partnerships under Section 68 and Section 69 of the Thailand Revenue Code (for the yearly income tax return).
- P.N.D. 51 : The form of income tax return for companies or partnerships under Section 67 Bis of the Thailand Revenue Code (for the six months or the half-yearly income tax return).

- Tax auditor : A tax auditor must be registered and possess a license as a tax auditor from the Thailand Revenue Department. A tax auditor has a duty to audit and to certify the account of small partnerships by following the operation guidelines, procedures and conditions prescribed by the Director General, the Revenue Department.
- Tax compliance costs : The costs incurred by taxpayers, over and above their tax liability, in fulfilling their tax obligations to comply with tax laws. These are gross compliance costs.
- Tax deductibility : Tax deductibility benefits arise because the tax losses of corporate income tax can be carried forward for five accounting periods for offsetting against profit from all sources in Thailand.

LIST OF ABBREVIATIONS

ASEAN	:	Association of Southeast Asian Nations
ATO	:	Australian Taxation Office
CIT	:	Corporate income tax
Exim Bank	:	Export-Import Bank of Thailand
GDP	:	Gross domestic product
GRP	:	Gross regional product
MAI	:	Market for Alternative Investment
OLS	:	Ordinary least squares
OSMEP	:	Office of Small and Medium Enterprises Promotion
PAYE	:	Pay as you earn
PIT	:	Personal income tax
SCM	:	Standard cost model
SME Bank	:	Small and Medium Enterprise Development Bank of Thailand
SMEs	:	Small and Medium Enterprises
SPSS	:	Statistical Package for the Social Sciences
TCG	:	Thai Credit Guarantee Corporation
VAT	:	Value-added tax
VC	:	Venture capital

CHAPTER ONE

INTRODUCTION

1.1 Introduction

The aim of this study is to investigate the corporate income tax compliance costs for Small and Medium Enterprises (SMEs) in Thailand based on data collected from SMEs throughout the country. Thailand functions as an anchor economy, sharing borders with Burma, Cambodia, Laos and Malaysia in a critical part of Southeast Asia. The official language is Thai. The capital is Bangkok and there are 76 provinces. A map of Thailand is provided in Appendix A. A survey questionnaire was designed to collect the primary data. The survey questionnaires were distributed across all regions of Thailand, with the distribution divided into five areas according to the region, namely, the North,¹ Bangkok and its surrounding areas,² the Central area,³ the South,⁴ the East⁵ and the Northeast.⁶ The research design is discussed in more detail in Chapter Four.

The population of Thailand was approximately 69 million in 2010 (The World Bank, 2012b, p. 44), over a surface area of 513,000 square kilometres. The population distribution in 2010 expanded by 18 percent of the total population in the North, 17 percent of the total population in Bangkok and its surrounding areas, five percent of the total population in the Central area, 14 percent of the total population in the South, seven percent of the total population in the East, 34 percent of the total

¹ The North area consists of 15 provinces (Chiang Rai, Chiang Mai, Phayao, Nan, Lampang, Phrae, Lamphun, Uttaradit, Mae Hong Son, Sukhotai, Phitsanulok, Tak, Kamphaeng-Phet, Pichit and Phetchabun).

² Bangkok and its surrounding areas consist of six provinces (Nakorn-Pathom, Nonthaburi, Pathum-Thani, Samut Prakan, Samut Songkhram and Samut Sakhon).

³ The Central area consists of 12 provinces (Kanchanaburi, Chainat, Ayutthaya, Nakhon-Nayok, Nakhon Sawan, Ratchaburi, Lopburi, Saraburi, Singburi, Suphanburi, Ang-Thong and Uthaitani).

⁴ The South area consists of 16 provinces (Phetchaburi, Prachuap Khiri Khan, Chumphon, Surat Thani, Nakhon Si Thammarat, Phatthalung, Songkhla, Pattani, Yala, Nrahiwat, Ranong, Phang Nga, Phuket, Krabi, Trang and Satun).

⁵ The East area consists of seven provinces (Chanthaburi, Chonburi, Trat, Chachoengsao, Prachin-Buri, Rayong and Sa Kaew).

⁶ The Northeast area consists of 20 provinces (Kalasin, Khon Kaen, Chaiyaphum, Nakhon-Phanom, Nakhon-Ratchasima, Bueng Kan, Buriram, Maha-Sarakham, Mukdahan, Yasothon, Roi Et, Loei, Sakon Nakhon, Surin, Srisaket, Nong Khai, Nong-Bua Lamphu, Udon Thani, Ubon-Ratchathani and Amnat-Charoen).

population in the Northeast and five percent of the total population in the West (Office of the National Economic and Social Development Board, 2012, p. 48), as shown in Figure 1.1.

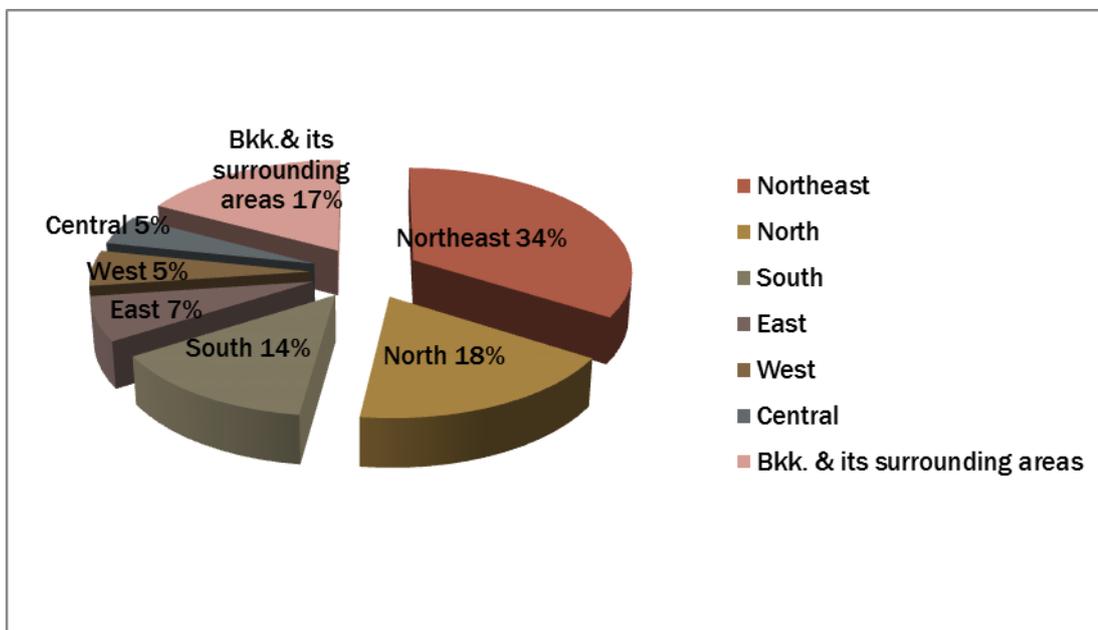


Figure 1.1: Population Distribution among Regions

Source: Adapted from the Gross Regional and Provincial Product Report of Office of the National Economic Development Board (2012, p. 48).

1.2 Thailand’s Economy and Taxation

1.2.1 Economy and Related Index

In accordance with the economic indicators for Thailand, the gross national income was US\$286.6 billion in 2010, with a global ranking of 33 (The World Bank, 2012b, p. 22). The gross national income per capita was US\$4,150, which was ranked at 123 in the world (The World Bank, 2012b, p. 22). The gross domestic product (GDP) growth was 7.8 percent in 2009-10 (The World Bank, 2012b, p. 22).

The gross regional product (GRP) per capita in 2010 was 68,015 baht per year or five percent of total GRP in the North, 412,887 baht per year (29 percent of total GRP) in Bangkok and its surrounding areas, 218,088 baht per year (16 percent of total GRP) in the Central area, 118,184 baht per year (eight percent of total GRP) in the South, 441,901 baht per year (31 percent of total GRP) in the East, 44,516 baht per year (three percent of total GRP) in the Northeast and 100,883 baht per year (eight percent

of total GRP) in the West (Office of the National Economic and Social Development Board, 2012, p. 6), as shown in Figure 1.2. This data show that the income distribution among the regions in Thailand differs widely.

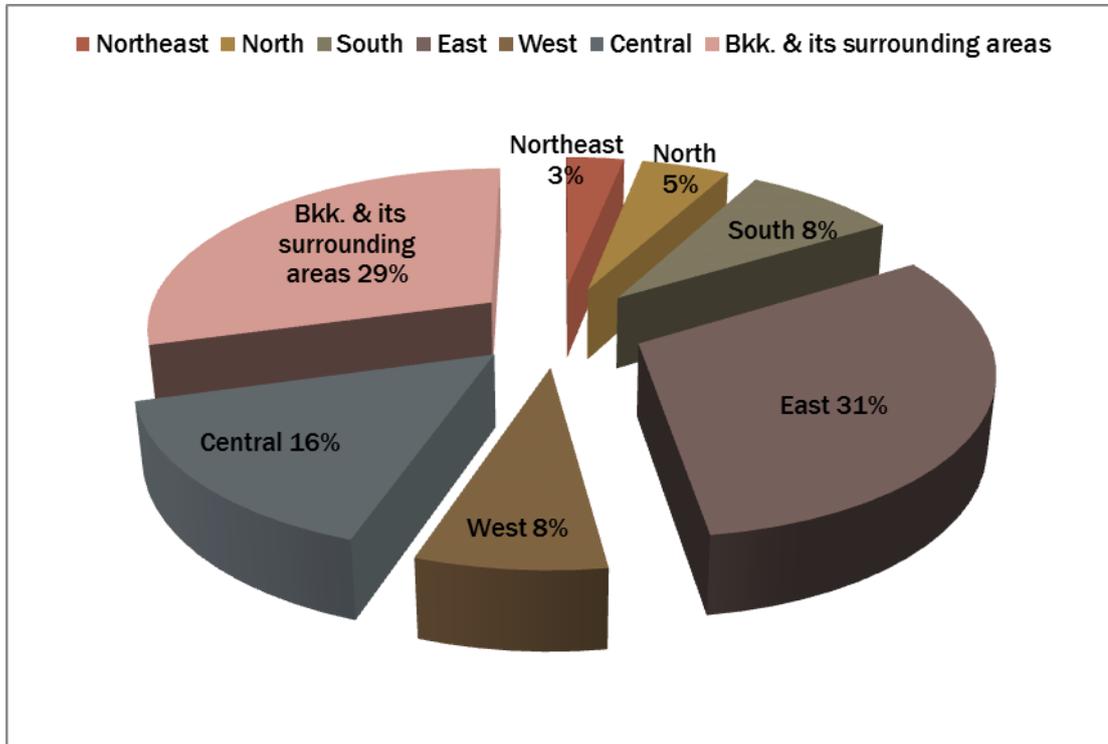


Figure 1.2: Gross Regional Product per Capita, 2010

Source: Adapted from the Gross Regional and Provincial Product Report of Office of the National Economic Development Board (2012, p. 6).

The economic profile of Thailand can be understood by comparing it with other countries in the Association of Southeast Asian Nations (ASEAN),⁷ such as through the global competitiveness index 2010-2011.⁸ The goal of this indicator is to provide a benchmark for business leaders and policy-makers to identify obstacles to improved competitiveness and to develop the best strategies and policies to reduce obstacles. The Global Competitive Report 2010-2011 indicated that Thailand was ranked 38 out of 139 countries (Schwab, 2010, p. 13). This ranking placed Thailand fourth out of eight countries in ASEAN, as shown in Table 1.1. The ranking indicated that the development of policy in Thailand needs to improve and the obstacles need to be minimised.

Table 1.1: Global Competitiveness Index 2010-2011 (Eight Countries in Association of Southeast Asian Nations)

Country	Rank ^a	Score	GCI 2010-2011 rank ^b	GCI 2009-2010 rank ^c
Brunei Darussalam	3	4.75	28	32
Cambodia	8	3.63	105	110
Indonesia	5	4.43	44	54
Malaysia	2	4.88	26	24
Philippines	7	3.96	83	87
Singapore	1	5.48	3	3
Thailand	4	4.51	38	36
Vietnam	6	4.27	59	75

Source: Adapted from the Global Competitive Report of the World Economic Forum (2010-2011, p. 13).

Note: ^a Rank in ASEAN countries. No data for Laos and Myanmar.

^b Among 139 economies.

^c Among 139 economies.

The World Bank's Doing Business Report⁹ (2011, 2012a) benchmarks the regulations to enhance business activity by presenting quantitative indicators on business regulation and the protection of property rights for 183 economies. Focusing on the area of regulation which relates to this study, namely, paying taxes, the 2011 and 2012 reports measured the number of payment indicators from the

⁷ ASEAN is comprised of 10 Southeast Asian Countries, namely: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, The Philippines, Singapore, Thailand and Vietnam.

⁸ The index measured 12 pillars of economic competitiveness, namely: (1) institutions, (2) infrastructure, (3) macro-economic environment, (4) health and primary education, (5) higher education and training, (6) goods market efficiency, (7) labour market efficiency, (8) financial market development, (9) technology readiness, (10) market size, (11) business sophistication, and (12) Innovation.

⁹ The 2011 Doing Business Report measured the ranking of the economies based on nine areas of regulations, namely: starting a business, dealing with construction permits, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing business. In 2012, the report added one more area of regulation (getting electricity) and changed the name of one area from "closing business" to "resolving insolvency".

frequency with which a company had to file and pay different types of taxes and contributions, adjusted for the way in which those payments were made. The time indicator measured the number of hours it took to prepare, file and pay three major types of taxes (profit taxes, consumption taxes and labour taxes), as well as mandatory contributions, and lastly, the total tax rate measured the tax cost borne by the standard firm (The World Bank, 2011, p. 55; 2012a, p. 54). The ease of doing business in paying taxes in Thailand and other ASEAN countries is summarised in Table 1.2. Thailand was ranked 91 in terms of ease of paying taxes by this report in 2011 and ranked 100 in 2012. Thailand was ranked fifth among the ASEAN countries. This ranking needs to be improved in order to enhance business activities in Thailand as a competitive market. Although elements of the reports are related to taxation, the reports did not estimate the amount of money spent on tax activity or address the cost of tax compliance for SMEs.

Table 1.2: Comparison of Ease of Doing Business in Paying of Taxes, 2009-2010

Country Tax Year	Paying Taxes (rank)		Payment (number per year)		Time (hours per year)		Total Tax Rate (percentage of profit)	
	2009	2010	2009	2010	2009	2010	2009	2010
Brunei	22 (2)	20 (2)	15	27	144	96	29.8	16.8
Cambodia	57 (4)	54 (4)	39	39	173	173	22.5	22.5
Indonesia	130 (8)	131 (7)	51	51	266	266	37.3	34.5
Laos	116 (6)	123 (6)	34	34	362	362	33.7	33.3
Malaysia	23 (3)	41 (3)	12	13	145	133	33.7	34.0
The Philippines	124 (7)	136 (8)	47	47	195	195	45.8	46.5
Singapore	4 (1)	4 (1)	5	5	84	84	25.4	27.1
Thailand	91 (5)	100 (5)	23	23	264	264	37.5	37.5
Vietnam	124 (9)	151 (9)	32	32	941	941	33.1	40.1

Source: Adapted from the World Bank Indicator (2011-2, pp. 77-138).

Note: No data for Myanmar.

1.2.2 Taxation

In Thailand, taxation is an important source of government revenue. There are three main agencies which play a role in tax collection under the Ministry of Finance in Thailand, namely, the Revenue Department, the Excise Department and the Customs Department. Tax collections across these agencies are about 85-90 percent of the government's revenue. Government revenue in the 2007-2011 fiscal years is shown in Table 1.3 (Ministry of Finance of Thailand, 2012a).

Table 1.3: Government Revenue in Fiscal Years 2007-2011

Year	2011	2010	2009	2008	2007
Government Revenue (Gross) (Million baht)	2,221,486.62	1,989,272.52	1,683,517.62	1,833,330.19	1,814,491.10
Government Revenue (Net) (Million baht)	1,955,511.62	1,733,324.52	1,463,906.34	1,607,063.58	1,597,936.17

Source: Adapted from the data of Office of the Permanent Secretary, Ministry of Finance, Thailand (2012).

The main tax revenue is from the Revenue Department at more than half of the total tax collection (Revenue Department of Thailand, 2012a). The Revenue Department collects the highest overall amount of the Government's revenue (Ministry of Finance of Thailand, 2012b), as shown in Table 1.4.

Table 1.4: Government Revenue from Revenue, Customs and Excise Departments in Fiscal Year 2010

Year	Revenue Department (million baht)	Excise Department (million baht)	Customs Department (million baht)
Fiscal year 2010	1,296,390	416,840	97,171
Fiscal year 2009	1,141,817	334,723	81,527

Source: Adapted from the data of Office of the Permanent Secretary, Ministry of Finance, Thailand (2012).

The Revenue Department is responsible for the administration of personal income tax (PIT), corporate income tax (CIT), petroleum income tax, value-added tax (VAT), specific business tax, and stamp duties. The main tax collection from the Revenue Department is shown in Table 1.5 (Revenue Department of Thailand, 2010). In 2010, the collection of VAT was 502,260 or 40 percent, the collection of CIT was 454,630 million baht or 36 percent and the collection of PIT was 208,368

million baht or 16 percent. The indirect taxes such as VAT are the highest revenue for the Thai Government, implying that the tax collection of indirect tax is better than the tax collection of direct tax (such as CIT). It is common for developing countries to be less dependent on direct tax (Sandford, 2000, p. 36).

Tax policy issues relating to CIT are numerous and complex, especially in developing countries which provide multiple rates based on sectoral differentiation (Tanzi & Zee, 2001, p. 8). These complications can make it a burden for taxpayers to comply with CIT. The complexity of the tax rules and the high number of tax rules tend to increase tax compliance costs (Organization for Economic Co-operation and Development, 2009, p. 118). Consequently, CIT should be monitored by policy-makers, especially in relation to CIT in Thailand. The consideration and development of CIT policy can decrease tax compliance costs.

Table 1.5: Tax Collection from Revenue Department in Fiscal Years 2008-2010

Tax Type	Tax Collection 2008 (million baht)	Tax Collection 2009 (million baht)	Tax Collection 2010 (million baht)	Percentage
Personal Income Tax	204,922	198,095	208,368	16.47
Corporate Income Tax	460,715	392,172	454,630	35.94
Petroleum Tax	74,033	90,712	67,599	5.34
Value Added Tax	503,484	431,775	502,260	39.71
Specific Business Tax	25,108	18,099	22,989	1.82
Stamp Duty	7,732	7,488	8,757	0.70
Other Income	254	223	243	0.02
Total	1,276,248	1,138,564	1,264,846	100.00

Source: Adapted from the data of Revenue Department, Ministry of Finance, Thailand (2010).

Note: The data on the CIT for SMEs is unknown.

1.3 Background of the Research

1.3.1 Small and Medium Enterprises in Thailand

Small and Medium Enterprises in Thailand came to the particular attention of economists and policy-makers following the 1997 Asian financial crisis. After Thailand devalued its exchange rate in July 1997 (Waiquamdee, Disyatat, & Pongsaparn, 2005, pp. 1-2), the economy fell into the deepest financial crisis it had ever experienced. Large firms were significantly weakened and SMEs were promoted as a flagship for economic recovery. Many government departments adjusted their policies towards SMEs.

Small and Medium Enterprises constitute the highest proportion of enterprises in Thailand. In 2008, for example, there was a total number of 2,827,633 SMEs, making up 99.7 percent of the overall number of enterprises in Thailand (Office of Small and Medium Sized Enterprises Promotion, 2008). In 2009, the figure was 2,896,106 SMEs, making up 99.8 percent of the overall number of enterprises in the country (Office of Small and Medium Sized Enterprises Promotion, 2009). There was a small decrease in the percentage of SMEs in 2010 at 99.6 percent of the overall number of enterprises but the total number of SMEs was larger than in the years 2008 and 2009 at 2,913,167 SMEs (Office of Small and Medium Sized Enterprises Promotion, 2010). Table 1.6 shows further details of this statistic.

Table 1.6: Number of Small and Medium Enterprises in Thailand

Size	2008	2009	2010
	Number (percentage)	Number (percentage)	Number (percentage)
SMEs	2,827,633 (99.7)	2,896,106 (99.8)	2,913,167 (99.6)
Large Enterprises	4,586 (0.2)	4,653 (0.2)	9,140 (0.31)
Not specified	4,158 (0.1)	-	2,605 (0.09)
Overall	2,836,377 (100)	2,900,759 (100)	2,924,912 (100)

Source: Office of Small and Medium Sized Enterprises Promotion, Thailand (2010).

1.3.2 Tax Compliance Costs

Tax compliance costs are the costs taxpayers incur when dealing with the tax authority to comply with its requirements (Sandford, Godwin, & Hardwick, 1989, p. 10). In order to estimate tax compliance costs correctly, the available data is one important factor for the intended analysis. Basically, the measurement of tax compliance costs can be obtained from: (1) documentary research, (2) survey questionnaires or interviews, (3) case studies, (4) diary studies, and (5) simulation models (Allers, 1994, pp. 44-51). The definition of tax compliance costs is discussed in Chapter Two.

1.3.3 Corporate Income Tax Compliance Costs for Small and Medium Enterprises in Thailand

The taxation regime in Thailand uses a self-assessment system (PWC Thailand, 2012, p. 34) which has been enhanced as an electronic system in recent years (The

World Bank, 2011, p. 57). In accordance with the self-assessment system, the duty of taxpayers is to pay tax correctly, otherwise the penalties prescribed by law for incorrect tax payment are applied. Small and Medium Enterprise taxpayers need to comply with CIT law by using their own funds. The money spent by SME taxpayers to comply with CIT law is referred to as the tax compliance costs. There are two main points to explain the importance of corporate income tax compliance costs in Thailand as follows:

(1) Compliance with corporate income tax places a burden on SME taxpayers.

As corporate income tax is a direct tax levied on the net profit of SMEs, the complexity of CIT can be a burden to SMEs. The adjustment of accounting income as tax income needs to be correct with regard to CIT law. Tax compliance costs are usually incurred by SMEs to help ensure they pay tax correctly. Therefore, the corporate income tax is a burden to SME taxpayers in Thailand.

Small and Medium Enterprises are significant to the Thai economy and they function as the backbone enterprises. It is important to ensure that the tax compliance costs for SMEs in Thailand are not a burden. Small and Medium Enterprises must have enough tax knowledge to deal with corporate income tax law. Typically, SMEs find this law to be complicated and this may give rise to higher compliance costs for this tax compared to other taxes. The evidence from the US, UK and Australia indicates that SMEs meet a disproportionately high level of tax compliance costs (Lignier, 2008, p. 11). As SMEs cannot avoid incurring tax compliance costs when dealing with corporate income tax law, it should be an area of more concern when compared with other taxes. The corporate income tax compliance costs of SMEs are significant and should be considered and studied in Thailand to support the SME sector when dealing with corporate income tax law.

(2) Tax policy changes in Thailand have not been concerned with tax compliance costs.

In 2010, twenty-five tax policy changes were made in the area of revenue tax, custom tax and excise tax; eleven of the twenty-five tax policy changes were related to CIT such as the tax exemption for donations to political parties, tax incentives to

support tourism businesses and so on (Bureau of Tax Policy, 2010). However, none of the changes were concerned with tax compliance costs.

Tax policy change has been a significant instrument in supporting SMEs in developing countries such as Thailand. Yet, most tax policy changes in Thailand have been issued without attention to the cost of tax compliance because, in general, it seems to be a routine requirement that taxpayers including SMEs will comply with the tax authority's guidelines. On the contrary, it is widely accepted that the burden of compliance costs, especially for SMEs, is a problem for various countries, such as in Canada (Erard, 1997b), in South Africa (Investment Climate Advisory Service, 2007), and in the US (Deluca, Stilmar, Guyton, Lee, & O'Hare, 2007).

As confirmed by Pope (2008, p. 21), the level of tax compliance costs is a major concern to small business, yet most politicians prefer to provide tax incentives without considering the issue of tax compliance costs. In the US setting, it has been argued that the impact of compliance costs arises from the complexity of taxing income which is caused by lawmakers attempting to use tax policy to achieve political goals, such as assigning tax burdens based on income level, and encouraging various socially beneficial activities (Moody, Warcholik, & Hodge, 2005, pp. 3-4). If regulations and formalities are out-dated or improperly designed to achieve policy goals, these can impose unnecessary costs (Organisation for Economic Co-operation and Development, 2001, p. 7).

Tax compliance costs need to be estimated in order to ascertain how much of a burden they are to SMEs in Thailand. It is believed the current study is the first attempt to estimate the compliance costs of CIT in Thailand and to make policy recommendations to the Thai Government, particularly to better understand the experience and perceptions of SME taxpayers with regard to tax compliance costs.

1.3.4 Reasons for a Tax Compliance Costs Study in Thailand

As explained above, the issue of tax compliance costs has been neglected in Thailand. There is a need for public policy to be guided correctly and one of these factors is decreasing costs (Musgrave & Musgrave, 1980, p. 6). Sandford (1995b, p. 411) explained the conditions of the growth of compliance costs as follows:

- Increased complication in the tax system
- The trend of a larger proportion of Small and Medium Enterprises, which are the businesses most seriously affected by tax compliance costs
- Any governments concerned with the economic situation in their countries should be concerned with the level of tax compliance costs and develop the objective to keep tax compliance costs low.

One of the objectives of the Revenue Department of Thailand is “to collect all taxes efficiently at an appropriate level, at the lowest compliance cost to the Revenue Department and to taxpayers” (The Revenue Department of Thailand, 2012a). However, the concept of tax compliance costs is still little talked about and there is little concern from the government sector to consider these costs. For example, to date, the costs of CIT compliance for SMEs have not been estimated in Thailand.

To consider the development of compliance costs in the policy area, Pope (1993, pp. 71-73) identified six phases or periods. Phase one is the period where the issue of compliance costs is denied; phase two is the recognisable period of compliance costs by experts; phase three is the initial period of estimating the tax compliance costs; phase four is a period where there is compliance costs recognition by policy-makers; phase five is the formulating period of policy actions on compliance costs; and phase six is the monitoring period to estimate costs. With reference to this framework, the development of compliance costs policy in Thailand can be said to be in phase two, namely, “the recognisable period of compliance costs by experts” or possibly phase three, “the initial period of estimating tax compliance costs” (Pope, J. , 1993, p. 71) if the current study is included. There is clearly a gap in the development and analysis of tax compliance costs for Thailand’s taxation system.

Another consideration in regard to tax compliance costs is that “in the case of the European Union and other trade blocs,¹⁰ the issues will involve the impact of the EU’s regulations on member-country compliance costs, as well as the impact of tax harmonisation” (Evans, 2001, p. 9). Similarly, ASEAN will form the ASEAN Economic Community in 2015 (Public Outreach and Civil Society Division, 2009, p.

¹⁰ A trade bloc is a formation by multiple countries to reduce or eliminate regional barriers for trading goods and services (Schott, 1991).

17).¹¹ If Thailand adopts and monitors appropriate policies for tax compliance costs, Thailand's readiness to meet the impact of ASEAN regulations on member-country compliance costs would be demonstrated.

Nearly all research studies to date have shown that tax compliance costs are regressive, and that the tax compliance costs of SMEs are not reducing over time (Evans, 2008, p. 458). Tax compliance costs have become a significant consideration in the policy-making process (Hansford, 2003, p. 489). All of these themes indicate that the issue of CIT compliance costs for SMEs in Thailand warrants investigation.

There are a large number tax compliance cost studies in many countries, yet only a small number of these studies have been undertaken in Asian countries (Ariff, 2001, p. 250). Although there has been research undertaken into Thai taxation, such as tax incentives (Broadway, Flatters, & Wen, 1996), cost-benefit analysis (Poapongsakorn, Charnvitayapong, Laovakul, Suksiriserekul, & Dahlby, 2000), excise tax administration (James, Svetalekth, & Wright, 2005) and personal income tax compliance behaviour (Chandarasorn, 2012), to the best of the author's knowledge, as yet there have been no studies about the tax compliance costs for SMEs.

1.4 Research Objectives

The research objectives in this study are:

1. To identify the economic role of SMEs in the Thai economy
2. To estimate the corporate income tax compliance costs of SMEs in Thailand
3. To identify the burden caused by corporate income tax compliance costs for SMEs in Thailand
4. To use these estimates and findings to place the issue within a taxation policy context and to draw appropriate policy implications.

Thus, the objectives are to provide an estimation of compliance costs and other relevant information regarding SMEs in Thailand to support policy-makers in their consideration of future policy reforms. Without an estimation of compliance costs

¹¹ Three regional agreements on goods, services and investment were signed to sharpen ASEAN's competitive edge as the preferred destination to do business and invest, and to establish ASEAN as a single market and production base by 2015.

being included in the issue of corporate income tax compliance costs of SMEs in Thailand, policy-makers do not have adequate data to make informed policy decisions on the matter. This study represents the first attempt to measure income tax compliance costs for SMEs in Thailand.

The first research objective is analysed from the review of the economic role of SMEs in Thailand. The second objective is achieved through the collection and analysis of quantitative data. Qualitative data is collected and analysed to achieve the third objective to identify the burden caused by corporate income tax compliance costs for SMEs. Finally, both the quantitative and qualitative data including other relevant information regarding SMEs are used to inform the fourth objective to propose a range of policy recommendations for the taxation system in Thailand. The two objectives of the quantitative and qualitative data analysis including the research questions are presented in Table 1.7.

Table 1.7: Research Questions

Objectives	Research Questions
To estimate the corporate income tax compliance costs of SMEs in Thailand	Q1.1: How much are the internal costs? Q1.2: How much are the miscellaneous costs? Q1.3: How much are the external costs? Q1.4: What is the relationship among those costs? Q1.5: How much are the mean internal costs, external costs and tax compliance costs by tax legal structure, location, trading period, definition, employees? Q1.6: What are the internal costs, external costs and tax compliance costs analysed per employee and as a percentage of net profit? Q1.7: What are the main reasons to employ an external professional? Q1.8: What are the areas of business found difficult? Q1.9: How much are the cash flow benefits? Q1.10 How much is the tax deductibility? Q1.11 How much are the net tax compliance costs?
To identify the burden caused by corporate income tax compliance costs for SMEs in Thailand	Q2.1: Do the interviewees agree with the estimation of tax compliance costs from the questionnaire? Q2.2: What are the details of internal costs that are incurred in SME business activities? Q2.3: What are the details of external costs that are incurred in SME business activities and what are the reasons for SMEs to use an external professional? Q2.4: Are tax compliance costs high for SMEs? Why? Q2.5: What is the tax burden issue of corporate income tax compliance costs to SMEs? Q2.6: Are there any cash flow benefit in SME business activities? Q2.7: Are there managerial benefits in SME business activities? Q2.8: What suggestions do SMEs make about tax compliance costs?

Note: According to the quantitative and qualitative methodologies used in objectives two and three, these research questions were supported in order to set a definable objective for the research activity. No research questions were attached to objectives one and four because those objectives could be clearly defined without further research questions.

1.5 Significance of the Research

Three main reasons for the significance of this study can be identified. Firstly, this study estimates the compliance costs of SMEs in Thailand and this estimation has not been undertaken in Thailand. The estimation, in turn, helps to identify the burden incurred when SMEs comply with corporate income tax requirements. The study uncovers the hidden costs in the Thai tax system and economy.

Secondly, the results of this study constitute evidence for policy-makers to consider and pay attention to when framing tax policy. The study formulates constructive policy recommendations to inform Thai policy-makers and influence them to

recognise the burden caused by corporate income tax compliance costs in the policy-making process. Policy attention and continual monitoring should be carried out to address tax compliance costs. The findings could drive the policy reform necessary to support SMEs to reduce compliance costs and increase efficiency, which in turn would help this important sector to survive in a competitive world economy.

Thirdly, the results of this study can increase the practical awareness of the importance of SME compliance costs to the general economy, especially in Thailand. With the knowledge gained in this study, agencies in both the public and private sectors can be more alert and responsive to the problems associated with tax compliance costs in the Thai tax system. The study lays the foundation for further investigation in the field of tax compliance costs in Thailand.

Overall, the significance of this research is established through it being the first attempt to estimate the tax compliance costs of SMEs in Thailand, with a particular focus on corporate income tax.

1.6 Scope of the Research

Corporate income tax is a direct tax which is imposed on the net profit of a legally registered company or limited partnership at the end of an accounting period. For the purposes of this study, a legally registered company or limited partnership is any company and partnership falling within the SME definition used by the Ministry of Industry, Thailand.

The SME definition used by the Ministry of Industry is widely accepted in many sectors in Thailand. Generally speaking, an SME in this study is a business that has no more than 200 employees and has fixed assets of no more than 200 million baht (approximately six million US\$).¹²

Tax compliance costs are considered to be the costs incurred in the steps taken to correctly comply with the corporate income tax law. The survey in the study was related to tax compliance costs for the 2010 tax year.

¹² At an exchange rate on 30 December 2010 of 33.52 baht = US\$1 from the Bank of Thailand (<http://www.bot.go.th>).

1.7 Ethical Issues

The study follows the ethical standards and guidelines set out by Curtin University. The data collection method included questionnaires and interviews which were approved in accordance with the minimal risk ethical requirements by the Curtin University Human Research Ethics Committee (Appendix D).

1.8 Presentation of the Thesis

This research is presented in nine chapters.

This first chapter has provided an overview of Thailand and its economy and introduced the background of the research. The research objectives, research questions, and the significance and scope of the study have been discussed. Overall, this chapter has established the significance of the investigation into the CIT compliance costs of SMEs in Thailand.

Chapter Two provides a review of the key literature on tax compliance costs, with a particular focus on international comparisons of tax compliance costs, the definition of tax compliance costs, and the components of compliance costs used in this study.

Chapter Three presents an overview of SME tax policies in Thailand. The definition of SMEs in Thailand is identified. The contribution of SMEs to the economy in Thailand is discussed. The corporate income tax that applies to SMEs is described.

Chapter Four discusses the methodological choices made in this research including an overview of the philosophical assumptions and a justification for the use of the exploratory study as a research strategy. The data collection techniques and analysis, and the limitations of the adopted approach, are discussed.

Chapter Five presents the findings of the analysis of SME corporate income tax compliance costs for the survey year (2010) by using a quantitative method. The profiles of the respondents are identified in order to help obtain reliable data. The compliance costs in disaggregate form are computed.

The presentation of the survey findings is continued in Chapter Six, where the compliance costs are estimated in terms of the aggregate level. The net compliance costs are highlighted and discussed.

Chapter Seven presents the qualitative findings based on the interviews. The purpose of this discussion is to explore the support for the quantitative findings and to better understand the burden of tax compliance costs from the SME perspective.

Chapter Eight provides a discussion of the quantitative and qualitative findings. A range of policy recommendations are presented.

Chapter Nine concludes the study with a discussion of its limitations and possible directions for further research.

CHAPTER TWO

REVIEW OF TAX COMPLIANCE COSTS AND LITERATURE

2.1 Introduction

This chapter presents a review of previous studies on the topic of tax compliance costs. Studies of tax compliance costs in various countries are examined, with a focus on the main findings on SMEs and corporate income tax, and international comparisons. The definitions of tax compliance costs are also reviewed by exploring in detail the components and offsets of these costs. Finally, the terminology used in the theoretical context of tax compliance costs and the measurement model of tax compliance costs that fits the tax system in Thailand are proposed.

2.2 Studies of Tax Compliance Costs

2.2.1 Introduction

The importance of tax compliance costs was first recognised by Adam Smith in 1776 (cited in Evans, 2003b, p. 1; Sandford, Godwin, & Hardwick, 1989, pp. 24-34) in his four famous maxims of good tax practice, usually referred to as the principles of equity, certainty, convenience and economy. To achieve good tax practice, it is necessary for policy-makers to take into account these four maxims in order to ensure that fiscal policies meet the expectations of a country's taxpayers.

A systematic study of compliance costs was undertaken in 1935 in the United States by Haig (cited in Allers, 1994, p. 242; Pope, 2005, p. 204; Sandford, Godwin, & Hardwick, 1989, p. 27). As noted by Allers (1994, pp. 8-9), in most early studies (from around 1930 to 1991) of tax compliance costs in North America and the Netherlands, the methodologies were weak, and the studies were based on small and non-representative samples which led to the loose identification of costs. Early studies in Germany (from around 1950 to 1985) tended to be influenced by political or government issues (Allers, 1994, pp. 9-10).

The most comprehensive research studies have been carried out in the United Kingdom. These have been undertaken by using mainly large-scale surveys, and have focused on the estimation of the compliance costs involved in various personal and business taxes. For example, a study by Sandford (1973) was concerned with personal taxes, a study by Sandford et al. (1981) was concerned with value-added tax, and a study by Godwin et al. (1983) was concerned with pay as you earn (PAYE) payroll tax.

Studies related to compliance costs research have been conducted in countries throughout the world. This section of the literature review provides an overview of the studies of tax compliance costs in various countries since 1973. A detailed summary of the studies is shown in Appendix B.

Tax compliance cost studies have been published in more than 30 countries. The four countries which have the highest number of tax compliance cost studies are Australia, Canada, the UK and the US. Those are developed countries whose tax studies have related to topics such as personal tax, company income tax, employer-related taxes (fringe benefits tax, prescribed payment system, payroll tax), the start-up of the goods and services tax (GST), quick methods of accounting for the GST, tax expenditures (scientific research and experimental development initiatives) and property taxes. The breadth of these topics indicates that the development of tax compliance cost studies in these countries is advanced and varied.

Among developing countries, some have at least one tax compliance cost study (for example: Armenia, Brazil, Croatia, Ethiopia, Indonesia, Malaysia, South Africa and Tanzania), yet in most developing countries the need for tax compliance costs has not been well recognised.

It is necessary to move tax compliance cost studies forward so that the issue is acknowledged as a part of every tax policy-making debate (Hansford, 2003, p. 489; Sandford, Godwin, & Hardwick, 1989, p. xiii). The policy related to tax compliance costs has been placed in the broader context of tax simplification to reduce the costs of tax compliance (Pope, 1994b, p. 1).

The abundance of compliance costs studies has been noted by some contemporary institutions and researchers, such as Bennett, Brewer and Shaw (2009) who studied compliance costs in the UK using the standard cost model (SCM).¹³ The latest tax compliance cost study by the World Bank Group used a survey of businesses on tax compliance costs based on experience from developing countries (Investment Climate Advisory Service, 2011). There are also multi-country studies of tax compliance costs (for example, Cordova-Novion & De Young, 2001). These studies report on areas covering a range of taxes and tax matters, including income tax and VAT/GST, start-up costs, small-large business tax, developing country tax issues, pre-filing and e-filing.

A number of reasons for the growth of interest in the measurement of tax compliance costs were suggested by Sandford (1995c, pp. 5-7) as follows:

- (a) Changes in technology (facilitating large-scale computer-driven surveys)
- (b) Introduction of VAT regimes in numerous countries with high compliance costs
- (c) Growth of the enterprise culture involving the small business sector for which compliance costs are the most burdensome
- (d) Increased complexity of tax systems
- (e) Increased rights of taxpayers
- (f) The move to keep administrative costs low by shifting the burden to taxpayers.

Evans (2003b, p. 65) noted that more than 100 studies related to compliance costs have been published since the initial study by Haig in 1935 (as cited in Evans, 2003b). More than 60 of those published studies occurred in the US since 1980. The growth of interest in tax compliance costs can be expected to continue in the Asian and Southeast Asian regions, including in Thailand as in the present study.

¹³ The standard cost model is a methodology, developed in the Netherlands, for estimating the administration burden imposed on businesses and individuals by various sorts of government regulations.

2.2.2 International Corporate Income Tax Compliance Cost Studies and Small and Medium Enterprise Tax Compliance Cost Studies, 1989-1990

As mentioned above, tax compliance cost studies have been carried out in various countries focusing on different taxes and tax issues. In this section, the previous studies of corporate income tax and SME tax compliance costs in selected countries are briefly reviewed.

The study by Sandford et al. (1989) is often referred to by researchers who are interested in methodological questions and policy issues (Allers, 1995, p. 10). Conducted for the 1986-1987 tax year, it was the first UK study into tax compliance costs. The study found that compliance costs were approximately £300 million or 2.2 percent of corporate tax revenue, roughly 50 percent of compliance costs were external fees to advisers, and compliance costs were regressive. Most tax compliance cost studies in the world refer to Sandford et al.'s study. In New Zealand, an estimation of tax compliance costs focused on business income tax and found the costs were NZ\$1,226 million in 1989-90 and that the compliance costs were regressive (Sandford & Hasseldine, 1992, p. 2).

2.2.3 International Corporate Income Tax Compliance Cost Studies and Small and Medium Enterprise Tax Compliance Cost Studies, 1991-2000

The first comprehensive study into tax compliance costs in a major Commonwealth country (federal taxes) was undertaken in Australia by Pope (1993). The company income tax compliance costs in the 1990-1991 tax year were estimated to be \$3,246 million before tax offsets and \$2,052 million after tax offsets, and cash flow benefits were estimated to be \$1,194 million. The study focused on the largest compliance costs portion (41 percent) within the income tax system (Pope, 1995, pp. 103-104). The study was based on a postal questionnaire survey distributed throughout Australia. Seven key policy recommendations were presented, including: the reform of the complex income tax system, especially company income tax; the strong case for a taxpayers' charter; and the continual monitoring of tax compliance costs.

During the years 1991-1996, a study of UK-listed corporations showed that tax compliance costs increased by 34 percent and total tax compliance costs were £265 million (KPMG, 1996). In 1992, the corporate income tax compliance costs of large

companies in the US were estimated to be US\$1.5 million per company, and US\$2 billion in aggregate or around 3.2 percent of tax revenue (Slemrod & Blumenthal, 1996, pp. 418 & 421).

After Pope's study in 1993, major Australian studies were conducted by Evans et al. (1996, 1997) into the 1994-95 tax year for the Australian Taxation Office (ATO) through the largest single survey into tax compliance costs. The business tax compliance costs were estimated to be \$8.8 billion (before tax offsets) and \$4.6 billion (after tax offsets) (Evans, Ritchie, Tran-Nam, & Walpole, 1997, p. 51). One of the objectives of these two studies was to provide the ATO with a justifiable and reliable estimate of the compliance costs faced by Australian taxpayers as a result of the existing federal tax regime (both in absolute terms and relative to tax revenue and GDP) (Evans, Ritchie, Tran-Nam, & Walpole, 1996, 1997). Moreover, the studies confirmed that small business bears a high proportion of overall business compliance costs (89 percent) (Evans, Ritchie, Tran-Nam, & Walpole, 1997, p. 81).

A US study of corporate income tax compliance costs conducted by Slemrod (1997, p. 7) estimated that the compliance costs for larger US companies were US\$1.9 million per company in 1996. In 2000, the US tax compliance costs of large and medium enterprises were US\$254,000 per company, or around US\$22 billion in aggregate terms, and tax compliance costs were regressive (Slemrod & Venkatesh, 2002, pp. 24-27).

2.2.4 International Corporate Income Tax Compliance Cost Studies and Small and Medium Enterprise Tax Compliance Cost Studies since 2000

In ASEAN, studies of SME tax compliance costs in Malaysia were published in 2002 (for example: Ariff & Pope, 2002; Hanefah, Ariff, & Kasipillai, 2002). Malaysia is probably the first developing country in ASEAN that studied SME tax compliance costs. The studies found that the tax compliance costs of SMEs were RM21,964 in 1999 with 75 percent of the costs derived internally, and compliance costs for SMEs were three times more regressive than listed companies (Hanefah, Ariff, & Kasipillai, 2002, p. 87). The major source of increase in compliance costs (measured in terms of relative increase of time spent) was time spent with tax agents (around 79

percent), followed by time spent with learning tax law changes (around 55 percent) (Mansor, Saad, & Ibrahim, 2003, p. 13).

In Eastern Europe, business tax compliance costs in Croatia and Slovenia were estimated in 2002 in a study which attempted to compare the tax compliance costs with costs in other countries by considering taxpayer size, cost type and tax type (Klun & Blazic, 2005). The findings found the costs in Croatia and Slovenia were similar to costs in other countries except the compliance cost structure by cost type. It found that other costs (forms, postage, telephone and support software) in these two countries were higher than in other countries. Tax compliance costs were also as regressive as in other countries.

The grounded theory approach to tax compliance costs research was taken by McKerchar et al. (2009) who conducted in-depth interviews with small businesses and tax practitioners in Australia. Their study found that the level of tax compliance costs tended to increase with size and confirmed that compliance costs were a deadweight cost to the economy and should be minimised on efficiency grounds. The study concluded that it was necessary for policy-makers and advisors to have enough current data to understand the nature and extent of the issue. The key findings of that research were that, while all small businesses incurred tax compliance costs, they were not an issue for all small businesses nor necessarily their major compliance cost concern.

In 2010, the Inland Revenue of New Zealand reported that the tax compliance costs of SMEs had marginally reduced from NZ\$5,628 in 2004 to NZ\$5,557 in 2009, a reduction of \$71 (Inland Revenue, 2010, p. 1). Tax compliance cost studies related to corporate income tax and SMEs also occurred in Belgium and South Africa. The compliance costs of Belgian SMEs were significant and regressive, exceeding over seven percent of added value (Reekmans & Simones, 2009, pp. 37-38; Schoonjans, Cauwenberge, Reekmans, & Simones, 2011, p. 617). There were two research studies undertaken in South Africa in 2006-2007 and 2010, namely, a survey of tax practitioners (Smulders & Stiglingh, 2007) and a survey of small businesses (Smulders, 2012). Both studies indicated that the business tax compliance costs of

small businesses were regressive with respect to business size, with the compliance burden being heavier for small businesses.

In Australia, fresh data about the tax burden was collected by electronic survey in a study which estimated that small business tax compliance costs were \$32,389 per company for the 2009-2010 tax year (Lignier & Evans, 2012, p. 647).

2.3 Main Findings in Tax Compliance Cost Studies

Most of the evidence reported in the research clearly shows that small business bears a heavy and disproportionate burden in tax compliance costs as a percentage of annual turnover or tax collected in comparison to large business (Pope, 2009, p. 621). Similarly, the major outcomes of most tax compliance cost studies include the finding that the size of the business is one of the main factors determining tax compliance costs, and most studies confirm the disproportionately high compliance costs for small businesses as a percentage of tax revenue (Evans, 2003b, p. 72). Compliance costs seem to be regressive, and especially place a burden on small businesses. Large businesses have lower compliance costs than small businesses (Blumenthal & Slemrod, 1992; Pope, 2001; Sandford, Godwin, & Hardwick, 1989; Vaillancourt, 1986). As tax compliance costs are always changing over time to follow the tax regime and in response to technological advancements and other changes in the overall business environment, the estimations of tax compliance costs need to be updated (Chittenden, Kauser, & Poutziouris, 2005, p. 636).

In many countries, the continuous trend of SME growth is seriously affected by compliance costs and high tax compliance costs that distort the market economy (Sandford, 1995b, p. 411). Most tax compliance cost studies have found that the industry, region and locality, type of tax and size of the firm affect tax compliance costs. Policy-makers and tax administrators should recognise and understand that most SMEs do not have the same means (for example, in-house expertise and resources) as large businesses with which to comply with the tax system (Charron, Chow, & Halbesma, 2008, p. 24).

The regressive nature of tax compliance costs confirms that tax compliance costs are important; this outcome is the result of the limited resources in SMEs compared with the resources in large enterprises (Rametse & Yong, 2009, p. 90). Slemrod and Venkatesh (2002, p. 5) concluded that greatly differing survey populations, tax laws and processes across countries, not to mention non-uniform survey methodologies, made it impossible to theorise clearly about the income tax compliance costs to business. Therefore, most studies have concluded that tax compliance costs are regressive according to any of the several measures of firm size.

Ariff and Pope (2002, p. 103) summarised the statistical data of external and internal costs in Malaysia and found that the small companies incurred more costs in engaging with external costs than internal costs. The main reason for hiring external advisers to prepare income tax returns was a lack of expertise.

Sawyer (2002, p. 340) suggested that in order to reduce the tax compliance costs of SMEs, a separate tax regime for SMEs should be established. Studies of compliance costs that focused on small businesses in New Zealand found that small businesses had to comply with regulations and submit information to various government agencies (Alexander, Bell, & Knowles, 2004; Massey, 2003; Massey & Ingley, 2007, pp. 151-190). In Australia, one of the aims of regulatory impact analysis¹⁴ is to identify how any proposed regulation achieves its policy objective in a manner which minimises costs for business and the community in order to promote well-designed regulations (Australian Government, 2010). The minimisation of tax compliance costs is one of the concerns for policy-makers in Australia before developing policy and issuing regulations.

Approaches to minimising tax compliance costs include addressing the complexity of tax laws (Pope, J., 1993, pp. 275-276) and simplifying the tax regime (Pope, J., 1993, pp. 283-291). Tax compliance costs can measure the complexity of the tax system (Slemrod, 1992, p. 46) and complex tax systems place large burdens on taxpayers in excess of their tax liability (for example, “taxpayers must pay more than \$1 in order

¹⁴ Regulatory impact analysis is the process of examining the likely impacts of a proposed regulation and a range of alternative options which could meet the government’s policy objectives (<http://www.finance.gov.au>).

for government beneficiaries to receive \$1 of federal government service”) (Laffer, Winegarden, & Childs, 2011, p. 3). Therefore, reducing the complexity would possibly minimise tax compliance costs. Attention to tax compliance costs has now moved on to the difficulties of tax simplification (James, 2005, p. 45). Tax simplification would increase government tax revenue based on the “rule of thumb ... that every one percent saving in the compliance costs of income taxation would increase annual income tax revenue by around \$10 million” (for Australia) (Pope, 1994a, pp. 113-114).

The two major factors determining tax compliance costs are change and complexity (Evans, 2008, pp. 459-460):

- Change refers to changes in legislation or the introduction of new legislation. If it happens frequently, tax compliance costs will be higher.
- Complexity is divided into four main concepts, namely, technical complexity, structural complexity, compliance complexity, and “grit in the system”. Each complexity can be explained as follows:
 - (a) Technical complexity is the level of understanding or comprehensibility of a particular legislative provision in isolation. This particular provision is from the policy consideration.
 - (b) Structural complexity or transactional complexity is the way to interpret and apply the law which can affect the certainty and manipulability of legislative provisions.
 - (c) Compliance complexity is the variety of record-keeping and form-completing tasks a taxpayer must perform to comply with the tax laws.
 - (d) “Grit in the system” is the way taxpayers interact with the revenue authority at the operational, day-to-day level.

However, the most common suggestion for minimising tax compliance costs is keeping a tax as simple as possible; for example, using a single rate, minimum borderlines, high threshold, convenient form of threshold, and minimum special exemptions, reliefs and provisions (Sandford, Godwin, & Hardwick, 1989, p. 213).

If tax compliance costs are highlighted to be of importance in the policy-making process, then policy-makers will keep tax policy simple and tax compliance costs

will not be a burden on taxpayers. Most studies have found that tax compliance costs are regressive and seriously affect SMEs. The major factor that impact on tax compliance costs to be focused on in this study is complexity.

2.4 International Comparisons of Tax Compliance Cost Studies

International comparisons of tax compliance costs have been widely undertaken in order to identify the differences in tax compliance costs in similar taxes in different countries and to support the reasons for reducing tax compliance costs (Sandford, 1995b, p. 405). Caution in undertaking comparative studies was recommended by Sandford (1995b, pp. 405-408) in regard to the following factors:

- The time periods studied
- The quality of the compared data; for example, sample frame, response rates, and the extent of validity testing. Narrower definitions or differences in the quality of the data could be noted.
- Comparisons using the units (for example, compliance costs as a proportion of tax revenue) should be concerned with:
 - (a) The differences in tax structure; for example, a variety of threshold levels of tax or the existence of many more tax reliefs.
 - (b) The make-up of the tax population; for example, the existence of a much higher proportion of self-employed taxpayers in one country would affect the comparisons of income tax compliance costs.
 - (c) The rates of tax.
 - (d) The revenue fluctuations for reasons other than tax rate changes.
- The temporary costs of the learning processes between countries could also affect the level of compliance cost to revenue ratios.

However, international comparisons of tax compliance costs are useful to identify broad findings when the above cautions are taken into consideration (Sandford, 1995b, pp. 407-408).

In Asia, Ariff and Pope (2002, p. 41) reported the comparison of tax compliance costs in Hong Kong, Malaysia and Singapore and found that the larger firms in the three countries must have significant incentives compared with the smaller firms.

The ratio of compliance costs in small, medium and large firms in the three countries was as follows: Hong Kong 3:10:16; Malaysia 1:3:17; and Singapore 2:3:7. Significant incentives, for example tax planning, can reduce the tax compliance costs.

In particular, the planning costs in these three countries were as follows (Ariff & Pope, 2002, p. 41):

- In Hong Kong, large firms incurred 30 percent of total costs, smaller firms incurred 19 percent of total costs;
- In Malaysia, large firms incurred 40 percent of total costs, smaller firms incurred 46 percent of total costs; and
- In Singapore, large firms incurred 36 percent of total costs, smaller firms incurred 58 percent of total costs.

The findings in the study by Ariff and Pope (2002), as summarised in Table 2.1, show that the costs for the larger firms were many times the costs incurred by smaller firms. Their study was broadened by focusing on the relationship of the proportion of compliance costs spent in each firm size in each country without conversion to a standard currency.

Table 2.1: Average Costs of Complying with Corporate Income Tax Listed Firms

Countries (currency)	All Firms	Small Firms	Medium Firms	Large Firms
Hong Kong (HK\$)	346,483	85,950	272,410	456,339
Malaysia (RM)	68,836	15,048	43,848	253,920
Singapore (S\$)	78,396	36,446	61,715	216,575

Source: Ariff and Pope (2002, p. 41).

An international comparison of tax compliance costs in Australia (Lignier & Evans, 2012), Canada (Ebrahimi & Vaillancourt, 2011), South Africa (Smulders, 2012) and the UK (Hansford & Hasseldine, 2012) was conducted in 2010 and 2011 by focusing on the small business sector dealing with the GST/VAT, personal income tax of self-employed individuals and partnerships, corporate tax for companies and payroll-related taxes and levies. The findings suggested that tax compliance costs of small business were significant in all four countries and regressive with size (Evans, Hansford, Hasseldine, Lignier, Smulders, & Vaillancourt, 2012) similar to other tax

compliance cost studies (for example, Evans, 2003b). A key finding of this international comparison of tax compliance costs was that Canada had the highest tax compliance costs for small business. The explanation for the highest tax compliance cost in Canada was that it might come from the lower number of responses affecting the results on small business tax compliance costs in that country. The findings indicated that internal costs in all four countries were much higher than external costs, which was in line with earlier research (for example, Evans, Ritchie, Tran-Nam, & Walpole, 1996).

The study by Evans et al. (2012) classified the respondents according to the turnover for small business in Australia and South Africa and as compliance costs per employee in Canada and the UK. This approach was consistent with the cautions in international comparison recommended by Sandford (1995b, pp. 405-408). Overall, the findings compared the internal costs, the external costs and the tax compliance costs of all four countries by converting the currency to US dollars. More detail is shown in Table 2.2.

Table 2.2: Small Business Tax Compliance Costs in Four Countries

Countries	Internal Costs (US\$)	External Costs (US\$)	Tax Compliance Costs (US\$)
Australia	20,448	13,761	34,209
Canada	40,792	9,453	50,245
South Africa	7,543	4,755	12,298
UK	23,324	13,175	36,499

Source: Evans et al. (2012, p. 16).

2.5 Definitions of Tax Compliance Costs

The most frequent definition of tax compliance costs refers to “those costs incurred by taxpayers, or third parties such as businesses, in meeting the requirements laid upon them in complying with a given tax structure” (Sandford, Godwin, & Hardwick, 1989, p. 10).

To explain this clearly, Sandford, Godwin and Hardwick (1989, p. 11) identified the main forms of compliance costs and how the form affects the various parties in a model (see Figure 2.1). The model shows the affected businesses, where compliance costs include: costs for tax purposes, such as collecting, remitting and accounting for tax on the products or profits of the business and on the wages of its employees; and

the costs of acquiring knowledge about legal obligations and penalties. Moreover, there are the associated overhead costs, such as the cost of storing records as required by the tax authority.

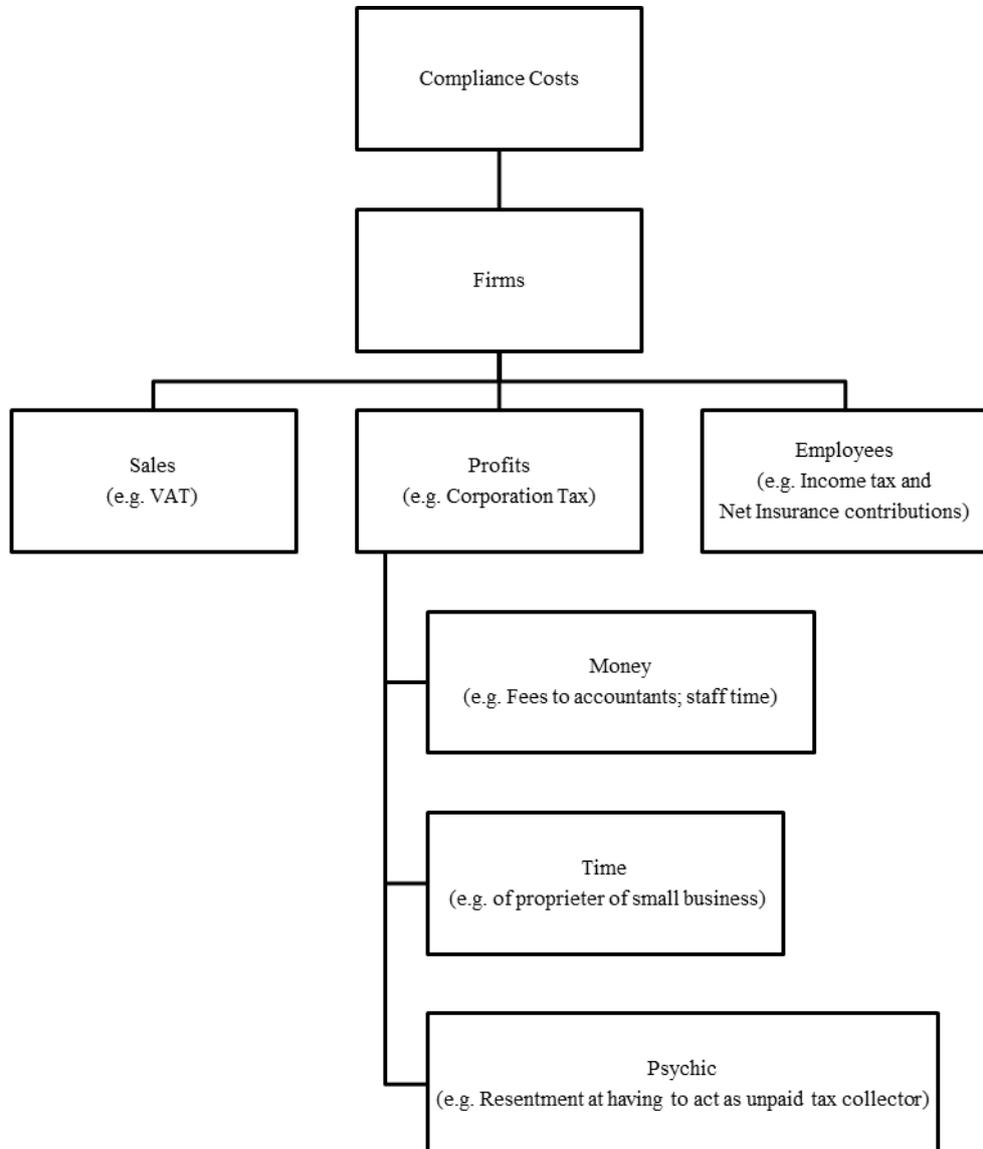


Figure 2.1: Main Forms of Compliance and Affected Businesses

Source: Adapted from Sandford, Godwin and Hardwick (1989, p. 11).

Pope (1993, p. 70) reviewed the most comprehensive tax compliance cost studies in Australia, and defined compliance costs as “hidden costs incurred by individuals, companies and other legal entities in complying with the tax system”. Pope, Fayle and Chen (1994, p. 19) also emphasised that tax compliance costs were all the costs associated with complying with the income tax law and completing the company’s annual income tax return. In terms of corporate income taxation, these costs include:

- the professional fees of tax agents, accountants, investment advisers, lawyers and any other advisers
- the time of internal staff spent on: maintaining tax information throughout the year; completing the tax forms themselves or in preparing information for professional advisers; dealing with the tax authority.

Evans, Ritchie, Tran-Nam and Walpole (1997, p. 3) identified that the tax compliance costs incurred by taxpayers in meeting the requirements of the taxation law included:

- the costs of the taxpayers' own labour;
- the costs of unpaid helpers and internal staff costs;
- the costs of external advisers; and
- the overhead costs such as specific travel, stationery, postage and computer use.

Hanefah (2007, p. 60) explained the tax compliance costs for businesses were from:

- collecting, remitting and accounting for tax;
- wages and salaries of employees who prepared tax returns;
- training of employees to acquire tax knowledge; and
- all incidental costs.

A number of researchers (Abdul-Jabbar & Pope, 2008; Alexander, Bell, & Knowles, 2004; Ariff, Ismail, & Loh, 1997; Evans, Ritchie, Tran-Nam, & Walpole, 1998; Evans, Tran-Nam, & Jordan, 2002; McKerchar, Hodgson, & Walpole, 2009; Tran-Nam, Evans, Walpole, & Ritchie, 2000; Valliancourt & Clemens, 2007) identified tax compliance costs as all the costs taxpayers incurred when dealing with the tax authority to comply with tax requirements above the payment of the tax itself. The costs before any offsetting benefits are known as gross costs (Pope, Fayle, & Chen, 1994, p. 26; Sandford, Godwin, & Hardwick, 1989, p. 14) or social compliance costs (Evans, 2001, p. 6). Because the compliance costs can be evaluated at a social level, they are the cost to the economy when taxpayers comply with taxation by measurement before any offsetting benefits.

Overall, those definitions are similar and specific depending on the type of taxpayer. The focus of the present study is corporate income tax compliance costs. Therefore, the definition of tax compliance costs applies to the tax compliance costs for business when SME taxpayers are dealing with the Revenue Department to make them pay tax correctly. Further discussion on this point follows in the next section. These costs include the compliance with corporate income tax requirements; for example, the costs of internal staff who deal with corporate income tax matters, the miscellaneous costs related to corporate income tax matters, and external tax professional costs.

2.6 Categories of Compliance Costs

2.6.1 Unavoidable and Avoidable Tax Compliance Costs

Sandford, Godwin and Hardwick (1989, p. 12) recognised the distinction made by Johnson (1961) between unavoidable (mandatory) and avoidable (voluntary or discretionary) tax compliance costs. Unavoidable tax compliance costs are essential for taxpayers to pay tax correctly, whilst avoidable costs are the tax planning costs undertaken in order to minimise the tax bill.

In the theoretical context, Pope, Fayle and Chen (1994, pp. 25-26) used the terminology of gross compliance costs that are equal to computational costs plus planning costs. Whether or not the avoidable (voluntary or discretionary) tax compliance costs should be included as part of tax compliance costs has been discussed by Sandford, Godwin and Hardwick (1989, p. 12) and Evans, Ritchie, Tran-Nam, and Walpole (1997, p. 3). Overall, it is agreed that the avoidable (voluntary or discretionary) tax compliance costs should not be included as part of tax compliance costs because the planning costs do not constitute costs that taxpayers are obliged to incur in complying with their tax obligations (Evans, Ritchie, Tran-Nam, & Walpole, 1997, p. 3). On the other hand, the discretionary costs should be included as a part of tax compliance costs because they are a product of the tax. If the tax is removed, the tax compliance costs would disappear (Sandford, Godwin, & Hardwick, 1989, pp. 12-13).

In addition, tax planning costs relate to the efforts to minimise the costs of compliance including legally avoiding tax (Hanefah, Ariff, & Kasipillai, 2002, p. 4).

The difference between unavoidable and avoidable compliance costs is debatable. It is difficult to make a distinction between activities and costs related to tax planning and satisfying the compliance demands of the tax system (Evans, Ritchie, Tran-Nam, & Walpole, 1997, pp. 3-4). The study by Evans, Ritchie, Tran-Nam and Walpole (1997, p. 3) included avoidable costs in the compliance costs and was similar to previous research such as that by Sandford (1973); otherwise, the results would be inconsistent and uncertain.

The present study focused on unavoidable costs and was the first study of SME tax compliance costs in Thailand. This term “tax compliance costs” may have been a new term for some SMEs. It was expected that the difficulty of distinguishing between activities and costs of tax planning would be an obstacle to obtaining reliable data on avoidable costs. The concept of “unavoidable costs” might be more easily understood among SMEs in Thailand.¹⁵

2.6.2 Economic and Non-Economic Costs

Pope (1993, pp. 1-2) defined compliance costs as comprising both economic and non-economic costs. To specify the main form of the (economic) compliance costs of business taxation, Pope designed a model as shown in Figure 2.2. The economic cost includes the monetary and time costs incurred by taxpayers when dealing with the requirements of the tax authorities. The non-economic cost is the psychological cost of stress and anxiety which occurs when taxpayers comply with the tax authority’s requirements and this value tends to be difficult to estimate in practice.

¹⁵ In the opinion of the author, compliance costs might have been new terminology for Thai SMEs. This study is based on the tax knowledge of SME taxpayers in Thailand.

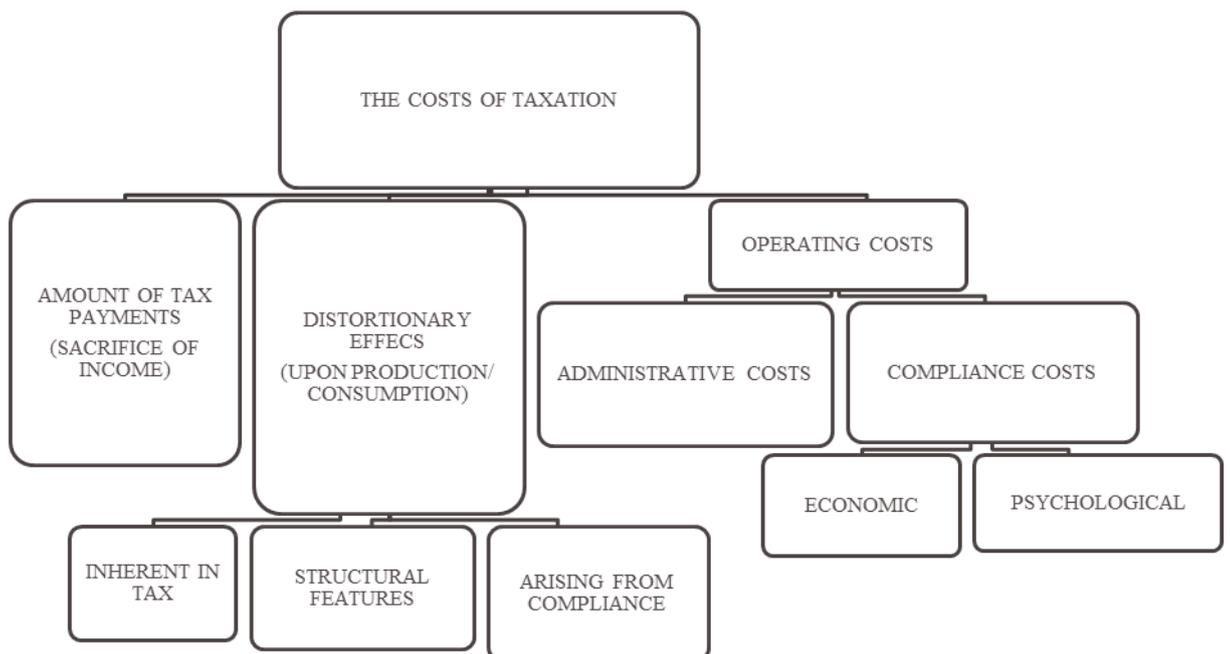


Figure 2.2: Costs of Taxation

Source: Pope (1993, p. 6).

In addition, psychic costs¹⁶ are difficult or impossible to estimate. These are intangible costs, such as the stress created by a tax investigation or the frustration experienced when dealing with tax law (Sandford, Godwin, & Hardwick, 1989, p. 18). The challenge in estimating the feelings of stress or anxiety is how to make the perceptions and data reliable (Evans, Ritchie, Tran-Nam, & Walpole, 1997, p. 3).

Nearly all studies fail to estimate the non-economic or psychological costs. To consider an estimation of compliance costs, the present study examined economic costs, including money and time costs and excluded non-economic or psychological costs.

¹⁶ Psychic costs are now referred to as psychological costs.

2.6.3 Commencement, Temporary and Regular Costs

As noted by Sandford, Godwin and Hardwick (1989, pp. 16-17), commencement costs are the costs arising when introducing a new tax or a major change in an existing tax. Temporary costs are the additional costs incurred during the learning process for both the revenue officers and taxpayers. Regular costs are the continuing costs in dealing with taxation, without temporary costs. Temporary costs occur if the country is frequently changing the tax system. The distinction between temporary, regular and once-only costs is difficult. The costs can be over-estimated. In order to make the costs reliable, it is necessary to allocate the costs in the right track: for example, if one single business has large legal fees in a tax dispute it should be categorised as an isolated case of high costs; if a large percentage of taxpayers are regularly in dispute with the authorities due to ill-conceived legislation, these should be categorised as regular costs.

Evans, Ritchie, Tran-Nam and Walpole (1997, p. 4) noted that compliance costs can be divided into “commencement or initial or temporary costs” and “regular or recurrent costs” and both of these types of costs are incurred when taxpayers comply with the demands of the tax system. Commencement or temporary costs are incurred in the initial training of staff to deal with tax changes or the introduction of new taxes (Evans, Ritchie, Tran-Nam, & Walpole, 1997, p. 4; Tran-Nam, B. & Glover, J., 2002, p. 347).

Similarly, initial costs relate to the costs of implementing new tax laws and the costs of learning tax laws; regular costs are the costs of taxpayers who are familiar with the tax system (Hanefah, Ariff, & Kasipillai, 2002, p. 5; Sandford & Hasseldine, 1992, p. 6).

Sandford, Godwin and Hardwick (1989, p. 17) developed a model that demonstrates the changes in administrative and compliance costs with a new tax, as shown in Figure 2.3. This model describes a process of costs following the introduction of a new tax, the additional costs of the learning process and the continuing costs.

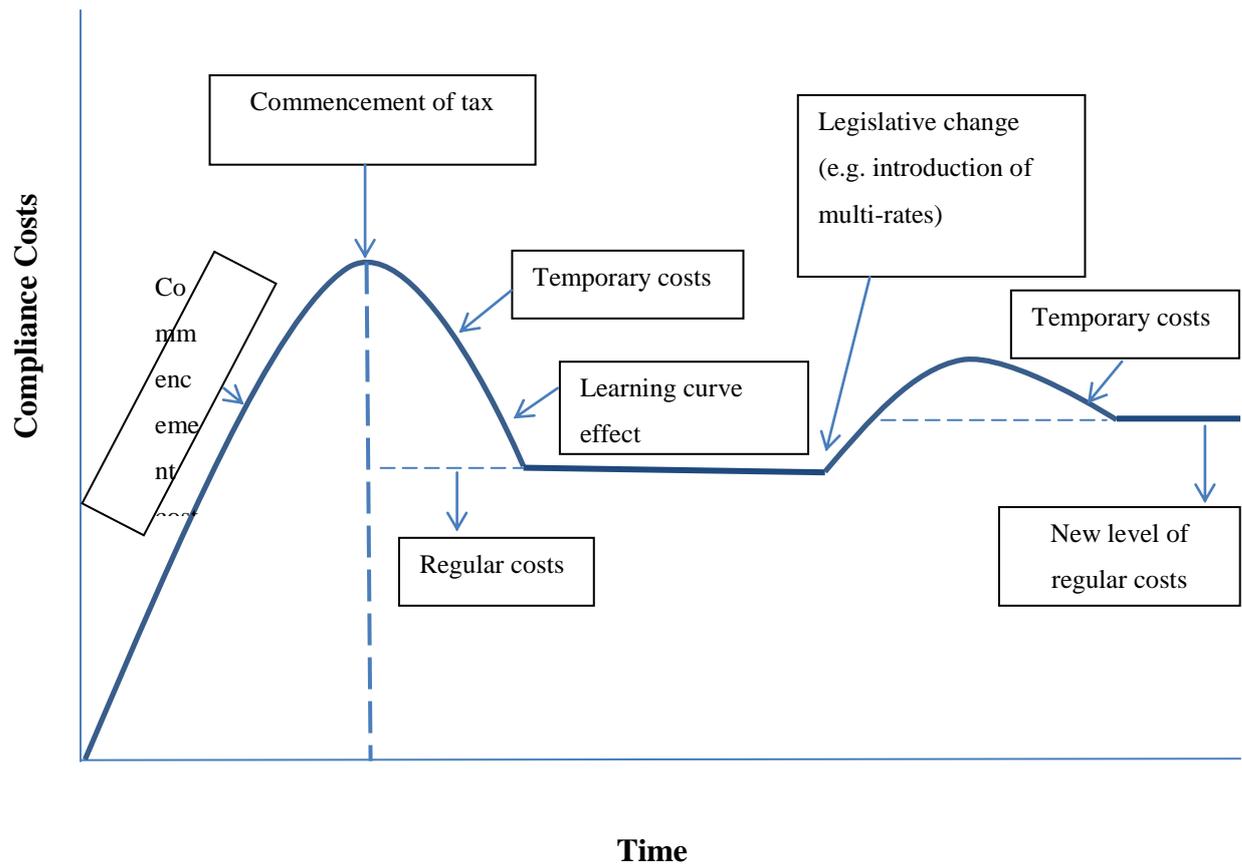


Figure 2.3: Model of Changes in Administrative and Compliance Costs with a New Tax

Source: Sandford, Godwin and Hardwick (1989, p. 17).

2.6.4 Internal and External Costs

Internal costs are composed of all the internal tax work in office hours and the appropriate wage rate plus overhead costs (Pope, Fayle, & Chen, 1991, p. 8; 1994, p. 27). In addition, internal costs are the time spent by company staff on maintaining and preparing information for professional advisers, completing an income tax return and dealing with the tax authorities on tax matters (Hanefah, Ariff, & Kasipillai, 2002, p. 79).

Overhead costs (miscellaneous costs or additional costs or indirect costs) of tax compliance should be included in the tax compliance costs (Evans, Ritchie, Tran-Nam, & Walpole, 1997, p. 3); for example, the costs of equipment, photocopying, stationery, telephones and faxes, postage and specific travelling expenses incurred solely in tax-related work. It is also recognised that obtaining the cost of overheads is difficult in practice. It is hard to identify the overhead costs for tax purposes. Some studies have mentioned that overhead costs might be significant to large businesses

(Evans, Ritchie, Tran-Nam, & Walpole, 1997, p. 29; Sandford, 1995a, p. 396). Some studies have excluded overhead costs in tax compliance costs (Abdul-Jabbar, 2009, p. 74; Evans, Ritchie, Tran-Nam, & Walpole, 1997, p. 29; Hanefah, Ariff, & Kasipillai, 2002, p. 4) but asked respondents to estimate the non-staff costs (Abdul-Jabbar, 2009, p. 74; Pope, Fayle, & Chen, 1994, pp. 27-28).

External costs are derived from the costs incurred from the outside professional advisers (Pope, Fayle, & Chen, 1991, p. 7; 1994, p. 27). External costs are the costs of acquiring the services of lawyers, accountants and investment advisers from outside a company (Hanefah, Ariff, & Kasipillai, 2002, p. 79). Generally, external costs are easily quantifiable compared to internal costs because the joint overhead and other costs have to be estimated in a fairly subjective apportionment (Loh, Ariff, Ismali, Shamsher, & Ali, 1997, p.29).

In order to apply the compliance cost study in the Thai tax system, the present study considered the same tax treatment between SME and large taxpayers, such as the filing period and the audit requirement. Thus, the significance of the overhead costs for SMEs in Thailand is as significant as the overhead costs for large taxpayers as they have the same tax filing requirement. In order to gather details of the tax compliance costs incurred by SMEs, it was useful to ask the respondents in this study about the amount of overhead costs (miscellaneous costs or additional costs or indirect costs).

2.7 Offsets to Tax Compliance Costs

2.7.1 Tax Deductibility

The tax structure explicitly recognises some components of compliance costs and allows the deduction of these costs from tax liabilities. The difference between the before and after tax compliance costs is highlighted (Allers, 1995, p. 40; Evans, Ritchie, Tran-Nam, & Walpole, 1997, p. 20). The money cost is clear; in contrast, the time costs are less clear (Allers, 1995, p. 40).

In Australia, personal taxpayers are allowed to deduct the costs of paid tax advisers and the costs of tax-related incidental expenditure except for the value of time spent

on personal tax affairs (Evans, Ritchie, Tran-Nam, & Walpole, 1997, p. 12). Similarly, for business taxpayers, all tax compliance costs except the value of time spent on business tax affairs by owners and unpaid helpers are legitimate business expenses and can be tax-deductible (Evans, Ritchie, Tran-Nam, & Walpole, 1997, p. 12). Business taxpayers which are making a loss and which have no immediate tax liability will be affected by the value of the tax deductibility of certain tax compliance costs which can be used to reduce future tax liability (Evans, Ritchie, Tran-Nam, & Walpole, 1997, p. 12).¹⁷

2.7.2 Cash Flow Benefits and Managerial Benefits

Compliance costs are not only harmful; they can also be beneficial to business (Sandford, Godwin, & Hardwick, 1989, p. 13). Rigorous record-keeping that complies with the requirements of the tax laws can produce a more efficient financial information system and managerial advantage. The rise of cash flow benefits and managerial benefits can occur directly from the condition of compliance; theoretically speaking, “the net compliance costs are the (gross) compliance costs minus the offsetting benefits” (Sandford & Hasseldine, 1992, pp. 7-8). However, it is difficult to quantify other benefits except cash flow benefits; other benefits are excluded from compliance cost studies normally (Pope, Fayle, & Chen, 1994, p. 28; Sandford, Godwin, & Hardwick, 1989, p. 14).

The method of measuring managerial benefits is difficult in practice and presents a number of conceptual options (Lignier, 2009, p. 129). The indication of managerial benefits could be significant, especially in small firms and where accounting systems are undeveloped (Lignier, 2006, p. 121; 2009, pp. 118-119).

The cash flow benefits are the amount of money received from the lawful delay in the payments of tax revenue and the amount of money held by taxpayers on behalf of the Revenue Department before the tax due date (Evans, Ritchie, Tran-Nam, & Walpole, 1997, p. 14). In the present study, the measurement of the net compliance costs is the (gross) compliance cost minus the cash flow benefits in practice (Pope,

¹⁷ See Chapter Four, Section 4.3.5.2.

Fayle, & Chen, 1994, pp. 31-32; Sandford, Godwin, & Hardwick, 1989, pp. 13-14; Sandford & Hasseldine, 1992, p. 8). Further details on the methodology are discussed in Chapter Four.

The estimate of the aggregate compliance costs comes from the tax compliance costs after offsetting benefits. The equation of the offset to tax compliance costs is:

$$\text{Net Tax Compliance Costs} = \text{Gross Tax Compliance Costs} - (\text{Tax Deductibility} + \text{Cash Flow Benefits} + \text{Managerial Benefits})$$

2.8 Components of Compliance Costs in this Study

The present study defines the categories of tax compliance costs to estimate the corporate income tax compliance costs of SMEs in Thailand in a similar way to many previous studies (such as, Evans, Ritchie, Tran-Nam, & Walpole, 1997; Hanefah, Ariff, & Kasipillai, 2002; Pope, Fayle, & Chen, 1991; Pope, J., Fayle, R., & Chen, D.L., 1993; Pope, Fayle, & Chen, 1994; Pope, Fayle, & Duncanson, 1990; Sandford, Godwin, & Hardwick, 1989; Slemrod & Venkatesh, 2002).

The composition of internal costs includes the internal staff costs and additional non-staff costs (miscellaneous costs or additional costs or overhead costs or indirect costs) (for example, stationery, postage, travelling software, computer and other additional costs). The external costs of this current study include the fees paid to tax accountants, tax auditors, auditors, lawyers and others. The components of tax compliance costs in this study are set out in Table 2.3. The main estimation was unavoidable tax compliance costs, in particular in relation to economic costs. The net tax compliance costs were estimated from gross tax compliance costs deducted by tax deductibility and cash flow benefits. The managerial benefits were identified by qualitative data. The avoidable tax compliance costs (planning costs) and temporary costs were not addressed in this study due to the level of tax compliance costs of the relevant SMEs; such introduction may have induced unwanted complication.

Only unavoidable tax compliance costs or computation costs were estimated. Commencement costs apply to new businesses so they were not applicable in this

study. A model of corporate income tax compliance costs of SMEs in Thailand is proposed as shown in Figure 2.4.

Table 2.3: Components of Tax Compliance Costs in This Study

Categories of Tax Compliance Costs from the Literature	“YES” = In this study “NO” = Not in this study
Unavoidable Tax Compliance Costs	YES
Avoidable Tax Compliance Costs (Planning Costs)	NO
Economic Costs	YES
Psychological Costs	NO
Commencement Costs	N/A*
Temporary Costs	NO
Internal Costs	YES
External Costs	YES
Cash Flow Benefits	YES
Managerial Benefits	YES (assessed in qualitative findings only)
Tax Deductibility	YES

* Not Applicable – This applies to new businesses.

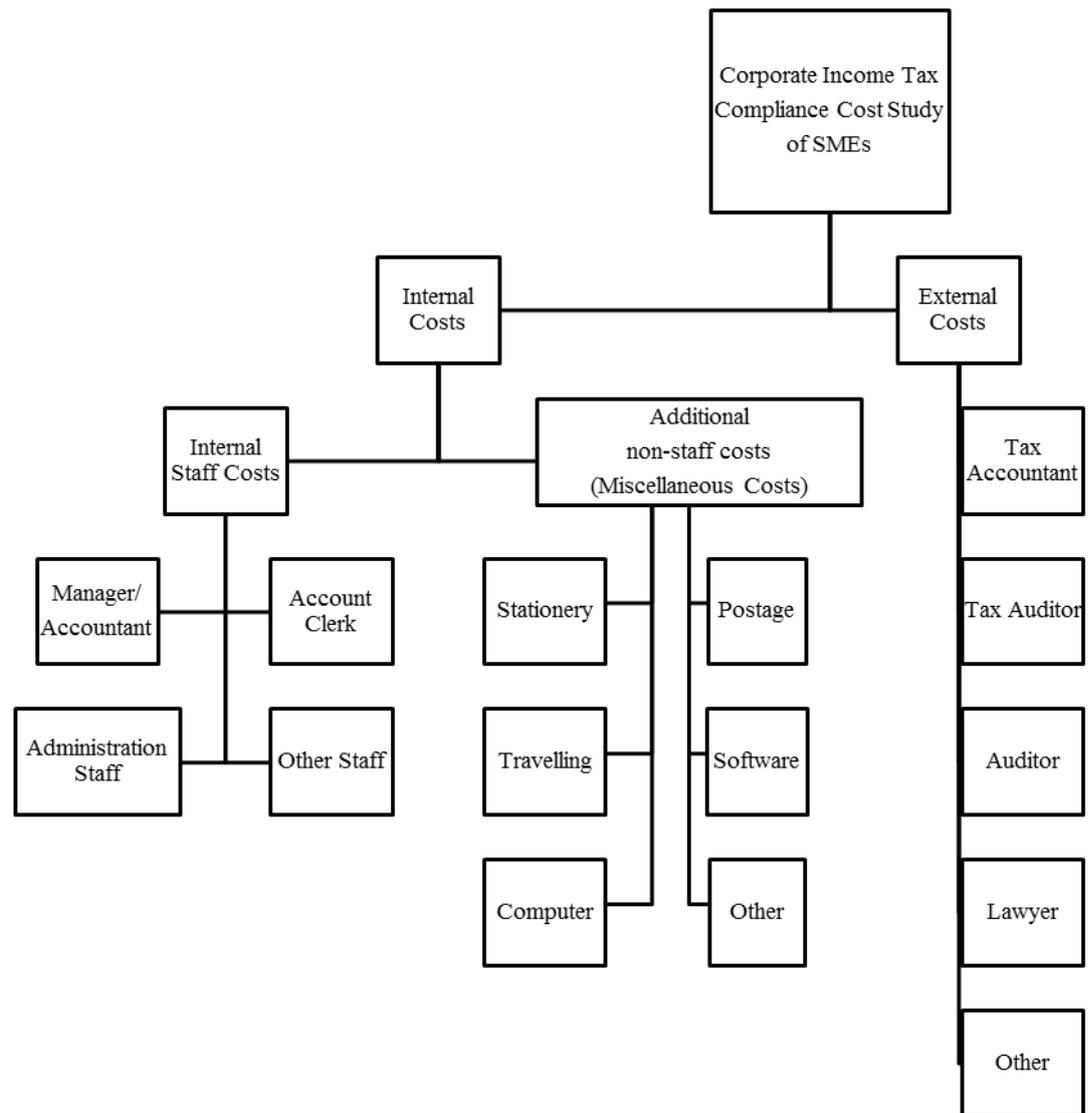


Figure 2.4: Model of Corporate Income Tax Compliance Costs of Small and Medium Enterprises in This Study

2.9 Summary

In summary, the previous studies of corporate income tax and SME tax compliance costs in selected countries were reviewed and aligned with the theoretical approach to support this study. Many research studies have shown that tax compliance costs are regressive; especially the tax compliance costs of SMEs. Complexity is identified as the major factor determining tax compliance costs and impacting on SME tax compliance costs. As discussed, the international comparisons of tax compliance costs must make a particular note of the cautions recommended by Sandford (1995).

As an understanding of SME corporate income tax compliance costs was needed in Thailand, it was appropriate to design a special survey method and model to suit the Thai tax system. Many definitions and categories have been proposed for the phrase “tax compliance costs”. The current study applied the meaning of tax compliance costs to suit the Thai context. The internal costs (internal staff costs and additional non-staff costs or miscellaneous costs, such as stationery, postage, travelling, software, computers and other additional costs) and the external costs (tax accountant, tax auditor, auditor, lawyer and others) were examined to compute the overall tax compliance costs. Non-economic costs were not considered in the present study. The cash flow benefits and tax deductibility are discussed in Chapter Six. The managerial costs are discussed in Chapter Seven.

In most developing countries, the focus on tax compliance costs during the policy-making process is important. Many studies have identified the effects of tax compliance costs on taxpayers, especially SME taxpayers. The next chapter outlines the SME tax and relevant policies in Thailand.

CHAPTER THREE

SMALL AND MEDIUM ENTERPRISE TAX AND RELEVANT POLICIES IN THAILAND

3.1 Introduction

This chapter is divided into two parts. The first part is an overview of SMEs that includes the definitions of SMEs in Thailand. However, the most important area under review is the contribution of SMEs in Thailand. The second part of the study details the corporate income tax issues which SMEs have to deal with in Thailand and highlights the recent tax rates for SMEs. As this study focused on SMEs and CIT issues, the understanding of these two topics is the central aim of this chapter.

3.2 Small and Medium Enterprises

3.2.1 Definition of Small and Medium Enterprise

Small and Medium Enterprises are recognised as important drivers of the economy in emerging and developing countries. The definition of SMEs is important in order to determine concessions for them. It is a belief held among members of the European Commission that clear instructions regarding the definition of SMEs can support the treatment of particular relationships between SMEs and other enterprises by calculating the enterprise's financial and staff figures (European Commission, 2005, p. 10). There are various definitions among emerging and developing countries, and even within single countries (Economic and Social Commission for Asia and the Pacific, 2012, p. 40). Sometimes, these various definitions can create difficulties for SMEs. A common complaint of SMEs is the difficulty to meet government requirements and regulations due to the various definitions (Massey & Ingley, 2007, p. 168).

In Thailand, the main definition of SMEs is determined by the Ministry of Industry. This definition is characterised by the number of salaried workers and fixed assets. It is classified into three sections, namely: production, service, and trading (wholesale and retail). The number of employees, as well as the amount of fixed assets, is

mainly used to determine the size of the enterprise; land cost is not included in assets. In general, enterprises having a total number of employees of less than 200 and fixed assets of less than 200 million baht are categorised as SMEs (Office of Small and Medium Sized Enterprises Promotion, 2002), as shown in Table 3.1.

Table 3.1: Definition of Small and Medium Enterprises, Thailand

Type	Small		Medium	
	Employees	Fixed Assets (million baht)	Employees	Fixed Assets (million baht)
Production	Not more than 50	Not more than 50	51-200	51-200
Service	Not more than 50	Not more than 50	51-200	51-200
Wholesale	Not more than 25	Not more than 50	26-50	51-100
Retail	Not more than 15	Not more than 30	16-30	31-60

Source: Office of Small and Medium Enterprises Promotion (2002).

As mentioned above, there are varying definitions of SMEs from country to country, and even within a single country such as Thailand. The main definition of SMEs in Thailand follows the definition given by the Ministry of Industry; however, there are diverse definitions by which to determine SMEs from many institutes or organisations. Small and Medium Enterprises must understand each of the criteria when they have to deal with different institutes or organisations, for example, the definition for tax purposes, the definition for financial purposes, and the definition for becoming a listed company. The definition of SMEs for tax purposes is discussed in the second part of this chapter.

The present study included SMEs listed in the Market for Alternative Investment (MAI)¹⁸ to be part of the survey respondents. The definition of SMEs in the MAI is those enterprises which have paid-up capital only in respect of ordinary shares in an amount not less than 20 million baht but lower than 300 million baht (MAI, 2003). There are many qualifications to be met in order to be a listed company in the MAI. However, the present study focused only on the paid-up capital to count the respondents in the MAI. Further details of this approach are discussed in Chapter Four.

¹⁸ The Market for Alternative Investment is a stock exchange which was established by the Stock Exchange of Thailand in 1998 under the Securities Exchange of Thailand Act as an alternative stock market for SMEs. It officially commenced operation on June 21, 1999. It is located in Khlong Toei, Bangkok.

3.2.2 Number of Small and Medium Enterprises in Thailand

In Thailand, all roads seem to lead to SMEs. Small and Medium Enterprises are everywhere and on every corner of the street in Thailand. In Bangkok, for example, there are many types of SME businesses along the roads, including vendor businesses, food stalls, grocery shops, retail/wholesale shops, as well as small/medium professional businesses. All these count as SMEs but are quite different in terms of management systems, assets, employment, size, capital, economies of scale and so on. Although the definition of the SME was considered during the policy-making process in Thailand, it seems that not enough attention has been given to the design of a policy to suit the real needs of SMEs.

In 2010, there were 2,913,167 SMEs in Thailand, making up 99.60 percent of the total number of enterprises in the country. These SMEs comprised 2,894,780 small enterprises (SE) and 18,387 medium enterprises (ME), or 98.97 percent and 0.63 percent of the total number of enterprises in Thailand, respectively (Office of Small and Medium Sized Enterprises Promotion, 2010, p. 4-1).¹⁹ This is greater than the number of large enterprises (LE) at 9,140, or 0.31 percent of the total number of enterprises. From 2008 to 2010, SMEs were the highest number of enterprises in Thailand (Office of Small and Medium Sized Enterprises Promotion, 2008, p. 22; 2009, p. 4-1; 2010, p. 4-1). More detail is shown in Table 3.2.

Table 3.2: Number and Percentage of Enterprises

Size	Number			Percentage		
	2008	2009	2010	2008	2009	2010
Small Enterprises	2,815,560	2,884,041	2,894,780	99.3	99.4	98.97
Medium Enterprises	12,073	12,065	18,387	0.4	0.4	0.63
SMEs	2,827,633	2,896,106	2,913,167	99.7	99.8	99.60
Large Enterprises	4,586	4,653	9,140	0.2	0.2	0.31
Not specified	4,158	-	2,605	0.1	-	0.09
Overall	2,836,377	2,900,759	2,924,912	100.00	100.00	100.00

Source: Office of Small and Medium Enterprises Promotion (2008-2010).

For the survey conducted in the present study, the number of SMEs by region was computed to cover all the regions in Thailand. In 2010, the number of SMEs in the Northeast was the largest, at 26 percent. The number of SMEs in Bangkok was about

¹⁹ The office of Small and Medium Enterprises Promotion was established under the SME Promotion Act, B.E. 2543 (A.D.2000), with the main responsibility of providing policy and plans for SME promotion (www.sme.go.th).

20 percent, which was similar to the number of SMEs in the Central region, which was about 19 percent as shown in Table 3.3 (Office of Small and Medium Sized Enterprises Promotion, 2010, pp. 4-2 to 4-4).

Table 3.3: Number of Small and Medium Enterprises by Region

Region	SMEs	Percentage
North	469,550	16.12
Bangkok and its surrounding areas	573,634	19.69
Central	564,123	19.36
South	397,718	13.65
East	152,609	5.24
Northeast	755,462	25.93
Not specified	71	0.01
Overall	2,913,167	100.00

Source: Adapted from Office of Small and Medium Enterprises Promotion (2010).

In addition, SMEs played a role in every sector, in comparison with large enterprises. There were 1,383,391 SMEs in the sector of trade and maintenance, and SMEs were the largest category of enterprises in the other sectors. The number of enterprises by business activities emphasised that SMEs were still larger than other large enterprises (Office of Small and Medium Sized Enterprises Promotion, 2010, pp. 4-1 & 4-7). The details are shown in Table 3.4 and Table 3.5.

Table 3.4: Number of Enterprises by Sector

Sector	SE	ME	SME	LE	Not Addressed	Overall
Trade and Maintenance	1,378,060	5,331	1,383,391	3,692	282	1,387,365
Service	976,503	7,107	983,610	2,615	111	986,336
Manufacturing	539,152	5,946	545,098	2,819	1,787	549,704
Others	205	0	205	11	414	630
Not specified	860	3	863	3	11	877
Overall	2,894,780	18,387	2,913,167	9,140	2,605	2,924,912

Source: Adapted from Office of Small and Medium Enterprises Promotion (2010).

Table 3.5: Number of Enterprises by Business Activity

ISIC*	SE	ME	SME	LE	N/A	Overall
A Agriculture, hunting, forestry	4,818	172	4,990	49	35	5,074
B Fishing	383	20	403	8	-	411
C Mining and quarrying	4,661	115	4,776	26	207	5,009
D Manufacturing	515,967	5,554	521,521	2,677	1,536	525,734
E Electricity, gas, and water supply	1,874	77	1,951	59	6	2,016
F Construction	101,405	796	102,201	243	1	102,445
G Wholesale, retail trade, repair of motor vehicles	1,441,119	5,346	1,446,465	3,692	693	1,450,850
H Hotels and restaurants	270,354	1,224	271,578	335	47	271,960
I Transport and storage	112,858	734	113,592	229	11	113,832
J Financial intermediation	13,494	674	14,168	508	8	14,684
K Real estate activities	224,102	2,997	227,099	1,075	3	228,206
M Education	2,208	54	2,262	13	-	2,275
N Health and social work	7,494	175	7,669	124	5	7,798
O Other community, social and personal service activities	193,109	446	193,555	88	8	193,651
Not specified	934	3	937	14	16	967
Overall	2,894,780	18,387	9,140	2,913,167	2,605	2,924,912

Source: Office of Small and Medium Enterprises Promotion (2010).

Note: *ISIC stands for International Standard Industrial Classification.

3.2.3 Number of Employees

In 2010, SMEs employed 10,507,507 people or 78 percent of total enterprise employees. Small enterprises employed the largest proportion of all enterprise employees at 67 percent of total enterprises, medium enterprises employed 11 percent of total enterprise employees and large enterprises employed 22 percent of total enterprise employees, as shown in Table 3.6 (Office of Small and Medium Sized Enterprises Promotion, 2010, p. 4-18).

Table 3.6: Number of Employees by Type of Enterprise

Size	Number of Employees	Percentage
Small Enterprises	9,005,265	66.72
Medium Enterprises	1,502,242	11.13
SMEs	10,507,507	77.85
Large Enterprises	2,988,581	22.14
Not specified	85	0.00
Overall	13,496,173	100.00

Source: *Office of Small and Medium Enterprises Promotion (2010)*.

Note: Does not sum to 100.00 percent due to rounding.

Although SMEs comprised the highest percentage of enterprises in the Northeast compared with other regions (Table 3.3), SMEs did not make a significant contribution to employment there. The largest contribution to employment was in Bangkok, where SMEs employed 32 percent of the employees in enterprises. Bangkok is the capital city of Thailand and has the highest population compared with other regions. Overall, the number of SME employees by region is shown in Table 3.7 (Office of Small and Medium Sized Enterprises Promotion, 2010, pp. 4-19 to 4-21).

Table 3.7: Number of Small and Medium Enterprise Employees by Region

Region	Number of Employees	Percentage
North	1,180,200	11.23
Bangkok and its surrounding areas	3,320,141	31.60
Central	2,686,449	25.57
South	1,037,575	9.87
East	615,283	5.86
Northeast	1,667,859	15.87
Not specified	-	-
Overall	10,507,507	100.00

Source: *Adapted from Office of Small and Medium Enterprises Promotion (2010)*.

In SMEs in the trade and maintenance sector, the number of employees was 3,250,119 or 30 percent. Small and Medium Enterprises in the services sector employed 3,764,118 or 36 percent and SMEs in the manufacturing sector employed 3,493,270 or 33 percent, as shown in Table 3.8 (Office of Small and Medium Sized Enterprises Promotion, 2010, p. 4-18). Small and Medium Enterprises in the service sector employed the greatest number compared with SMEs in other sectors.

Table 3.8: Number of Small and Medium Enterprise Employees by Sector

Sector	Number of Employees	Percentage
Trade and Maintenance	3,250,119	30.03
Service	3,764,118	35.82
Manufacturing	3,493,270	33.25
Not specified	-	-
Overall	10,507,507	100.00

Source: Office of Small and Medium Enterprises Promotion (2010).

Note: Does not sum to 100.00 percent due to rounding.

A breakdown of SME employment by business activity confirmed that SMEs employed the greatest proportion of employees compared with large enterprises. In 2010, the number of people employed by SMEs was 10,507,507, while the number of people employed by large enterprises was 2,988,581. Details of the number of employees by business activity are shown in Table 3.9 (Office of Small and Medium Sized Enterprises Promotion, 2010, p. 4-36).

Table 3.9: Number of Employees by Business Activity

ISIC	SE	ME	SMEs	LE	N/A	Overall
A Agriculture, hunting, forestry	32,712	10,098	42,810	29,683	-	72,493
B Fishing	2,378	1,646	4,025	300	-	4,325
C Mining and quarrying	31,762	8,063	39,825	2,397	-	42,222
D Manufacturing	2,552,992	851,593	3,404,585	1,738,877	-	5,143,462
E Electricity, gas, and water supply	11,183	4,716	15,899	3,755	-	19,654
F Construction	403,522	53,822	457,344	100,262	-	557,606
G Wholesale, retail trade, repair of motor vehicles	3,089,511	160,608	3,250,119	498,073	-	3,748,192
H Hotels and restaurants	888,647	98,105	986,752	107,849	-	1,094,601
I Transport and storage	362,785	63,804	426,589	88,639	-	515,228
J Financial intermediation	97,914	48,040	145,954	162,545	-	308,499
K Real estate activities	947,063	103,205	1,050,268	163,351	-	1,213,619
M Education	7,794	2,408	10,203	4,204	-	14,406
N Health and social work	36,851	30,081	66,933	66,191	-	133,124
O Other community, social and personal service activities	540,011	66,053	606,064	22,454	-	628,517
Not specified	138	-	138	-	85	223
Overall	9,005,265	1,502,242	10,507,507	2,988,581	85	13,496,173

Source: Office of Small and Medium Enterprises Promotion (2010).

3.2.4 Gross Domestic Product Contribution of Small and Medium Enterprises

With regard to the non-agricultural sector, the percentage of contribution of SMEs to Thailand's GDP for the years 2008, 2009 and 2010 was 38 percent, 38 percent and 37 percent, respectively (Office of Small and Medium Sized Enterprises Promotion, 2010, pp. 1-2), as shown in Table 3.10. Although the number of employees in SMEs is greater than for large enterprises, large enterprises nevertheless contributed more to Thailand's GDP.

Table 3.10: Gross Domestic Product of Enterprises

Size	GDP (percentage)		
	2008	2009	2010
SMEs	38.1	37.8	37.1
Large Enterprises	45.8	45.9	46.1
Others	4.4	4.7	4.4
Agricultural Sectors	11.7	11.6	12.4
Overall	100	100	100.0

Source: Office of Small and Medium Enterprises Promotion (2008-10).

Enterprises contributed considerably to non-agricultural sector production, with a contribution of over 80 percent during the years 2008-2010. The percentage of SME contribution in the non-agricultural sector was around 37 percent of total GDP of enterprises in the years 2008-2010. Overall, it is concluded that SMEs play a crucial entrepreneurial role in Thailand.

3.3 Taxation of Small and Medium Enterprises in Thailand

3.3.1 Introduction

In Thailand, SMEs that are registered under business organisation laws are subject to taxation as stipulated in the Tax Code. They are also subject to income tax on income earned from sources within and outside Thailand. This is called corporate income tax. Basically, a business organisation means a limited company, limited partnership, or registered partnership under Thai or foreign law and includes any joint venture, any trading or profit-seeking activity carried on by a foreign government or its agency, or by any other body organised under a foreign law and any foundation or association engaged in any revenue producing business (Sujjapongse, 2005, pp. 1014-1015).

Tax incentives are provided to SME taxpayers in Thailand; for example, there are special tax rates for companies listed in the MAI and tax exemptions of up to 150,000 baht of net taxable profit for SMEs with registered capital of less than five million baht. Further details of these incentives are discussed in the next section.

3.3.2 Corporate Income Tax

Corporate income tax is a direct tax levied on net profit by subtracting all allowable deductible expenses from total sales (Revenue Department of Thailand, 1938), and is commonly known as net income and net earnings. The allowable deductible expenses are subject to conditions found in corporate income tax law. All allowable deductible expenses from total sales fall within in a specific-accounting period.

Net losses of CIT can be carried forward for up to five consecutive years. Taxes are due on a semi-annual basis within 150 days of the close of a six month accounting period. Except for newly incorporated companies, an accounting period is defined as a 12 month period.

The Revenue Department provides a special CIT rate for SMEs with paid-up capital of less than five million baht as follows: for net profits of less than 150,000 baht, tax is exempt; for net profits between 150,000 to one million baht, the tax rate is 15 percent; for net profits of between one to three million baht, the tax rate is 25 percent; and for net profits of more than three million baht, the tax rate is 30 percent (Fiscal Policy Office, 2008, p. 51). These rates are set out in Table 3.11.

Table 3.11: Corporate Income Rates of Small and Medium Enterprises

Taxpayer	Tax Base	Rate
Small company which refers to a company with paid-up capital less than 5 million baht at the end of each accounting period	Net profit not exceeding 150,000 baht	Exempt
	Net profit over 150,000 baht up to 1 million baht	15%
	Net profit over 1 million baht up to 3 million baht	25%
	Net profit exceeding 3 million baht	30%

Source: The Fiscal Policy Office (2008).

The CIT rates for 2012 and 2013 provide favourable taxation rates (including for SMEs) (Revenue Department of Thailand, 2011a). In the new rate structure, corporate income taxpayers are defined as companies or partnerships with paid-up capital not exceeding five million baht and sales or service revenue not exceeding 30 million baht during the accounting period (Revenue Department of Thailand, 2011a, 2012c). Further details of the applicable rates are shown in Table 3.12.

Table 3.12: Corporate Income Tax Rates of Small and Medium Enterprises for the Accounting Period 2012 and 2013

Taxpayer	Tax Base	Rate (accounting period for the year 2012)	Rate (accounting period for the year 2013)
Companies or partnerships with paid-up capital less than 5 million baht at the end of each accounting period and the sales or service revenue not exceeding 30 million baht during the accounting period	Net profit not exceeding 150,000 baht	Exempt	Exempt
	Net profit over 150,000 baht up to 1 million baht	15%	15%
	Net profit exceeding 1 million baht	23%	20%

Source: The Revenue Department of Thailand (2012).

Companies listed in the MAI also have special tax rates. In the 2011 accounting period, the favourable treatment for the companies listed in the MAI was as follows: net profit for the first 20 million baht was subject to the tax rate of 20 percent, and net profit for the first 50 million baht was subject to the tax rate of 25 percent (Revenue Department of Thailand, 2011b). Table 3.13 shows further detail of these rates.

Table 3.13: Corporate Income Tax Rates of Companies Listed in the Market for Alternative Investment

Taxpayer	Explanation on application of tax rate in tax computation	Rate
Companies listed in the MAI	Net profit for first 20 million baht (for 3 consecutive accounting periods before 31 December 2011)	20%
Companies listed in the MAI	Net profit for first 50 million baht (for the accounting period commencing on or after 1 January 2011)	25%

Source: The Revenue Department (2012).

Small and Medium Enterprises do not attract much attention in terms of tax revenue contributions as they are less profitable than large enterprises (International Tax Dialogue, 2007, p. 3). However, most politicians like to provide tax incentives without being concerned about tax compliance costs (Pope, 2008, pp. 21-23). Tax incentives are widely applied to support SMEs in many countries, and this strategy is justified that there may be market failure affect to SMEs in economic policy terms (Freedman, 2003, p. 14). This can also be relevant to the situation of SMEs in Thailand.

For tax incentive purposes, the Revenue Department (2008) defined the manner in which SMEs can receive tax benefits from the department in a more rigorous direction, as follows:

(1) A Thai company with durable assets (excluding land) of less than 200 million baht and hiring less than 200 people as employees is granted an initial allowance on assets as follows:

(a) Computer hardware and peripherals can depreciate from the acquisition date at 40 percent of its total cost. The remaining will be depreciated at a regular rate for at least three accounting periods;

(b) Durable building and plant can depreciate from the acquisition date at 25 percent of its cost. The remaining will be depreciated at a regular rate not exceeding five percent of the total cost per year;

(c) Machinery and equipment can depreciate from the acquisition date at 40 percent of its total cost. The remaining will be depreciated at a regular rate not exceeding 25 percent of the total cost per year. This directive is effective for assets which were acquired on or after 31 January 2002 (B.E. 2545);

(2) Full corporate income tax exemption will be granted for a qualified venture capital (VC) company on dividend income and capital gains from the sale of stock received from investing in a Thai company with durable assets (excluding land) of less than 200 million baht and hiring less than 200 employees. A qualified VC company must be as follows:

(a) A company incorporated in Thailand which is undertaking venture capital business as prescribed in Ministerial Notification and having capital of not less than 200 million baht and paid-up capital of at least 50 percent in the first year.

The remaining capital will be paid-up within three years starting from the date of registration;

(b) The VC company must be registered with the office of Securities and Exchange Commission within three years from 31 January 2002 (B.E. 2545);

(c) The VC company must have a share of paid-up capital in SMEs of not less than 20 percent for the first year, 40 percent for the second year, 60 percent for the third year and 80 percent for the fourth year;

(d) The VC company must hold SME stock for at least seven consecutive years, or at least five years if that SME can be registered with the Stock Exchange of Thailand;

(e) A manager of a VC company must hold a securities business license in a type of joint investment management which is approved by the Securities and Exchange Commission. This is to be effective on or after 31 January 2002 (B.E. 2545);

(3) Income tax exemption will be granted on dividends or income from sales of securities received from the VC's exempt income. This is effective on or after 31 January 2002 (B.E. 2545).

3.3.3 Procedure of Corporate Income Tax

A taxpayer in Thailand follows the self-assessment system of tax administration. According to tax law code, taxpayers have to declare their income and pay tax correctly to the Revenue Department.

Small and Medium Enterprise corporate income taxpayers have a duty to file an income tax return under Section 67 Bis, Section 68 and Section 69 of the Revenue Code by using two forms known as P.N.D. 51 and P.N.D. 50.²⁰ The P.N.D. 51 form is used for the income tax return for six months or the half-yearly return of the relevant accounting period. Taxpayers pay 50 percent of the estimated annual income tax by the end of the eighth month of the accounting period. The company's corporate tax for six months or half-yearly return of the accounting year must be filed with the Revenue Department within two months after the half-year end.

²⁰ The filing of P.N.D. 51 comes before the filing of P.N.D. 50. Forms P.N.D. 51 and P.N.D. 50 are attached in Appendix C.

For example, if the accounting year of the company ended in December, the half-year occurs in June; thus, the P.N.D. 51 form must be submitted by August, together with payment of 50 percent of the estimated annual income tax. For the P.N.D. 50 form, this tax must be submitted to the Revenue Department within 150 days after the accounting year has ended, along with the audited financial statements. That form will refer to the previous P.N.D. 51 form and credit or debit from that taxable amount.

For example, in the case of a period that ends in December, the deadline for CIT in Thailand is around the end of May. The income tax returns must be accompanied by financial statements that have been audited by auditors or tax auditors. The duty and role of auditors and tax auditors in Thailand are set out in Table 3.14 (Revenue Department of Thailand, 2012b).

Table 3.14: Duty and Role of Auditor and Tax Auditor in Thailand

	Auditor	Tax Auditor
Registration	According to Accounting Professional Act BE 2547 (2004), the auditors must register and have a license as a Certified Public Accountant from the Federation of Accounting Professionals.	According to the regulations of the Revenue Department (2001), the tax auditors must be registered and have a license as tax auditor from the Revenue Department.
Right to work	The auditors can audit and certify an account of company and limited partnership under Section 39 of the Tax Code.	The tax auditors can audit and certify an account of a small limited partnership. (A small partnership is a partnership with capital assets not more than 5 million baht and total revenue of not more than 30 million baht).
Criterion	The auditors have a duty to inspect and certify an account of a company and large limited partnership by following the requirements of the Federation of Accounting Professionals. The auditors have a duty to inspect and certify an account of small limited partnerships by following the regulations of the Director-General of the Revenue Department.	The tax auditors have a duty to audit and to certify an account of a small limited partnership by following the operation guidelines, procedures and conditions prescribed by the Director General of the Revenue Department (2002).
Audit report and certified account	The auditors have to prepare an audit report for an audited and certified account of company and partnership limited. The auditors also have to prepare an audit report and certified account by following the regulations of the Director-General of the Revenue Department.	The tax auditors have to prepare the inspected report and certified account by following the regulations of the Director-General of the Revenue Department for auditing small limited partnerships.

Source: The Revenue Department (2012).

All business entities including companies, partnerships, branch offices, representative offices and joint ventures are required to prepare profit and loss accounts and balance sheets on an annual basis, and have them audited. The auditor's report must state whether the accounts have been properly prepared in accordance with the Accounting Regulations and whether these give a true and fair view of the company's business (Notification of the Director-General of Revenue Department on Income Tax No.127).

3.3.4 Complexity of the Difference of Profit in Accounting and Taxation

All companies and limited partnerships must keep accounting records for taxation and accounting purposes by following the accounting procedures specified in the Revenue Code and commercial law. The commercial law requires true accounts to be maintained and proper records to be kept of the sums received and extended by the

company. It also requires true records to be kept of the matters in respect of which each receipt or expenditure takes place in relation to the assets and liabilities of the company. The Revenue Code requires the adjustment of profit in accounting so as to be the profit in tax or taxable income. Adjusting the profit in accounting into the tax profit is complex. For example, some expenses in accounting are not recognised in tax accounting. Therefore, the accountants of SMEs must have sufficient knowledge in both the Revenue Code and commercial law.²¹

As the requirements are compulsory for all companies and partnerships in Thailand, a benefit from the stringent record-keeping could arise in supporting and improving decision-making in business (Tran-Nam, 2001, p. 55). However, small businesses often lack suitable staff (Wallschutzky & Gibson, 1993, p. 527), particularly in the area of accounting and taxation. Thus, businesses which have no internal tax departments must outsource to external professionals to undertake tax matters and most valuable information in accounting might be provided by an external professional (Slemrod & Venkatesh, 2002, p. 6).

The complexity of the difference regarding profit in accounting and in taxation or tax matters will increase tax compliance costs (Pope, 1990, p. 5) as well as the informal economy (Memon, 2010, p. 58). A greater informal economy will then reduce tax revenue (Schneider, 2005, p. 602). Therefore, the complexity of the difference of the profit in accounting and in taxation should be of concern in tax compliance cost policy.

3.4 Summary

Small and Medium Enterprises are significant to the Thai economy as they are the backbone of enterprises in the country. The SME definition provided by the Ministry of Industry is a general, widely acknowledged term. In order to qualify for tax

²¹ According to the Accounting Act B.E.2543 (2000) and Accounting Professional Act B.E.2547 (2004), the accountant must attend the training for continuous professional knowledge every three years and in each period there must be at least 27 hours including activities related to accounting knowledge for at least 18 hours. Each year, the accountant must attend the training for at least six hours and the number of hours for every three year period shall be counted according to the calendar year starting from 1 January onwards.

The details of the accountant's professional development must be advised within 60 days for the end date of every calendar year and the accountant must store the evidence of the professional development for at least 5 years from the end date of the calendar year that the training finishes.

benefits, SMEs must meet strict requirements as set by the Revenue Department. Thus, SMEs can receive considerable tax benefits if they comply with each rigorous requirement. Small and Medium Enterprises have to be aware of many factors in order to enjoy the benefits of policy implementation. For example, in order to receive tax benefits, SMEs have to understand the classification system for tax deduction purposes.

It seems that SMEs have to meet many conditions in order to run their businesses. Otherwise, they will lose the benefits that they have gained. They have to provide enough information about their own circumstances to enjoy tax benefits, so they may have to spend money to employ a tax professional to help them. Moreover, SMEs which are corporate income taxpayers need to have their accounting records audited by tax auditors or auditors. For all these reasons, SMEs can incur high tax compliance costs. The next chapter discusses the research methodology applied in this thesis.

CHAPTER FOUR

RESEARCH METHODOLOGY

4.1 Introduction

This chapter presents an overview of the research design and discusses the methodological choices made for this research. This includes an insight into the philosophical assumptions, a justification of the use of the exploratory study as a research strategy, the data collection techniques and analysis, and the limitations in the adopted approach.

A mixed methods approach was used to maximise the strengths and minimises the weaknesses of both the quantitative and qualitative methods in a single research methodology, to offer a more practical view (Johnson & Onwuegbuzie, 2004, pp. 9-18). The use of the mixed methods approach in the present study is in accordance with most tax compliance cost studies that adopt large-scale mail questionnaires and also implement face-to-face and/or telephone interviews (Sandford, Godwin, & Hardwick, 1989, p. 402). The results obtained from the qualitative and quantitative methods can address the research questions and can be used as the basis for practical policy recommendations. The survey included questionnaires approved as posing minimal risk by the Curtin University Ethics Committee, with the approval shown in Appendix D.

4.2 Research Design

The research design is appropriate as the overall plan to answer the research questions (Saunders, Lewis, & Thornhill, 2009, p. 136). In order to select a research design, the research philosophy and the methodological approach have to be identified. An understanding of the research philosophy is especially helpful to researchers for clarifying alternative designs for a specific research study and to identify which of them are more likely to work in practice (Easterby-Smith, Thorpe, & Lowe, 2002, p. 21). Together with an understanding of the research philosophy, it is necessary for researchers to select the methodological approach as it guides the researcher's plan to conduct the research (McKerchar, 2010, p. 89).

Commonly, there are three broad methodological approaches, known as the “quantitative”, “qualitative” and “mixed” methods. Quantitative methodology is informed by the positivist paradigm (McKerchar, 2010, p. 91), based on the belief that the study of human behaviour might be conducted in similar ways to the study of natural science (Hussy & Hussey, 1997, p. 52). Ticehurst and Veal (2000, pp. 20-21) explained that quantitative research is about: (1) statistical analysis; (2) belief in numerical evidence to make a conclusion; (3) the reliability of results based on a relatively large number of people or organisations; (4) the reliability of data analysis based on computer analysis; and (5) the data being obtained from questionnaire surveys, observations or secondary sources. However, in quantitative methodology it can be difficult to understand the context of cultural backgrounds or people’s views (Creswell & Clark, 2007, p. 9).

Qualitative methodology, on the other hand, can be used when researchers seek to demonstrate the meaning of phenomena from the view of the participants (Creswell, 2009, p. 4) and using words (qualitative) rather than numbers (quantitative) (Creswell, 2009, p. 3). Qualitative methodology is more all-encompassing (McKerchar, 2010, p. 94) and builds on the principle of a critical interpretive paradigm (Ticehurst & Veal, 2000, p. 19). Creswell (2009, p. 4) noted that the purpose of qualitative methodology is “exploring and understanding the meaning individuals or groups ascribe to a social or human problem”. The methods for collecting data in qualitative methodology include observation, informal and in-depth interviews and participant observations (Ticehurst & Veal, 2000, p. 21).

There are distinct differences, then, between quantitative and qualitative methodologies. Furthermore, there is robust debate among researchers about the relative merits of each methodology (Ticehurst & Veal, 2000, p. 21). In fact, both quantitative and qualitative methodologies are better at different things and their performance also depends on the situation in which they are used (Saunders, Lewis, & Thornhill, 2007, p. 147).

In terms of research design, McKerchar et al. (2009, p. 158) have identified the key differences between the quantitative and qualitative approaches in order to help future researchers understand the underlying assumptions. For example, quantitative

research is based on the assumptions of positivism or post-positivism²² and allows knowledge claims in the nature of statistical generalisations to be made about broader populations. On the other hand, qualitative research is socially constructed and based on the understandings or meanings made by those being studied.

However, both quantitative and qualitative approaches can be combined to complement each other in research by using mixed methods. This combination tends to strengthen the research rather than relying on a quantitative or qualitative approach alone (Creswell, 2009, p. 4).

Mixed methods research is a pragmatic approach that combines deductive and inductive thinking, as mixing both qualitative and quantitative methodologies can be a practical way for researchers to apply any appropriate methods to a research problem (Creswell & Clark, 2007, p. 23). Each method (quantitative and qualitative) can form a mixed method combination at many stages and each mixed method model also can develop varieties. Johnson and Onwuegbuzie (2004, p. 22) designed a matrix to show the development of mixed method design in four cells, as shown in Figure 4.1.

²² The concern about positivism (where researchers seek to derive explanations based on social reality) led to the development of post-positivism. The post-positivism approach is based on probability rather than certainty and concerns the reality that as humans we cannot know everything, as cited in McKerchar (2010, pp. 75-76).

Time Order Decision

		Concurrent	Sequential
Paradigm Emphasis Decision	Equal Status	QUAL + QUAN	QUAL → QUAN QUAN → QUAL
	Dominant Status	QUAL + quan	QUAL → quan qual → QUAN
	Equal Status	QUAN+ qual	QUAN → qual quan → QUAL
	Dominant Status	QUAN+ qual	QUAN → qual quan → QUAL

Figure 4.1: Mixed-Method Design Matrix with Mixed Method Research Design Shown in the Four Cells

Source: Johnson & Onwuegbuzie (2004, p. 22).

Note: “qual stands for qualitative, “quan” stands for quantitative, “+” stands for concurrent, “ → ” stands for sequential, capital letters denote high priority or weight, and lower case letters denote lower priority or weight.

Manifestly, a study of tax compliance costs can apply any of the methods used in social research, such as highly structured questionnaires/interview schedules, semi-structured or unstructured interviews, time and motion studies, and archive research (Sandford, Godwin, & Hardwick, 1989, p. 52). Therefore, the concept of a mixed method approach was incorporated in this current study. Complementary quantitative and qualitative methodologies offer the benefits of broadening the understanding and responding clearly to the research questions. As confirmed by Creswell and Clark (2007, p. 13):

Quantitative researchers, we believe, recognise that qualitative data can play an important role in quantitative research. Qualitative researchers, in turn, realise that reporting only qualitative participant views of a few individuals may not permit generalising the findings to many individuals. Audiences such as policy makers, practitioners, and others in applied areas need multiple forms of evidence to document and inform the researcher problems. A call for increased sophistication of evidence leads to a collection of both quantitative and qualitative data.

Besides these benefits, mixed methods can construct the best and most appropriate combination of methodologies (McKerchar, 2008, p. 21). It is more practical for researchers to use all methods to answer research questions without limitations (Creswell & Clark, 2007, p. 10).

Clearly then, a mixed method approach was best suited to the current study. The mixed methods of this study were divided into two main phases: phase I was the major quantitative phase, followed by minor qualitative phase II. As mentioned in Chapter One, there were four objectives in this study. Objective one was to identify the economic role of SMEs in the Thai economy. Objective two was to estimate the corporate income tax compliance costs of SMEs in Thailand; this was addressed in phase I. Objective three was to identify the burden caused by corporate income tax compliance costs for SMEs in Thailand; this was addressed in phase II. The combination of these three objectives led to objective four to draw appropriate policy implications. Table 4.1 provides an overall outline of the research design developed with the aim to answer the research questions.²³

²³ See Chapter One, Section 1.4.

Table 4.1: Research Design for the Study of Corporate Income Tax Compliance Costs of Small and Medium Enterprises in Thailand

Methodology	Mixed Methodology (Explanatory Design)	
	Quantitative Methodology	Qualitative Methodology
Phase	Phase I	Phase II
Objectives	To estimate the corporate income tax compliance costs of SMEs in Thailand.	To identify the burden caused by corporate income tax compliance costs for SMEs in Thailand.
Instrument	<ul style="list-style-type: none"> • Pilot test • Large survey questionnaires 	<ul style="list-style-type: none"> • Interviews

4.3 Quantitative Methodology

4.3.1 Introduction

The quantitative methodology was used in phase I of this study to collect information regarding objective two, to estimate the corporate income tax compliance costs of SMEs in Thailand, and 11 research questions.²⁴ The survey questionnaire was adopted as an instrument in phase I. The survey questionnaire method is widely accepted in tax compliance cost research (Sandford, Godwin, & Hardwick, 1989, p. 52) and is the most suitable method for tax compliance cost studies (Pope, 1995, p. 119). Similarly, a large-scale survey is the most popular method for collecting data in tax compliance costs research (Tran-Nam, Evans, Walpole, & Ritchie, 2000, p. 242). It is also widely used in SME tax compliance cost research (for example: Abdul-Jabbar, 2009; Evans, Carlon, & Massey, 2005; Schoonjans, Cauwenberge, Reekmans, & Simones, 2011). Therefore, in this study, a survey questionnaire was designed to investigate the tax compliance costs of SMEs in Thailand. It was expected that the findings would enable an exploration of tax compliance costs of SMEs in Thailand in each category.

The advantages of this approach in phase I (quantitative data) were that the research could be conducted at a lower cost, with less time consumed and with a wide geographic coverage when compared with other methods (for example: telephone

²⁴ See Chapter One, Table 1.7.

and face-to-face interviews). A survey can include larger samples and wider coverage within a sample population. For example, the respondents can complete the questionnaires at their convenience (Bourque & Fielder, 1995, p. 13; Sandford, Godwin, & Hardwick, 1989, p. 384). Furthermore, tax is considered to be a sensitive topic (Abdul-Jabbar, 2009, p. 68), so respondents would be more likely to reply with complete and truthful information in a questionnaire than in an interview (Bourque & Fielder, 1995, p. 13; Forsgren, 1989, p. 61).

This study was the first attempt to measure income tax compliance costs of SMEs in Thailand. While there was no secondary data provided, the primary data was used for collecting sufficient information to measure the tax compliance costs of Thai SMEs. Through sound results and recommendations, this information may influence Thai government tax policy. For reasons such as these, a large-scale survey questionnaire can be a strong choice and the best starting point (Sandford, 1995b, p. 402).

4.3.2 Population and Sample

The survey population focused on SMEs that perform in business organisations, including limited partnerships and limited companies. The aggregate levels identified SMEs by the number of employees (less than 200), with fixed capital of less than 200 million baht, and were classified into three sections, namely, production, service and trading, which follows the main SME definition in Thailand.²⁵

The framework of the SME definition in this study followed the definitions provided by three organisations; namely, the Ministry of Industry, the Revenue Department and the MAI.²⁶ Figure 4.2 provides a clear picture of the definitions combined for the purposes of this study.

The scope of this study focused on the definition of SMEs used by the Ministry of Industry in order to see the overall SME picture because this is a widely acceptable definition for SMEs in Thailand. The overall SME picture for this study was divided into: firstly, the definition of SMEs by the Revenue Department because it is more specific and related to taxation purposes; and secondly, SMEs that deal with

²⁵ See Chapter Three, Section 3.2.1.

²⁶ See Chapter Three, Section 3.2.1.

corporate income tax and medium enterprises in the MAI that have a special tax rate (Revenue Department of Thailand, 2009).

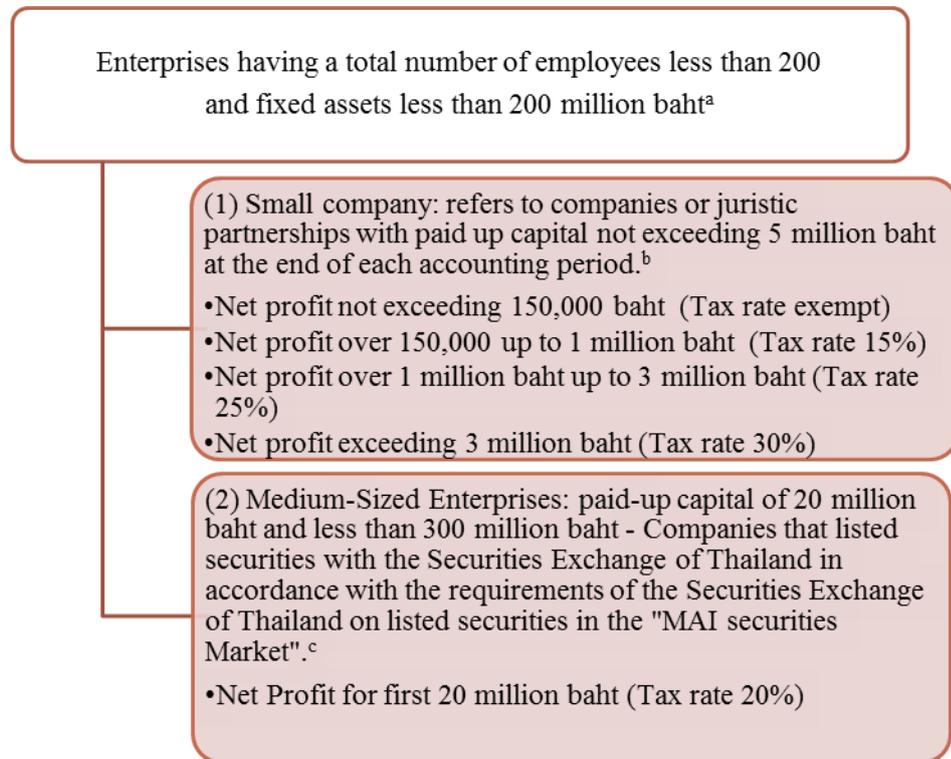


Figure 4.2: Scope of Small and Medium Enterprises in this Study

Note: ^a SME definition used by the Ministry of Industry.
^b SME definition used by the Revenue Department.
^c SME definition used by the Market for Alternative Investment.

Lists of SMEs in Thailand were collected from a number of departments related to SMEs. For example:

- The Office of Small and Medium Enterprises Promotion (OSMEP) – the list of SMEs kept by the OSMEP covers all types of SMEs such as, sole proprietorship, partnerships and limited companies. This list is not published.
- The Ministry of Commerce – the businesses registered with the Ministry are varied, including partnerships and companies of many sizes. The Ministry’s list of registered businesses is wide and not focused on SMEs in particular.

In Thailand, no official organisation can readily provide a comprehensive list of SMEs, in particular SMEs that paid corporate income tax. The Revenue Department of Thailand might be the only department to have the list of SME taxpayers

regarding corporate income tax. Access to the list of taxpayers from the Revenue Department is limited because of privacy concerns and confidentiality.

In this study it was decided to use the list of SMEs from the database of the Thai Credit Guarantee Corporation (TCG).²⁷ The Thai Credit Guarantee Corporation is a state-owned specialised financial institution under the supervision of the Ministry of Finance. In 1991, legislation authorised the TCG to take over all the business and operations of the Small Industry Credit Guarantee Fund. The main objectives of the TCG are to increase the extension of credit from financial institutions to small industries, to accelerate the dispersal of credit extension to small industries throughout the country, and to provide industrial development to achieve the target of the National Economic and Social Development Plan. The objectives of the TCG are focused on SMEs and the researcher was able to use the TCG database to specifically identify SMEs for participation in this study.

The SME customers of the TCG are typically private banks, other specialised financial institutions such as the Small and Medium Enterprise Development Bank of Thailand (SME Bank), the Export-Import Bank of Thailand (Exim Bank) and the Government Savings Bank, the Federation of Thai Industries, the Thai Chamber of Commerce and the Department of Business Development. The Thai Credit Guarantee Corporation manages its own customer database. The numbers of TCG customers are shown in Table 4.2. The Thai Credit Guarantee Corporation determines an organisation's status as an SME by following the definition of the Ministry of Industry, which is the same definition used in this study. Thus, this study used the TCG database of customers because it was reliable and ensured that SMEs were the main target group of this study.

²⁷ The researcher works at the Fiscal Policy Office, Ministry of Finance, in Thailand. The researcher's professional network was used to assist in this research.

Table 4.2: Number of Thai Credit Guarantee Corporation Customers in 2010

Region	Number of TCG Customers
North	4,371
Bangkok and surrounding area	9,784
Central	2,429
South	3,316
East	2,097
Northeast	3,829
Total	25,826

Source: Thai Credit Guarantee Corporation (2010).

This study also included the medium-sized enterprises listed in the MAI. In 2010, there were 53 companies listed in the MAI. The first trade dates for these companies were before 31 December 2010. Focusing on the first trade date was necessary as the present study related to the 2010 tax year. The companies' names, contact details and financial information are provided on the website of the Stock Exchange of Thailand.

An appropriate sample size was selected to focus on a representation of the population (Fink, 1995, p. 27). The budget and time constraints (Saunders, Lewis, & Thornhill, 2007, p. 359) involved in data collection mean that rapid and reliable results are required. The size of the sample related to the number of questionnaires distributed to the respondents. Stratified random sampling was the selected sampling method. This method divides the population into subgroups and a random sample is then selected in each subgroup (Fink, 1995, p. 30). In statistical probability, a larger sample size leads to fewer errors in generalising to the population (Saunders, Lewis, & Thornhill, 2009, pp. 228-229). Although statistical probability is most suitable to get the right sample size, the method is comparatively complex depending on the survey requirement (Fink, 1995, p. 31). Similar to de Vaus's argument (cited in Saunders, Lewis, & Thornhill, 2009, p. 219), the impact of absolute sample size on the margin of error decreases for larger sample sizes and many market research companies limit the sample size to around 2,000. An expected result of at least 200 or a response rate of 10 percent is considered reasonable (based on 150 to 200 respondents) for precision in survey research (Fowler, 1993, p. 35).

In summary, the appropriate sample size for the present study was 2,000 with at least 200 expected respondents or a response rate of at least 10 percent. This would ensure a size and response rate reasonably similar to many fruitful tax compliance cost studies, such as: 1,837 companies with a 16 percent response rate (Pope, Fayle, & Chen, 1991); 3,199 small businesses with a 27 percent response rate (Pope & Rametse, 2002); 1,300 SMEs with a 16 percent response rate (Abdul-Jabbar, 2009); 4,323 surveys with a 10 percent response rate (Slemrod & Venkatesh, 2002); 1,329 companies with a 10 percent response rate (Slemrod & Blumenthal, 1996); and 10,300 Flemish SMEs with a two percent response rate (Schoonjans, Cauwenberge, Reekmans, & Simones, 2011). A recent international comparison of tax compliance costs in small businesses was distributed to 3,800 small businesses in Australia with a 4.5 percent response rate, to 2,499 firms in Canada with a 1.35 percent response rate, to 88,057 small businesses in South Africa with a 6.7 percent response rate, and to 4,420 accountants working in small businesses in the UK with a 0.9 percent response rate (Evans, Hansford, Hasseldine, Lignier, Smulders, & Vaillancourt, 2012).

As Thailand is divided into 75 provinces over natural regions (North, Bangkok and its surrounding areas, Central, South, East and Northeast), the distribution of the survey questionnaires covered all six regions. The sample size in each region was designed to follow the ratio of SMEs in each region, as shown in Table 4.3. The number of SMEs in Thailand was gathered by the Office of Small and Medium Enterprises Promotion based on data from the National Statistical Office, Social Security Office and Department of Business Development (Office of Small and Medium Sized Enterprises Promotion, 2010, pp. 4-2, 4-3, 4-4). Unfortunately, the information collected did not include the names and addresses of the SMEs.

The calculation of sample size in each region is shown as follows:

$$\text{Sample size in each region} = \text{Sample size} * \text{Percentage of SMEs in Thailand}$$

Table 4.3: Stratified Sampling and Proportional to Size of this Study

Regions	Number of SMEs in Thailand	Percentage of SMEs in Thailand	Sample size
North	469,550	16	320
Bangkok	573,634	20	400
Central	564,123	19	380
South	397,718	14	280
East	152,609	5	100
Northeast	755,462	26	520
No-record	71	-	-
Total	2,913,167	100	2,000

Source: Author adapted from Office of Small and Medium Enterprises Promotion (2010).

The combined lists of 25,829 SMEs from the database of the TCG (2010) and the website of the Stock Exchange of Thailand (2011) were a reasonable subset of the overall number of SMEs in Thailand. Both lists identified SME taxpayers. In this study, a reasonable number for the net population and sample size was obtained by using probability sampling with a focus on stratified random sampling. This sampling was proportional to size with random selection. In order to gain a clear picture, the sample of SMEs²⁸ (sample 1) and the extra sample from the MAI²⁹ (sample 2) were used, as presented in Table 4.4 and Table 4.5. For both samples, the same questionnaire was used.

²⁸ See Figure 4.2, Sample 1.

²⁹ See Figure 4.2, Sample 2.

Table 4.4: Population and Sample Size from the Thai Credit Guarantee Corporation

Region	Number of TCG customers	Sample size
North	4,371	320
Bangkok and surrounding area	9,784	400
Central	2,429	380
South	3,316	280
East	2,097	100
Northeast	3,829	520
Overall	25,826	2,000

Source: Adapted from the Thai Credit Guarantee Corporation (2010).

Table 4.5: Net Population and Sample Size of this Study

Organisation	Number of SMEs	Sample size
MAI	53	53
TCG	25,826	2,000
Overall	25,879	2,053

Sources: Adapted from the Thai Credit Guarantee Corporation (2010) and the Market for Alternative Investment (2011).

4.3.3 Survey Questionnaire Design

4.3.3.1 Design of Questionnaire

The questionnaire was designed to collect quantitative information in phase I of this study. The final survey questionnaire is shown in Appendix E. The questions were designed based on those developed from a study of compliance costs of public companies' income taxation in Australia (Pope, Fayle, & Chen, 1991), compliance costs of companies' income taxation in Australia (Pope, Fayle, & Chen, 1994), a study of tax compliance costs of business taxpayers (Evans, Ritchie, Tran-Nam, & Walpole, 1997), and a survey of the tax compliance burden of small and medium

sized companies in Malaysia (Abdul-Jabbar, 2009) to suit the Thai tax environment. Most of these questionnaires were four to seven pages, not including the cover letter. There were open-ended and closed questions in these questionnaires. The main questions were designed to ask the respondents to estimate the amount of time and money spent on tax activities. Sandford, Godwin and Hardwick (1989, p. 52) pointed out that “the main advantage of the time-study method of investigation is that time spent on compliance can be measured precisely, and a uniform definition of compliance costs can be specified and applied consistently”.

The layout of the questionnaire for the present study was designed by following the suggestions of Sandford (1995a, pp. 378-379) and Pope (1995, pp. 110-111); for example, they recommended that researchers should use clear wording, check the layout, design and presentation including cross-checking the questions before distributing the questionnaires, use A-4 size paper within a total of four pages, keep the number of questions to a minimum to encourage responses, and enclose a cover letter with the questionnaire. In the cover letter, researchers should highlight the ethics approval and in particular the message that the data will be kept confidential, offer the respondents an opportunity to express their views (through an open-ended question at the end of questionnaire) and encourage respondents to be a part of the research.³⁰ These elements help to improve the response rate.

A draft of the questionnaire was discussed with tax officers from the Revenue Department, an economist from the Fiscal Policy Office, SME taxpayers, and tax accountants. As recommended in the literature (Pope, 1995, pp. 110-111; Tran-Nam, Evans, Walpole, & Ritchie, 2000, p. 242), advice was also received from experts, including international experts, before the data collection commenced.

The questionnaires were designed with attractive colours within a total of four pages, and printed on good quality paper (Abdul-Jabbar, 2009; Pope, J., 1993). The Curtin University logo was placed on the questionnaires and cover letters. The design of the questionnaire also considered relevant questions as a first step to making critical improvements in internal validity (McKerchar, 2008, pp. 12-13), such as using

³⁰ See Appendix E.

simple language, making questions shorter and less confusing, avoiding negative questions, and so on. In order to be suitable to SMEs in Thailand, the questionnaires were provided in the Thai language. The translation was done by the researcher because of the specialised terms used in this tax compliance cost study. Since this study was the first attempt to measure SME tax compliance cost in Thailand, the researcher could be expected to clearly understand the relevant terms. However, the researcher asked a number of Ph.D. students in Australia and Thailand to give suggestions about the translation of the questionnaire from English into Thai.

The questionnaire³¹ was divided into three sections, namely, general information, tax compliance costs, and opinions. Each section is described as follows.

Section A: General Information - The questions in this section were about the SMEs' legal structure, business location, trading period, the respondents' position, the accounting period, main business activities, filing date and categories of net profit amount of corporate income tax in the 2010 tax year. These were straightforward questions and it was expected that the respondents would feel at ease when answering them, which is an important aspect of an introductory section (Allers, 1995, p. 176).

Section B: Tax Compliance Costs - This was the main part of the questionnaire. The questions were about estimating the time and money spent in complying with corporate income tax in the 2010 tax year, including miscellaneous expenses (Pope, 1995, p. 106). The respondents were asked to write '0' for the amount if their company did not incur internal or external costs.

Section C: Opinion - The questionnaire concluded by asking the respondents to give their comments, as well as their name and contact details (Allers, 1995, p. 177) if they were willing to answer further questions and to participate in phase II of the research (Pope, 1995, p. 110). Two questions in this section used a five-point Likert scale to register respondents' opinions (Pope, 1995, p. 110).

³¹ See Appendix E.

The questionnaire design was also concerned about testing for accuracy and consistency by using the Pearson correlation coefficient (Field, 2009, pp. 177-178). The significant value of the Pearson correlation coefficient is less than .05 (Field, 2009, p. 181). For this purpose, the following question about compensation was added (Godwin, 1995, p. 92; Hasseldine, 1995, p. 130):

If your company claims costs from the government for the time and money spent (both internally and externally) by the company in dealing with corporate income tax in 2010, how much do you think is fair compensation?

Overall, all the above factors were incorporated with the aim to improve the response rate and the quality of responses. The respondents who provided their contact details were contacted if a check of answers was required (Sandford, 1995a, p. 388).

4.3.3.2 Procedure

As a result of the experts' suggestions (for example: tax officers from the Revenue Department, an economist from the Fiscal Policy Office, SME taxpayers, and tax accountants), the most suitable timing for the distribution of the questionnaire was determined to be after the P.N.D. 50³² tax form filing period in order to maximise the response rate (Sandford, 1995a, p. 379). The benefits of selecting this distribution period included:

- (a) The respondents would be able to recall information related to their tax filing.
- (b) It would be a less busy time for respondents as they would have completed their tax filing.

The survey was related to tax compliance costs for the 2010 tax year. Most taxpayers file their tax returns in May, and May 31 is the last date for corporate income tax filing. The 2,000 questionnaires were distributed in the last week of May, 2011. Slemrod and Venkatesh (2002) distributed their questionnaire after the tax deadline date because the respondents could recall the information about dealing with tax filing. Therefore, it was expected that the respondents in the present study would

³² See Chapter Three, Section 3.3.3.

receive a questionnaire after the last date of corporate income tax filing and that they would be able to recall the information about their tax filing. Overall, the main data collection period was May-July 2011. In order to ensure that the respondents received the questionnaires in early June, the 2,000 survey questionnaires (sample 1)³³ were distributed in the TCG newsletter envelopes. These envelopes were sent by post, which is a well-established method for tax compliance cost studies (Pope, 1995, p. 111), and a reply-paid envelope was enclosed (Pope, 1995, p. 110; Sandford, 1995a, p. 379).

One weakness of mail surveys is often the low response rate (Evans, Ritchie, Tran-Nam, & Walpole, 1996, p. 24; Sandford, 1995d, p. 378). To address this limitation, two follow-ups (Sandford, 1995a, p. 379) in a limited time frame (Dennis Jr & J., 2003, p. 281) were decided upon. The reminders to sample from TCG (sample 1) in the current study were done by the TCG manager in each branch. The Thai Credit Guarantee Corporation had nine managers in charge of the Bangkok, Ayuthaya, Chiangmai, Phitsanulok, Udon Thani, Nakorn Ratchasima, Surat Thani and Chonburi branches. Each manager had the list of TCG customers to whom the questionnaires had been distributed. This was so the managers could follow up on the questionnaires by telephone (Sandford, 1995a, p. 379) and use their own networks to inquire about the return of the questionnaire. This strategy is considered to have increased the number of responses. The reminders to the sample from TCG (sample 1) were done at the end of June and in the middle of July, 2011.

The questionnaires to the 53 respondents from the MAI (sample 2)³⁴ were distributed by post in the first week of June 2011, with a reply-paid envelope enclosed. A reminder by telephone was given in the last week of June to the respondents who had not yet returned the questionnaire.

³³ See Figure 4.2, Sample 1.

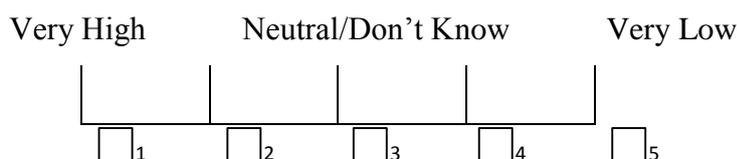
³⁴ See Figure 4.2, Sample 2.

4.3.3.3 Non-Response Bias

A non-response test was designed to use with sample 2³⁵ when few responses were received. Only four respondents from the MAI list returned the questionnaires and this was considered to be a low response rate. In the middle of July 2011, the non-response test was applied by following Allers (1995, pp. 177-178) and other studies (for example: Blumenthal & Kalambokidis, 2006; Rametse & Pope, 2005). A postcard with a single question in Thai language was designed for the non-respondents by selecting one question from the full questionnaire and sending it to the 49 companies that failed to return the questionnaire. The postcard with one single question in Thai language was sent to the 49 respondents who had failed to return the questionnaire.³⁶ Normally, the non-response bias will be tested by comparing the early responses with the late responses (Armstrong & Overton, 1977; Beattie, Goodacre, & Thompson, 2006; Brau & Fawcett, 2006; Graham & Harvey, 2001; Nelson, Elliott, & Tarpley, 2002; Wallace & Mellor, 1988).

The question in the questionnaire³⁷ chosen for comparison with the question in the postcard was as follows:

Compared with other businesses in your industry, the estimated level of income tax compliance burden to your business is:



Of the 53 respondents in sample 2, 49 non-responses needed to be tested in order to ascertain whether the non-response was related to the tax compliance costs and the effects of the tax compliance costs. The 49 postcards were distributed by post. It was expected the result would indicate whether the non-response was related to the tax compliance costs and the effect of the tax compliance costs.

³⁵ See Figure 4.2, Sample 2.

³⁶ See Appendix F.

³⁷ See Appendix E, Question 18.

Only 11 respondents returned the postcard answering one question about the estimated level of income tax compliance burden to their business. The study by Allers (1995) was the first to introduce this method, with 607 non-respondents returning the postcard (58 percent of the respondents). In the present study, the number of responses (5 percent) is considered to be low.

Of the non-responses to the full questionnaire survey, 36 percent replied that the level of compliance costs was very high. A similar number answered that they were “neutral or didn’t know”. The number of respondents from both surveys (the full questionnaire survey and single question postcard survey) was low and the levels of tax compliance costs were unclear. Therefore, the responses from the MAI list (sample 2) were eliminated from the analysis³⁸ and the non-response bias was not analysed further. Some detail of the non-response test is shown in Table 4.6.

Table 4.6: Non-Response Test

Level of Compliance Costs	Full Questionnaire Survey		Single Question Postcard Survey	
	Number of respondents	Percentage	Number of non-responses	Percentage
Very High	0	0	4	36.36
High	0	0	2	18.18
Neutral/Don't Know	3	75	4	36.36
Low	0	0	1	9.09
Very Low	1	25	0	0.00
Total	4	100	11	100.00

4.3.4 Pilot Test

The pilot test was conducted in December 2010 to collect the data for the 2009 tax year and prior to the main data collection in order to ensure the reliability and validity of the research. The purpose was to determine an appropriate research questionnaire to suit Thai SMEs and to ensure a high response rate. The questionnaires were distributed to SME taxpayers, the tax revenue office, tax officers from the Revenue Department, an economist from the Fiscal Policy Office, and tax accountants. Forty respondents replied to the questionnaires. The questionnaires were provided in the English language. It was found that the respondents preferred to have a Thai language questionnaire. Six respondents permitted the use of their names and

³⁸ See Chapter Five, Section 5.1 and Table 5.1.

gave their contact details. The pilot test provided valuable feedback to the main survey, and other aspects.

The outcomes of the pilot test improved the main survey by suggesting the following:

- (1) The questionnaire should be provided in the Thai language.
- (2) Some questions were unclear and too difficult to answer. For these questions, the researcher decided to provide choices for answers to enable the respondents to understand the question clearly and feel comfortable about giving the answer. For example, the pilot test found that only three respondents gave the answer to the question asking the respondents to fill the amount of tax revenue.
- (3) Some questions were not related to Thai taxation; for example, the instalment of tax payments was mentioned, however, there is no instalment option in Thai corporate income tax.
- (4) The timing of the data collection in the main survey should be conducted after the tax filing period.
- (5) There were too many questions. In the final survey questionnaire, the number of questions was reduced to 20.

All of these comments and suggestions were used to improve and revise the questionnaire³⁹ in the main data collection.

4.3.5 Data Analysis

4.3.5.1 Overall Approach

The data analysis of the study was conducted by using Microsoft Excel and the Statistical Package for the Social Sciences (SPSS). The data was coded by using a unique coding system (McKerchar, 2010, p. 213). The data obtained from the questionnaires was keyed into Microsoft Excel before being imported into SPSS. The SPSS 19 statistical software was used for analysis through descriptive and statistic tests in this study.

³⁹ See Appendix E.

All the returned questionnaires were checked by sight as a first step to ensure that the main part of the questionnaire (Section B) had been answered completely by the respondents (Sandford, 1995a, p. 379). The respondents were asked to write '0' if they did not incur any costs. If the main answer was left blank, it would be eliminated from the data analysis process. All the answers were checked again during the keying-in process and analysis process. These steps helped this study to achieve reliable results in order to ensure the tax compliance costs were estimated by good and sufficient respondent information.

The answers to Section A of the questionnaire (general information) were analysed using descriptive statistics to show the frequency, mean (\bar{x}) and median. The results of this stage confirmed the appropriate sample target and the investigated SMEs in each category. Moreover, the results of this information were used to analyse the tax compliance costs of SMEs in each category.

The analysis of Section B of the questionnaire (tax compliance costs) followed Pope's compliance cost method by using the mean (Pope, J., 1993; Pope, Fayle, & Chen, 1991, 1994). The Sandford methodology was also adopted because it has been cited in many studies throughout the world to estimate tax compliance costs (Pope, 2009, p. 618). Other fruitful methods and discussions regarding tax compliance from international compliance costs studies (Ariff, Ismail, & Loh, 1997; Ariff, Loh, & Talib, 1994; Ariff & Pope, 2002; Evans, Ritchie, Tran-Nam, & Walpole, 1997; Slemrod & Venkatesh, 2002) were considered to estimate tax compliance costs in this study. The questions on tax compliance costs were divided into internal and external costs.

For the estimation of internal costs, it was assumed that all internal tax activities in the office by hour (per month) and the average wage rate (baht per month) included any additional non-staff costs or miscellaneous costs or overhead costs; for example, stationery, postage, travelling, software, computers and so on (Pope, Fayle, & Chen, 1991, 1994). In addition, the estimation of the internal staff costs was computed by multiplying an average hourly wage rate of type n person (W_n) with the average number of hours spent by type n personnel on business tax (T_n) (Evans, Ritchie,

Tran-Nam, & Walpole, 1997).⁴⁰ The internal staff costs of the present study related to the duty of the manager/accountant, account clerk, administration staff and other staff who worked with corporate income tax activities in the business. Thus, the questions in this study asked respondents to identify the number of hours (per month) and the average wage rate (baht per month). Then, the wage rates were converted into hourly wage rates. The study used the wage rates divided by 192 hours per month to derive an hourly rate. According to the Thailand Labour Act 2008, the maximum number of work hours is eight hours per day or 48 hours per week. A month usually has 24 work days or around four weeks which means one month is 192 work hours in the context of Thailand.

The additional non-staff costs or miscellaneous costs were summed up and multiplied by 12 months to make the figures yearly. Then, the total of the internal costs was derived from internal staff costs, plus additional non-staff costs or miscellaneous costs. External costs are for outside professional advisers (Pope, Fayle, & Chen, 1991, 1994); for example, the costs of tax accountants, tax auditors, auditors and lawyers.

Tax compliance costs are equal to internal costs plus external costs. The tax compliance costs are the estimation of average cost (Evans, Ritchie, Tran-Nam, & Walpole, 1997; Pope, Fayle, & Chen, 1994; Sandford, 1995d; Sandford, Godwin, & Hardwick, 1989).

The data from Sections A and B of the questionnaires was used to compare the mean of SMEs in each category and included the tax compliance costs as per employee, the net profit amount of corporate income tax, and compliance costs to GDP ratio. For the regression analysis, the log transformation and the Kolmogorov-Smirnov tests for normality (Chan, Cheung, Ariff, & Loh, 1999, p. 58) were used. The dummy variable regression was applied to analyse the data gathered and to incorporate qualitative explanatory variables into a linear model (Field, 2009, pp. 253-261).

⁴⁰ The formula (Evans et al., 1997, p.32) is:

$$\text{Internal staff costs (IC)} = \sum_n W_n T_n$$

W_n = average hourly wage rate of type n personnel

T_n = average number of hours spent by type n personnel on business tax affairs

The mean compliance costs for each category were multiplied by the taxpaying population in that category in order to give an estimated aggregate compliance cost. The taxation statistics were not published data and were obtained from the Revenue Department for the purpose of this study. The results of all categories showed the total overall estimated compliance costs.

To test for accuracy and consistency, one question (question number 16)⁴¹ was added in relation to compensation. The correlation between the compliance costs and the claim (Godwin, 1995, p. 92; Hasseldine, 1995, p. 130) was analysed by the Pearson correlation coefficient (Field, 2009, pp. 177-179). Two questions (question numbers 17 and 19)⁴² in Section C used a five-point Likert scale to register the respondents' opinions. The data was analysed by using SPSS.

4.3.5.2 Tax Deductibility

Tax deductibility is similar to the concept of cash flow benefits (Pope, Fayle, & Chen, 1994) as discussed earlier.⁴³ As tax losses in Thailand can be carried forward for five accounting periods for offsetting against profit from all sources, this is also considered to be a benefit from tax deductions as SMEs can make profits from this amount (Evans, Ritchie, Tran-Nam, & Walpole, 1997). In the present study, the formula of tax deductibility was applied as follows:

$$\text{Tax deductibility} = \sum_i N_i t_i C_i$$

where

- i = SMEs based on level of tax rate⁴⁴
i = 1 (exempt), i = 2 (15%), i = 3 (25%), i = 4 (30%)
- N = total number of SME taxpayers in each net profit category
- t = tax rate in each net profit category
- C = tax compliance costs in each net profit category.

⁴¹ See Appendix E.

⁴² See Appendix E.

⁴³ See Chapter Two, Section 2.7.

⁴⁴ See Chapter Three, Table 3.11.

Information about the total number of SME taxpayers in each tax rate category was obtained from the Revenue Department.

4.3.5.3 Cash Flow Benefits

As discussed in relation to the meaning of cash flow benefits,⁴⁵ the estimation of cash flow benefits (Pope, Fayle, & Chen, 1994, p. 72) in the present study arose from the following summarised formula:

$$\text{Cash flow benefits} = \text{Tax amount in year} * a * r$$

where

T = tax amount in the 2010 tax year

a = the time (expressed as a fraction of a year) that the 2010 tax year liability attaching to 2010 earned income is held from

r = the interest rate.

The methodology to determine cash flow benefits depends on the average annual interest rate, the average duration of cash flow benefits in each tax type category and the tax amount of the cash flow period in each tax type category (Evans, Ritchie, Tran-Nam, & Walpole, 1997, p. 42). The amount of taxation in the 2010 tax year of this study was obtained from the Revenue Department.⁴⁶

4.4 Qualitative Methodology

4.4.1 Introduction

The purpose of conducting interviews was to confirm the results of the quantitative data obtained from the questionnaires and to gather additional qualitative comments. The qualitative methodology of this study was conducted in phase II to collect information to address the research objective (research objective three) to identify the burden of corporate income tax compliance costs for SMEs in Thailand and seven minor questions.⁴⁷

⁴⁵ See Chapter Two, Section 2.7.

⁴⁶ The data regarding the tax payments by SMEs in Thailand has not been disclosed in public. The researcher's own network was used to obtain this data. This data was received at the end of 2011 during the data analysis process.

⁴⁷ See Chapter One, Section 1.4.

In the mixed method design of explanatory design procedures, the qualitative data derives open-ended information from participants (Creswell & Clark, 2007, p. 72). In phase II of the present study, the open-ended questions allowed participants to supply answers in their own words. As Pope (1995, p. 111) explained, “surveys may usefully be supplemented by more in-depth interviews with respondent taxpayers”. The relevance of a ‘check’ question on respondents’ cost estimates remains debatable. One of the recommended methods to study tax compliance costs is semi-structured interviews (Sandford, Godwin, & Hardwick, 1989, p. 52).

For research purposes, semi-structured interviews are conducted face-to-face with individuals as an instrument to derive detailed information. Semi-structured interviews were used in this study to confirm the results of the SME tax compliance costs. Interviews are an instrument to gain information and to get answers to open-ended (but structured) questions based on the respondents’ experiences (Shah & Corley, 2006, p. 1828). To consider the impact of income tax compliance costs, listening to the actual experiences of SME taxpayers was necessary. The semi-structured interview helps a researcher to focus on a list of pre-determined questions and listen to the interviewees’ point of view at the same time. It also can clarify doubts and ensure that the interviewees are properly understood, by the repeating or rephrasing of questions (Sekaran, 2005, p. 341) in the face-to-face exchange. The use of this approach in the present study enabled the researcher to gain sufficient fruitful information to address the third objective.

4.4.2 Population and Sample

In Section C of the questionnaire survey, the respondents were asked to provide their contact details. Accordingly, the population and sample for phase II came from the survey respondents who gave their contact details. In dealing with the sensitive topic of taxation, it is difficult to find participants. Thus, a semi-structured interview was conducted with 38 interviewees who were also surveyed respondents who gave their contact details. These respondents had offered to participate in the second phase of the study.

The interviewees were contacted by the staff of the TCG as they were TCG customers. The interviewees came from various parts of Thailand (North, Bangkok

and its surrounding areas, Central, South, East and Northeast) and were representative of each location.

4.4.3 Interview Design and Procedure

The interview questions were developed in line with objective three and the eight research questions.⁴⁸ Each semi-structured interview was conducted by starting with specific questions and then providing an opening to the interviewees to give their opinions on tax compliance costs. Interview skills were needed, so training was undertaken in advance. The use of such skills is necessary to enable interviewees to feel more comfortable, to enable an interviewer to remain neutral while encouraging interviewees to talk openly, and to help ensure that interviews proceed smoothly (Cooper & Schindler, 2008, p. 170). Moreover, a friendly relationship should be developed between the interviewer and the interviewee, in order to ensure that open and honest responses are received (Wallschutzky & Gibson, 1993, p. 517). The interview sessions were conducted in the Thai language in order to be suitable and convenient to the respondents.

Questions were designed for the semi-structured interviews. The semi-structured interviews were conducted in January 2012 after the estimation of tax compliance costs. The amounts of tax compliance costs could then be shown to the interviewees to confirm the results, including exploring their opinions relevant to the third objective and the research questions.

Before starting an interview, the researcher confirmed the confidentiality of the interview. It was explained that the data would be used for academic purposes only and that the interview was controlled by the ethical requirements of the Curtin University Human Research Ethics Committee. A participant information sheet⁴⁹ was provided for the interviewees so they clearly understood the process of the interview. The interviewees each then signed the consent form. Each interview was designed to take not more than 45 minutes. The participant's permission for the interview to be recorded was checked before starting the interview. At the end of the

⁴⁸ See Chapter One, Table 1.4.

⁴⁹ See Appendix G.

interviews, the researcher asked the interviewees for permission to be contacted again to answer any further questions.

This semi-structured interview process also incorporated some guidelines (Babbie, 2010, pp. 274-279); for example:

- Appearance and demeanour should be considered by wearing clean and neat clothes, and being friendly and relaxed with interviewees.
- The exact responses should be recorded by using a digital recorder.
- The quality of the interviews should be coordinated and controlled by training and good preparation.

Some other important guidelines also informed the conduct of the interviews in the study:

- The interviewer should probe for responses by anticipating a problem and practising before the actual interview, including preparing to deal with difficult participants (Saunders, Lewis, & Thornhill, 2009, pp. 338-339).
- Appropriateness of the location should be considered (Saunders, Lewis, & Thornhill, 2009, p. 342) by asking the interviewees in advance about a convenient place.
- A small number of interviews should be conducted in one day (Saunders, Lewis, & Thornhill, 2009, pp. 342-343).
- Remedies for errors and bias should be considered (Bulmer & Warwick, 2000) by, for example as in this study, using the local language, using simple language and keeping the interview private (that is, not conducting the interview in public).

The researcher designed a tentative interview plan to coordinate with the schedule of the TCG staff and interviewees. After the interviews, the researcher confirmed the participants' contact details in order to follow up with more questions if better information was needed for the data analysis.

4.4.4 Data Analysis

This study used audio-recorded interviews. Transcriptions of taped interviews are widely accepted in qualitative research as a method for making data available in textual form for subsequent coding and analysis (Poland, 2002, p. 629). The transcription is a crucial part of carefully analysing material to provide useful and meaningful information, including enabling valid and reliable conclusions. Transcription is an extremely time-consuming process, so a study of transcribing techniques (Saunders, Lewis, & Thornhill, 2009, p. 485) was done to reduce the time consumed and errors. A number of guidelines were identified, as follows:

- After conducting the interviews each day, the researcher should check each interview in the evening before continuing interviews the next day.
- Each transcribed interview should be saved as a separate word-processing file.
- Systematic file names should be used and confidentiality should be maintained.
- The researcher should listen carefully to all the recorded interviews at least twice.
- If missing any points, the researcher should go back to listen to the digital recording again.
- The accuracy of the transcription should be checked.

The transcription process was done in Thai language first, and then translated into English. The initial translation was undertaken by the researcher. Similar to the translation of the questionnaire in this study, the researcher should be expected to have a clear understanding of the terms and the actual interviews. The checking process for the translation was assisted by two Thai lecturers with doctorates from English-speaking countries. Cross-checking between the interview recordings and the translations was conducted after the transcription to confirm accuracy.

4.5 Potential Limitations

There is no secondary data available with which to estimate tax compliance costs in Thailand. Consequently, survey questionnaires were the only way to obtain this data for estimation. The present study was the first attempt to estimate the corporate

income tax compliance costs of SMEs in Thailand, and as such was a novel topic for SME taxpayers. There are many limitations associated with a study of this nature; in particular:

- (1) The respondents might not have had enough knowledge about tax compliance costs.
- (2) Tax matters seem to be an uncomfortable topic for most taxpayers.
- (3) The questions in the questionnaire may have been misunderstood.
- (4) The respondents might have had a bias regarding the topic of this research, which would have influenced their cooperation.
- (5) Uncertainty about the confidentiality may have been a concern, even though the guidelines on the disclosure of information and ethics approval were explained.
- (6) There may have been difficulties in presenting the study and making all the respondents understand it.
- (7) Funding limitations were also a factor as there was no additional sponsor to support the research.

Furthermore, the data collection period could not be extended for too long. August is the filing period of the P.N.D. 51 tax form. Normally, most taxpayers spend time from the end of July until August preparing the P.N.D. 51 form. They may not want to complete a questionnaire at this time.

4.6 Summary

This chapter presented the study's philosophical approach, explained the type of data collected, outlined the design of the instruments, and identified the sources of data collection and the method of data analysis. The research methodology and the strategy employed in conducting the research were discussed. The reasons for selecting a combination of quantitative and qualitative methodologies were also outlined and discussed.

The quantitative methodology guided the questionnaire development, pilot test and the actual survey implementation. The qualitative methodology guided the interview

design. The quantitative and qualitative methodologies applied in this study adhered to ethical principles.

Finally, the guidelines for successful interviews and some potential limitations in this study were identified. The next chapter presents the analysis of the research findings.

CHAPTER FIVE

QUANTITATIVE RESULTS:

DISAGGREGATE CORPORATE INCOME

TAX COMPLIANCE COSTS

5.1 Introduction

This chapter presents the results of the analysis from the survey year (2010) by using quantitative methods. The overall responses and the profile and information related to the tax filing tax practices of the respondents are shown in order to represent the SME corporate income taxpayer as the sample of this study. The estimates are presented at the disaggregate level according to the model of this study by dividing the costs into internal costs and external costs. The opinions of the respondents related to their tax compliance difficulties are presented. The use of the Pearson correlation coefficient to test the accuracy of the estimation of tax compliance costs and the use of a dummy variable in regression analysis to test the related variables are discussed. Overall, this chapter analyses the results of the respondents' responses to Sections A, B and C of the survey questionnaire.⁵⁰

5.2 Responses and Rate

Questionnaires were distributed to 2,000 SMEs by enclosing the questionnaire with the newsletter of the TCG, and by postal mail to 53 companies in the MAI.⁵¹ Only four responses were received from the MAI group. The response rate from the MAI was low; therefore, the sample from the MAI was eliminated. The two main reasons for eliminating the sample from the MAI in the analysis stage were:

⁵⁰ See Appendix E.

⁵¹ See Chapter Four, Section 4.3.2 and Table 4.5.

- (a) The Revenue Department was asked to provide data on the number of SME taxpayers and the amount of tax revenue (secondary data)⁵² for use in this research. The data was not able to be used to estimate the aggregate tax compliance costs by combining the 2,000 SMEs from the TCG list and the 53 SMEs from the MAI list;⁵³ however, secondary data for this purpose was provided to estimate the sample from the definition of SMEs by the Revenue Department, and the sample from the MAI separately.
- (b) The response rate from the MAI was low. Findings taken from such a low sample would have to be made with caution, would be hard to interpret, and could not sufficiently represent the SMEs from the MAI.

Therefore, the analysis in this thesis focused only on SMEs which met the definition with regard to the Revenue Department and excluded the SMEs in the MAI. These SME respondents would be appropriate for both the disaggregate and aggregate analyses. This elimination would give clearer results in the interpretation.

The number of responses was 228 with 206 usable surveys returned, giving a response rate of 10 percent. Table 5.1 shows the details of the gross sample, including usable and unusable responses. Thai and English versions of the questionnaires were distributed to the respondents. No English version questionnaire was returned.

⁵² The number of SME taxpayers and the amount of tax revenue were obtained from the Revenue Department to estimate the aggregate level and grossed-up compliance costs. Actually, this secondary data was provided only for internal official users. The researcher used the internal network to receive this secondary data. This secondary data was derived during the analysis period and the researcher could not see this secondary data during the research methodology design period. The researcher was not sure at the research methodology design period stage about whether or not the Revenue Department could provide the secondary data for use in this thesis, even though the internal contact was made with the Revenue Department in the early stage. Therefore, the research methodology design was finished before seeing this secondary data.

⁵³ See Chapter Four, Section 4.3.2 and Figure 4.2.

Table 5.1: Response Rates

	Number of SMEs
SME Sample	2,053
MAI^a	53
Gross SME Sample	2,000
Unusable Responses^b	22
Net SME Sample	1,978
Usable Response	206
Response Rate	10.41%

Note: ^a The respondents from the MAI were only four from the sample size of 53. Due to the low response rates, the sample from the MAI was eliminated.

^b Unusable responses were incomplete questionnaires and non-SME respondents.

5.3 Profile and Information Related to Tax Filing Period of Small and Medium Enterprises

This section outlines the respondents' general business profile and information related to their tax filing, such as the accounting period and filing date. The general business profile of the SMEs includes the legal structure, location, trading period, and positions of the respondents. This information confirms the target group of this study.

The compliance costs of taxation were specifically related to CIT. The study focused only on partnership or limited company respondents because these groups are CIT taxpayers. As shown in Table 5.2, the respondents were from partnerships and limited companies, confirming that all the respondents belonged to the main target group of this study.

Table 5.2: Legal Structure of Respondents

Legal Structure	Number of Respondents	Percentage
Partnership	82	39.8
Limited Company	124	60.2
Overall	206	100

The respondents represented SMEs from all parts of Thailand, namely, North Thailand, Bangkok and its surrounding areas, Central, South, East and Northeast Thailand, as shown in Tale 5.3. The data collected by the survey was compared with statistics on SMEs in Thailand. The percentage return from Bangkok and its surrounding areas was the highest at 38 percent and was over-representative,

considering that 20 percent of SMEs in Thailand are located in Bangkok and its surrounding areas. The return from Northeast Thailand was under-representative at 11 percent, considering that the highest number of SMEs is located in Northeast Thailand (26 percent).

Table 5.3: Location of Respondents

Location	Number of Respondents	Percentage	Percentage of SMEs in Thailand
North	37	17.96	16
Bangkok and its surrounding areas	78	37.86	20
Central	29	14.08	19
South	39	18.93	14
East	1	0.49	5
Northeast	22	10.68	26
Overall	206	100.00	100

Note: The percentages of SMEs in Thailand are shown in Chapter Four, Table 4.3.

Regarding the trading period, the majority of the respondents (87 percent) had tax-related experience for more than two years. This indicated that the majority of the respondents were experienced in dealing with taxation for some time. More detail of this characteristic is shown in Table 5.4.

Table 5.4: Trading Period of Respondents

Trading Period	Number of Respondents	Percentage
Less than 2 years	26	12.62
2 to 5 years	37	17.96
More than 5 years	143	69.42
Overall	206	100.00

The percentage difference between managing directors and account clerks was relatively small and accounted for 36 percent and 33 percent. The analysis by position of respondents showed that 91 percent of the questionnaires were completed by respondents who held the position of managing director, manager/accountant and account clerk. This indicated that the respondents were the main individuals in the organisation who were involved in the organisation's tax matters and could be expected to have good levels of tax knowledge. The other questionnaires were completed by a partner, finance officer, advisor, and assistant auditor as indicated by the respondents. These accounted for five percent. Details about the respondents' positions are shown in Table 5.5.

Table 5.5: Current Position of Respondents

Position	Number of Respondents	Percentage
Chief Executive Officer	7	3.40
Managing Director	75	36.41
Manager/Accountant	46	22.33
Account Clerk	68	33.01
Other, please state	10	4.85
Overall	206	100.00

As shown in Table 5.6 and Table 5.7, for 90 percent of the respondents the accounting period started on 1 January 2010, and for 92 percent of the respondents the end of the accounting period was on 30 or 31 December 2010. Most SMEs have accounting period start and end dates that coincide with the calendar year. The profile of the respondents was thus in line with most corporate income taxpayers in Thailand.

Table 5.6: Starting Date of the Accounting Period of Respondents

Starting Date	Number of Respondents	Percentage
29 September 2009	1	0.48
1 November 2009	1	0.48
1 January 2010	185	89.81
2 January 2010	1	0.48
3 January 2010	1	0.48
5 January 2010	1	0.48
7 January 2010	1	0.48
15 January 2010	2	0.97
16 February 2010	1	0.48
1 March 2010	1	0.48
21 May 2010	1	0.48
30 June 2010	1	0.48
1 October 2010	1	0.48
16 October 2010	1	0.48
Overall	199	96.54
Not addressed	7	3.40
Overall	206	100.00

Note: Does not sum to 100.0 percent due to rounding.

Table 5.7: End Date of the Accounting Period of Respondents

End Date	Number of Respondents	Percentage
28 February 2010	1	0.48
29 September 2010	1	0.48
31 October 2010	1	0.48
30 December 2010	2	0.97
31 December 2010	188	91.26
6 January 2011	1	0.48
14 January 2011	2	0.97
15 February 2011	1	0.48
30 September 2011	1	0.48
16 October 2011	1	0.48
Overall	199	96.56
Not Addressed	7	3.40
Overall	206	100.00

Note: Does not sum to 100.0 percent due to rounding.

In accordance with the SME definition discussed in Chapter Three,⁵⁴ this study identified the criteria of SMEs to be used in the analysis. The data from the survey analysis was compared with statistics on the number of SMEs in Thailand. The analysis of the survey results found that 72 percent of the respondents were from small businesses in production, service, wholesale and retail. This group was under-representative, compared to small enterprises constituting 99 percent of the SMEs in Thailand. Twenty-eight percent of the respondents were from medium size businesses in production, service, wholesale and retail; this group was over-representative compared to the number of medium size enterprises in Thailand at less than one percent. More detail of this aspect is shown in Table 5.8.

Table 5.8: Business Sizes of Respondents

Business Type	Number of Respondents	Percentage	Percentage of the Number of Enterprises in Thailand
Small Enterprises			
Production	51	24.76	99.37
Service	41	19.90	
Wholesale	22	10.68	
Retail	34	16.50	
Medium Enterprises			
Production	23	11.17	0.63
Service	21	10.19	
Wholesale	3	1.46	
Retail	11	5.34	
Overall	206	100.00	100.00

⁵⁴ See Chapter Three, Section 3.2.

Small and Medium Enterprise taxpayers which had a first six-month accounting period starting from 1 January to 30 June 2010 should have lodged the P.N.D. 51⁵⁵ from between 1 July to 31 August 2010. Among the respondents in this study, the majority (80 percent) filed a tax return within the tax filing period. The period from 1 July to 30 August 2010 was a cash flow benefit period for filing the P.N.D. 51. Each year, this 60 day period is a time in which SMEs can use the cash flow benefits from taxable income. Fifty-two percent of the respondents enjoyed the cash flow benefit in the 60 days before filing the P.N.D. 51. More detail of this aspect of the respondents' profiles is shown in Table 5.9.

Table 5.9: P.N.D. 51 Filing Date of Respondents

Filing Date	Number of Respondents	Percentage
30 March 2010	1	0.48
31 March 2010	1	0.48
31 May 2010	1	0.48
30 June 2010	4	1.94
15 July 2010	3	1.46
30 July 2010	1	0.48
31 July 2010	7	3.40
1 August 2010	3	1.46
7 August 2010	2	0.97
9 August 2010	2	0.97
10 August 2010	1	0.48
11 August 2010	1	0.48
15 August 2010	3	1.46
16 August 2010	1	0.48
18 August 2010	1	0.48
20 August 2010	4	1.94
22 August 2010	1	0.48
23 August 2010	6	2.91
25 August 2010	4	1.94
26 August 2010	3	1.46
27 August 2010	6	2.91
28 August 2010	4	1.94
29 August 2010	2	0.97
30 August 2010	47	22.82
31 August 2010	61	29.61
9 September 2010	1	0.48
21 September 2010	1	0.48
30 September 2010	1	0.48
15 October 2010	1	0.48
29 October 2010	1	0.48
15 March 2011	1	0.48
Overall	176	85.36
Not Addressed	30	14.56
Overall	206	100.00

Note: Does not sum to 100.0 percent due to rounding.

⁵⁵ See Chapter Three, Section 3.3.3 and Appendix C.

In the case of SME taxpayers which fell in the accounting period from 1 January to 31 December 2010, the tax return should have been filed using the P.N.D. 50⁵⁶ within 150 days after 31 December 2010. Therefore, the submission should have been made by 29 May 2012. In the case of SMEs which had other accounting periods, they should have filed the tax return using the P.N.D. 50 within 150 days from the last day of the accounting period. The respondents with a P.N.D. 50 filing date of within 150 days constituted 88 percent of the total group. Table 5.10 shows more details about the respondents' varied P.N.D. 50 filing dates. The period from 1 January to 29 May 2010 was the cash flow benefit period for the P.N.D. 50. During those 150 days, SME taxpayers were able to use the cash flow benefits from taxable income. Around 74 percent of the SME taxpayers in this study enjoyed the 150 day cash flow benefit.

Table 5.10: P.N.D. 50 Filing Date of Respondents

Filing Date	Number of Respondents	Percentage
1 January 2011	1	0.48
30 January 2011	1	0.48
20 February 2011	1	0.48
26 February 2011	1	0.48
1 March 2011	1	0.48
15 March 2011	1	0.48
30 March 2011	3	1.46
31 March 2011	4	1.94
1 April 2011	1	0.48
30 April 2011	1	0.48
1 May 2011	1	0.48
15 May 2011	2	0.97
18 May 2011	1	0.48
20 May 2011	1	0.48
23 May 2011	1	0.48
26 May 2011	2	0.97
27 May 2011	6	2.91
28 May 2011	85	41.26
29 May 2011	67	32.52
30 May 2011	1	0.48
31 May 2011	1	0.48
29 June 2011	1	0.48
28 July 2011	1	0.48
30 July 2011	1	0.48
Overall	186	90.19
Not Addressed	20	9.71
Overall	206	100.00

Note: Does not sum to 100.0 percent due to rounding.

⁵⁶ See Chapter Three, Section 3.3.3 and Appendix C.

Table 5.11 shows the respondents' net profit amounts. Most of the respondents (35 percent) had net profits between 0-150,000 baht. This indicated that most of the respondents were in the zero tax rate category and they did not have to pay tax. Sixty-five percent of the respondents had net profits of more than 150,000 baht and thus were liable to pay tax.

Table 5.11: Net Profits of Respondents

Net Profit (baht)	Number of Respondents	Percentage
0-150,000	70	35.18
150,001-1,000,000	63	31.66
1,000,001-3,000,000	22	11.05
Over 3,000,000	44	22.11
Overall	199	100.00

Note: There were seven missing values.

The questionnaire asked the respondents about the type of filing method they used, and in answering this question the respondents were able to tick more than one box. The self-filing method was the most popular filing method, used by 80 percent of the SMEs. Fifteen percent of the respondents used the e-filing method. Seven percent indicated that they used an accounting firm to file the tax for them and they did not know what type of filing method was used. Eleven percent of the respondents from small enterprises and only three percent from the medium size enterprises used the e-filing method. These results indicate that most of the respondents preferred to manually file by using the self-filing method. More details regarding the filing method are shown in Table 5.12.

Table 5.12: Filing Method of Respondents

Business Type		Self-filing taxes	e-filing (Internet)	Other
		Number of Respondents (percentage)	Number of Respondents (percentage)	Number of Respondents (percentage)
Small Production	Yes	46 (22.33)	1 (0.49)	4 (1.94)
	No	5 (2.43)	50 (24.27)	47 (22.82)
Small Service	Yes	28 (13.59)	14 (6.80)	1 (0.49)
	No	13 (6.31)	27 (13.11)	40 (19.42)
Small Wholesale	Yes	14 (6.80)	4 (1.94)	4 (1.94)
	No	8 (3.88)	18 (8.74)	18 (8.74)
Small Retail	Yes	27 (13.11)	4 (1.94)	4 (1.94)
	No	7 (3.40)	30 (14.56)	30 (14.56)
Medium Production	Yes	17 (8.25)	5 (2.43)	1 (0.49)
	No	6 (2.91)	18 (8.74)	22 (10.68)
Medium Service	Yes	20 (9.71)	1 (0.49)	0
	No	1 (0.49)	20 (9.71)	21 (10.19)
Medium Wholesale	Yes	3 (1.46)	0	0
	No	0	3 (1.46)	3 (1.46)
Medium Retail	Yes	10 (4.85)	1 (0.49)	0
	No	1 (0.49)	10 (4.85)	11 (5.34)
Overall		206 (100)	206 (100)	206 (100)

5.4 Estimation of Tax Compliance Costs

5.4.1 Internal Costs

The internal costs were divided into the internal staff costs and miscellaneous costs or additional costs or overhead costs as shown in Table 5.13. The estimation of average internal costs was 190,284 baht (median: 40,900 baht) in 2010. An estimation of internal staff costs for each SME was 72,927 baht (median: 7,250 baht) or 38 percent of internal costs, and the miscellaneous costs (additional/overhead costs) were 117,357 baht (median: 10,800 baht) or 62 percent of internal costs.

Table 5.13: Internal Costs of Compliance, 2010

	Number of Respondents	Median (baht)	Mean (baht)	Percentage
Internal Staff Costs	204	7,250	72,927.37	38.33
Miscellaneous Costs	204	10,800	117,356.58	61.67
Internal Costs	204	40,900	190,283.95	100.00

Note: There were two missing values.

The internal staff costs measured in the present study relate to the duties of the manager/accountant, account clerk, administration staff, and other staff who deal with corporate income tax activities in the organisation. The questionnaire asked the respondents to identify the number of hours (per month) and the average wage rate (baht per month) related to their staff's dealing with corporate income tax activities. The wage rates given in the questionnaire responses were converted into hourly wage rates. The wage rates were divided by 192 hours per month to derive an hourly rate.⁵⁷ Then, the wage rate and hourly rate were weighted to give a yearly estimation. As discussed in Chapter Four,⁵⁸ the internal staff costs were computed by multiplying the average hourly wage rate of the respondents with the average number of hours spent by the respondents on CIT-related work. It was found that the manager/accountant position incurred the highest internal staff costs when working with corporate income tax activities, at 29,362 baht or 40 percent of total internal staff costs. The second ranked position with the highest internal staff costs was the account clerk position, at 26,194 baht or 36 percent. Ranked third in regard to the

⁵⁷ Thailand Labour Act 2008 (B.E. 2551), Section 23 identifies the maximum number of work hours as eight hours per day or 48 hours per week. A month has around four weeks which means one month is 192 hours.

⁵⁸ See Chapter Four, Section 4.3.5.

internal staff costs were the administration staff, at 10,449 baht or 14 percent. The other staff who incurred internal staff compliance costs as indicated in the questionnaires were the owners, at 6,922 baht or 10 percent of total internal staff costs. The respondents were asked to enter “0” if they did not have these internal costs. Some SMEs did not incur internal staff costs for dealing with corporate income tax matters. More detail regarding the respondents’ internal staff costs is shown in Table 5.14.

Table 5.14: Internal Staff Costs, 2010

Staff Category	Number of Respondents	Mean (baht)	Percentage
Manager/Accountant	204	29,362.47	40.26
Account Clerk	204	26,194.29	35.92
Administration Staff	204	10,449.14	14.33
Other Staff	204	6,921.47	9.49
Overall	204	72,927.37	100.00

Note: There were two missing values.

The respondents were asked to identify the miscellaneous costs in a number of categories, namely, stationery, postage, travelling, software, computers, and others. The use of miscellaneous cost categories ensured that the study would uncover more details for discussion and analysis. The highest miscellaneous costs for dealing with taxation matters were travelling costs at 56 percent. The second highest miscellaneous cost was software (14 percent), the third was stationery (11 percent), the fourth was computers (eight percent), and the last was “other costs” which were training costs (four percent) as indicated in the questionnaire responses. Some SMEs reported that they did not incur miscellaneous costs when dealing with their corporate income tax matters. These SMEs used external tax accountants to prepare the tax return for them. More detail about these costs is shown in Table 5.15.

Table 5.15: Miscellaneous Costs of Compliance, 2010

	Number of Respondents	Mean (baht)	Percentage
Stationery	204	12,860.00	10.96
Postage	204	9,001.82	7.67
Travelling	204	65,200.71	55.56
Software	204	16,638.24	14.18
Computer	204	9,459.05	8.06
Others	204	4,196.76	3.57
Overall	204	117,356.58	100.00

Note: There were two missing values.

5.4.2 External Costs

The total external costs reported by the respondents for 2010 were 63,425 baht which consisted of tax accountants (29,872 baht or 47 percent of external costs), tax auditors (6,980 baht or 11 percent of external costs), auditors (21,521 baht or 34 percent of external costs), lawyers (4,243 baht or seven percent of external costs), and “other costs” (809 baht or one percent of external costs). The highest external costs were tax accountants at 47 percent of external costs. Because of the audit requirements, every respondent must have incurred some type of external costs. For example, respondents who did not use a tax auditor used a general auditor. More detail regarding the external costs of compliance is shown in Table 5.16.

Table 5.16: External Costs of Compliance, 2010

	Number of Respondents	Mean (baht)	Percentage
Tax Accountant	204	29,872.06	47.10
Tax Auditor	204	6,980.39	11.00
Auditor	204	21,520.59	33.93
Lawyer	204	4,242.65	6.69
Others	204	808.82	1.28
Overall	204	63,424.51	100.00

Note: There were two missing values.

5.4.3 Tax Compliance Costs

The total tax compliance costs of SMEs were 253,708 baht (median: 107,135 baht) for 2010. This was composed of internal costs of 190,284 baht (median: 40,900 baht) or 75 percent of the total tax compliance costs, and external costs of 63,425 baht (median: 36,250 baht) or 25 percent of the total tax compliance costs. The ratio of internal costs to external costs was high in the 2010 tax year. The average overall internal costs, at 190,284 baht, were three times higher than the total external costs at 63,425 baht. More detail of these costs is shown in Table 5.17.

Table 5.17: Tax Compliance Costs, 2010

	Number of Respondents	Median (baht)	Mean (baht)	Percentage
Internal Costs	204	40,900	190,283.95	75.00
External Costs	204	36,250	63,424.51	25.00
Tax Compliance Costs	204	107,135	253,708.46	100.00

Note: There were two missing values.

5.5 Tax Compliance Cost Analyses

5.5.1 Average Tax Compliance Costs

As discussed in Chapter Three,⁵⁹ SMEs vary in terms of legal structure, location, trading period and the amount of net profit. The present study estimated the tax compliance costs in these terms.

In terms of legal structure, the average tax compliance costs for a partnership were 227,120 baht (median: 90,500 baht), and the average tax compliance costs for a limited company were 270,862 baht (median: 109,750 baht). The internal costs for a partnership were 171,671 baht (median: 38,625 baht) or 76 percent of the total tax compliance costs, and the internal costs for a limited company were 202,292 baht (median: 43,900 baht) or 75 percent of the total tax compliance costs. The internal costs for a limited company were higher than the internal costs for a partnership. The external costs for a partnership were 55,449 baht (median: 30,000 baht) and the external costs for a limited company were 68,570 baht (median: 40,000 baht). The external costs for a limited company were higher than the external costs for a partnership. More detail of the compliance costs for SMEs with different legal structures is shown in Table 5.18.

Table 5.18: Tax Compliance Costs by Legal Structure, 2010

Legal Structure (Number of Respondents)	Internal Costs (baht)		External Costs (baht)		Tax Compliance Costs (baht)	
	Median	Mean (percentage)	Median	Mean (percentage)	Median	Mean (percentage)
Partnership (80)	38,625	171,671 (75.59)	30,000	55,449 (24.41)	90,500	227,120 (100)
Limited Company (124)	43,900	202,292 (74.68)	40,000	68,570 (25.32)	109,750	270,862 (100)
Overall (204)	40,900	190,284 (75.00)	36,250	63,425 (25.00)	107,135	253,709 (100)

Note: There were two missing values.

⁵⁹ See Chapter Three, Section 3.2.1.

According to an examination of the tax compliance costs per region, the average tax compliance costs for SMEs in the North region were 351,847 baht (median: 209,000 baht) in 2010, in Bangkok and its surrounding areas the costs were 237,928 baht (median: 118,000 baht), in the Central region the costs were 178,525 baht (median: 21,575 baht), in the South region the costs were 288,603 baht (median: 97,300 baht), in the East region the costs were 253,800 baht (median: 253,800 baht), and in the Northeast region the costs were 183,098 baht (median: 124,000 baht). The highest tax compliance costs were in the North region.

The internal costs in the North region were 272,308 baht (median: 154,000 baht) or 77 percent of the total compliance costs, in Bangkok and its surrounding areas the internal costs were 151,522 baht (median: 30,844 baht) or 64 percent, in the Central region the internal costs were 146,715 baht (median: 1,650 baht) or 82 percent, in the South region the internal costs were 245,500 baht (median: 39,800 baht) or 85 percent, in the East region the internal costs were 232,800 baht (median: 232,800 baht) or 92 percent, and in the Northeast region the internal costs were 149,241 baht (median: 108,000 baht) or 82 percent. The highest internal costs were 272,308 baht, or 77 percent of the total compliance costs, in the North region.

The external costs in the North region were 79,539 baht (median: 37,500 baht) or 23 percent of the total compliance costs, in Bangkok and its surrounding areas the external costs were 86,406 baht (median: 60,000 baht) or 36 percent, in the Central region the external costs were 31,810 baht per year (median: 20,000 baht) or 18 percent, in the South region the external costs were 43,103 baht (median: 35,000 baht) or 15 percent, in the East region the external costs were 21,000 baht (median: 21,000 baht) or eight percent, and in the Northeast region the external costs were 33,857 baht (median: 20,000 baht) or 18 percent. The highest external costs were 86,406 baht, or 36 percent of the total compliance costs, in Bangkok and its surrounding areas. Overall, the amount of internal costs was larger than the amount of external costs in all locations. More detail of these costs is shown in Table 5.19.

Table 5.19: Tax Compliance Costs by Location, 2010

Location (Number of Respondents)	Internal Costs (baht)		External Costs (baht)		Tax Compliance Costs (baht)	
	Median	Mean (percentage)	Median	Mean (percentage)	Median	Mean (percentage)
North (36)	154,000	272,308 (77.39)	37,500	79,539 (22.61)	209,000	351,847 (100)
Bangkok and its surrounding areas (78)	30,844	151,522 (63.68)	60,000	86,406 (36.32)	118,000	237,928 (100)
Central (29)	1,650	146,715 (82.18)	20,000	31,810 (17.82)	21,575	178,525 (100)
South (39)	39,800	245,500 (85.07)	35,000	43,103 (14.93)	97,300	288,603 (100)
East (1)^a	232,800	232,800 (91.72)	21,000	21,000 (8.28)	253,800	253,800 (100)
Northeast (21)	108,000	149,241 (81.51)	20,000	33,857 (18.49)	124,000	183,098 (100)
Overall (204)^b	40,900	190,284 (75.00)	36,250	63,425 (25.00)	107,135	253,709 (100)

Note: ^a The low number of respondents indicates that any interpretation of the results for this category must be made with caution.

^b There were two missing values.

The trading period is one of the factors that affect tax compliance costs as found in many of the studies reported in the literature.⁶⁰ In the present study, the tax compliance costs of SMEs which had a trading period of less than two years were 271,179 baht (median: 152,500 baht) in 2010; for SMEs with a trading period between two and five years, the costs were 208,988 baht (median: 107,188 baht); and for SMEs with a trading period of more than five years, the costs were 262,222 baht (median: 100,300 baht). The highest tax compliance costs were for SMEs which had a trading period of less than two years (in the start-up period).

The internal costs of SMEs which had a trading period of less than two years were 156,871 baht (median: 54,000 baht) in 2010 or 58 percent of the total compliance costs; for SMEs with a trading period between two and five years, the costs were 166,177 baht (median: 84,000 baht) or 80 percent of the total compliance costs; and

⁶⁰ See Chapter Two.

for SMEs with a trading period of more than five years, the costs were 202,771 baht (median: 36,000 baht) or 77 percent of the total compliance costs. The highest internal compliance costs were for SMEs with a trading period of more than five years.

The external costs for SMEs which had a trading period of less than two years were 114,308 baht (median: 40,000 baht) in 2010 or 42 percent of the total compliance costs; for SMEs with a trading period between two and five years, the costs were 42,811 baht (median: 35,000 baht) or 20 percent of the total compliance costs. For SMEs with a trading period of more than five years, the costs were 59,451 baht (median: 40,000 baht) or 23 percent of the total compliance costs. The highest external costs were for SMEs with a trading period of less than two years. Overall, the amount of the internal costs was large compared with the external costs. More detail of the internal and external compliance costs by trading period is shown in Table 5.20.

Table 5.20: Tax Compliance Costs by Trading Period, 2010

Trading Period (Number of Respondents)	Internal Costs (baht)		External Costs (baht)		Tax Compliance Costs (baht)	
	Median	Mean (percentage)	Median	Mean (percentage)	Median	Mean (percentage)
Less than 2 years (26)	54,000	156,871 (57.85)	40,000	114,308 (42.15)	152,500	271,179 (100)
2 to 5 years (37)	84,000	166,177 (79.52)	35,000	42,811 (20.48)	107,188	208,988 (100)
More than 5 years (141)	36,000	202,771 (77.33)	40,000	59,451 (22.67)	100,300	262,222 (100)
Overall/Average (204)	40,900	190,284 (75.00)	36,250	63,425 (25.00)	107,135	253,709 (100)

Note: There were two missing values.

As this study followed the main SME definition used in Thailand in order to categorise the SMEs, the respondents were asked to indicate the main business activity of their organisation in relation to the size, type, number of employees and the amount of fixed assets. The average tax compliance costs of the small enterprises in this study were 186,492 baht (median: 70,000 baht) for small enterprises in the

production sector: 256,396 baht (median: 151,000 baht) for small enterprises in the service sector; 290,818 baht (median: 127,750 baht) for small enterprises in the wholesale sector, and 129,604 baht (median: 50,250 baht) for small enterprises in retail. The highest tax compliance costs were for small enterprises in the wholesale business. The average tax compliance costs of medium size enterprises were 361,915 baht (median: 226,000 baht) for medium size enterprises in the production sector; 349,681 baht (median: 138,000 baht) for medium size enterprises in the service sector; 730,437 baht (median 776,000 baht) for medium size enterprises in wholesale; and 317,312 baht (median: 150,000 baht) for medium size enterprises in retail. The highest tax compliance costs were for medium size enterprises in the wholesale business.

The internal costs for small enterprises were 102,413 baht (median: 16,000 baht) or 55 percent of the total compliance costs for small enterprises in the production sector; 208,335 baht (median: 106,000 baht) or 81 percent of the total compliance costs for small enterprises in the service sector; 237,466 baht (median: 80,400 baht) or 82 percent of the total compliance costs for small enterprises in wholesale; and 101,922 baht (median: 20,650 baht) or 79 percent of the total compliance costs for small enterprises in retail. The highest internal costs were for small enterprises in the wholesale business. The internal costs for medium size enterprises were 269,624 baht (median: 100,000 baht) or 75 percent of the total tax compliance costs for medium size enterprises in the production sector; 302,562 baht (median: 87,500 baht) or 87 percent of the total tax compliance costs for medium size enterprises in the service sector; 667,104 baht (median: 756,000 baht) or 91 percent of the total tax compliance costs for medium size enterprises in the wholesale sector; and 195,130 baht (median: 91,800 baht) or 62 percent of the total tax compliance costs for medium enterprises in retail. The highest internal costs were for medium enterprises in the wholesale business.

The external costs for small enterprises were 84,079 baht (median: 35,000 baht) or 45 percent of the total tax compliance costs for small enterprises in the production sector; 48,061 baht (median: 40,000 baht) or 19 percent of the total tax compliance costs for small enterprises in the service sector; 53,352 baht (median: 50,000 baht) or 18 percent of the total tax compliance costs for small enterprises in wholesale; and

27,682 baht (median: 20,000 baht) or 21 percent of the total tax compliance costs for small enterprises in retail. The highest external costs were for small enterprises in the production business. The external costs for medium size enterprises were 92,291 baht (median: 70,000 baht) or 25 percent of the total tax compliance costs for medium size enterprises in the production sector; 47,119 baht (median: 20,000 baht) or 13 percent of the total tax compliance costs for medium size enterprises in the service sector; 63,333 baht (median: 60,000 baht) or nine percent of the total tax compliance costs for medium size enterprises in wholesale; and 122,182 baht (median: 40,000 baht) or 38 percent of the total tax compliance costs for medium size enterprises in retail. The highest external costs were for medium size enterprises in the retail business.

Overall, the highest tax compliance costs and internal costs were for SMEs in the wholesale business. The highest external costs for small enterprise were for small enterprises in the production sector and the highest external costs for medium size enterprises were for medium size enterprises in the retail business. The tax compliance costs for medium enterprises in the production, service, wholesale and retail sectors were higher than for small enterprises in the production, service, wholesale and retail sectors. More detail of the internal, external and total tax compliance costs by size and sector is shown in Table 5.21.

Table 5.21: Tax Compliance Costs by Size/Type, 2010

Size/Type (Number of Respondents)	Internal Costs (baht)		External Costs (baht)		Tax Compliance Costs (baht)	
	Median	Mean (percentage)	Median	Mean (percentage)	Median	Mean (percentage)
Small Enterprises						
Production (51)	16,000	102,413 (54.92)	35,000	84,079 (45.08)	70,000	186,492 (100)
Service (41)	106,000	208,335 (81.25)	40,000	48,061 (18.75)	151,000	256,396 (100)
Wholesale (21)	80,400	237,466 (81.65)	50,000	53,352 (18.35)	127,750	290,818 (100)
Retail (33)	20,650	101,922 (78.64)	20,000	27,682 (21.36)	50,250	129,604 (100)
Medium Enterprises						
Production (23)	100,000	269,624 (74.50)	70,000	92,291 (25.50)	226,000	361,915 (100)
Service (21)	87,500	302,562 (86.53)	20,000	47,119 (13.47)	138,000	349,681 (100)
Wholesale (3)	756,000	667,104 (91.33)	60,000	63,333 (8.67)	776,000	730,437 (100)
Retail (11)	91,800	195,130 (61.50)	40,000	122,182 (38.50)	150,000	317,312 (100)
Overall (204)	40,900	190,284 (75.00)	36,250	63,425 (25.00)	107,135	253,709 (100)

Note: There were two missing values.

The average tax compliance costs for small enterprises were 208,270 baht (median: 93,070 baht) and the average tax compliance costs for medium enterprises were 368,088 baht (median: 199,700 baht). The tax compliance costs for medium enterprises were higher than for small enterprises.

The internal costs for small enterprises were 151,473 baht (median: 32,147 baht) or 73 percent of the total tax compliance costs. The internal costs for medium enterprises were 287,981 baht (median: 100,000 baht) or 78 percent of the total tax compliance costs. The internal costs for medium enterprises were higher than the internal costs of small enterprises.

The external costs for the small enterprises were 56,797 baht (median: 35,000 baht) or 27 percent of the total tax compliance costs. The external costs for the medium enterprises were 80,107 baht (median: 47,500 baht) or 22 percent of the total tax

compliance costs. The external costs for the medium enterprises were higher than the external costs for the small enterprises.

Overall, the internal, external and total tax compliance costs for the medium enterprises were higher than the internal, external and total tax compliance costs for the small enterprises. More details are shown in Table 5.22.

Table 5.22: Tax Compliance Costs by Size, 2010

Size (Number of Respondents)	Internal Costs (baht)		External Costs (baht)		Tax Compliance Costs (baht)	
	Median	Mean (percentage)	Median	Mean (percentage)	Median	Mean (percentage)
Small Enterprises (146)	32,147	151,473 (72.73)	35,000	56,797 (27.27)	93,070	208,270 (100)
Medium enterprises (58)	100,000	287,981 (78.24)	47,500	80,107 (21.76)	199,700	368,088 (100)
Overall (204)	40,900	190,284 (75.00)	36,250	63,425 (25.00)	107,135	253,709 (100)

Note: There were two missing values.

Analysis of the compliance costs by number of employees indicated that the SMEs with up to 50 employees had internal costs of 164,142 baht (median: 37,900 baht) or 73 percent of the total tax compliance costs, external costs of 61,415 baht (median: 35,000 baht) or 27 percent, and total tax compliance costs of 225,557 baht (median: 97,438 baht). The SMEs with 51 to 200 employees had internal costs of 285,344 baht (median: 93,750 baht) or 80 percent of the total tax compliance costs, external costs of 70,732 baht (median: 52,500 baht) or 20 percent, and total tax compliance costs of 356,076 baht (median: 199,700 baht). Overall, the highest internal, external and total tax compliance costs were for SMEs with 51 to 200 employees. More detail of these costs is shown in Table 5.23.

Table 5.23: Tax Compliance Costs by Number of Employees, 2010

Number of Employees (Number of Respondents)	Internal Costs (baht)		External Costs (baht)		Tax Compliance Costs (baht)	
	Median	Mean (percentage)	Median	Mean (percentage)	Median	Mean (percentage)
0-50 (160)	37,900	164,142 (72.77)	35,000	61,415 (27.23)	97,438	225,557 (100)
51-200 (44)	93,750	285,344 (80.14)	52,500	70,732 (19.86)	199,700	356,076 (100)
Overall (204)	40,900	190,284 (75.00)	36,250	63,425 (25.00)	107,135	253,709 (100)

Note: There were two missing values.

5.5.2 Analysis of Costs per Employee and Net Profit

According to the characteristics of SMEs in Thailand, tax compliance costs were analysed in terms of the number of employees and the net profit. As the respondents provided these details in the requested categories, the number of employees and the net profit were usable for analysis in this study.

For the SMEs with up to 50 employees, the internal costs were 656,568 baht per employee. For the SMEs with 51-200 employees, the internal costs were 227,366 baht per employee. Per employee, the internal costs for the SMEs with up to 50 employees were higher than for the SMEs with 51-200 employees. More detail of the internal costs per number of employees is shown in Table 5.24.

Table 5.24: Internal Costs per Employee, 2010

Number of Employees	Number of Respondents	Internal Costs (baht)	Internal Costs Per Employee (baht)
0-50	160	164,142	656,568
51-200	44	285,344	227,366

Note: There were two missing values.

The external costs for SMEs with up to 50 employees were 245,660 baht per employee. The external costs for SMEs with 51-200 employees were 56,360 baht per employee. Per employee, the external costs for SMEs with up to 50 employees were higher than for SMEs with 51-200 employees. More detail is shown in Table 5.25.

Table 5.25: External Costs per Employee, 2010

Number of Employees	Number of Respondents	External Costs (baht)	External Costs Per Employee (baht)
0-50	160	61,415	245,660
51-200	44	70,732	56,360

Note: There were two missing values.

The average tax compliance costs for the SMEs with up to 50 employees were 902,228 baht per employee. The average tax compliance costs for the SMEs with 51-200 employees were 283,726 baht per employee. Per employee, the average tax compliance costs for the SMEs with up to 50 employees were higher than for the SMEs with 51-200 employees. More detail is shown in Table 5.26.

Overall, the internal, external and total tax compliance costs per employee of the SMEs with up to 50 employees were higher than the internal, external and total tax compliance costs per employee for the SMEs with 51-200 employees and these costs were regressive.

Table 5.26: Tax Compliance Costs per Employee, 2010

Number of Employees	Number of Respondents	Tax Compliance Costs (baht)	Tax Compliance Costs Per Employee (baht)
0-50	160	225,557	902,228
51-200	44	356,076	283,726

Note: There were two missing values.

The relative importance of the internal costs, external costs and total tax compliance costs can be illustrated in terms of net profit⁶¹ as shown in Table 5.27, Table 5.28 and Table 5.29.

The internal costs as a percentage of net profit between 0-150,000 baht were 193 baht or, for every 100 baht of net profit between 0-150,000 baht, the internal costs were 193 baht. The internal costs as a percentage of net profit between 150,001-1,000,000 baht were 34 baht or, for every 100 baht of net profit between 150,001-1,000,000 baht, the internal costs were 34 baht. The internal costs as a percentage of net profit between 1,000,001-3,000,000 baht were 16 baht or, for every 100 baht of net profit between 1,000,001-3,000,000 baht, the internal costs were 16 baht. The internal costs as a percentage of net profit over 3,000,000 baht were three baht or, for every 100 baht of net profit over 3,000,000 baht, the internal costs were three baht. More detail of the internal costs as a percentage of net profit is shown in Table 5.27.

Table 5.27: Internal Costs as a Percentage of Net Profit, 2010

Net Profit (baht)	Number of Respondents	Internal Costs (baht)	Internal Costs as a Percentage of Net Profit (baht)
0-150,000	71	144,504	192.67
150,001-1,000,000	62	195,045	33.92
1,000,001-3,000,000	22	327,750	16.39
Over 3,000,000	44	204,105	3.14

Notes: 1. There were seven missing values.

2. For the net profit of over 3,000,000 baht, it was assumed that the highest net profit was 10,000,000 baht in order to estimate compliance costs as a percentage of net profit.

⁶¹ Many studies present tax compliance costs by size in terms of turnover, tax revenue and per employee. This study of Thai tax compliance costs cannot follow this convention essentially because of the complex and unusual definition of SMEs, particularly in terms of assets, as discussed in Chapter Three and the ensuing design of the questionnaire. Nonetheless, in a Thai context, whereby a very high percentage of SMEs would be expected to be profitable, the use of net profits as an indicator of size is arguably a satisfactory measure.

The external costs as a percentage of net profit between 0-150,000 baht were 71 baht or, for every 100 baht of net profit between 0-150,000 baht, the external costs were 71 baht. The external costs as a percentage of net profit between 150,001-1,000,000 baht were nine baht or, for every 100 baht of net profit between 150,001-1,000,000 baht, the external costs were nine baht. The external costs as a percentage of net profit between 1,000,001-3,000,000 baht were five baht or, for every 100 baht of net profit between 1,000,001-3,000,000 baht, the external costs were five baht. The external costs as a percentage of net profit over 3,000,000 baht were one baht or, for every 100 baht of net profit over 3,000,000 baht, the external costs were one baht. More detail of the external costs as a percentage of net profit is shown in Table 5.28.

Table 5.28: External Costs as a Percentage of Net Profit, 2010

Net Profit (baht)	Number of Respondents	External Costs (baht)	External Costs as a Percentage of Net Profit (baht)
0-150,000	71	53,154	70.87
150,001-1,000,000	62	48,931	8.51
1,000,001-3,000,000	22	102,591	5.13
Over 3,000,000	44	83,409	1.28

Notes: 1. There were seven missing values.

2. For the net profit of over 3,000,000 baht, it was assumed that the highest net profit was 10,000,000 baht in order to estimate compliance costs as a percentage of net profit.

The tax compliance costs as a percentage of net profit between 0-150,000 baht were 264 baht or, for every 100 baht of net profit between 0-150,000 baht, the tax compliance costs were 264 baht. The tax compliance costs as a percentage of net profit between 150,001-1,000,000 baht were 42 baht or, for every 100 baht of net profit between 150,001-1,000,000 baht, the tax compliance costs were 42 baht. The tax compliance costs as a percentage of net profit between 1,000,001-3,000,000 baht were 22 baht or, for every 100 baht of net profit between 1,000,001-3,000,000 baht, the tax compliance costs were 22 baht. The tax compliance costs as a percentage of net profit over 3,000,000 baht were four baht or, for every 100 baht of net profit over 3,000,000 baht, the tax compliance costs were four baht. More detail is shown in Table 5.29. Overall, the internal costs, external costs and total tax compliance costs as a percentage of net profit were regressive.

Table 5.29: Tax Compliance Costs as a Percentage of Net Profit, 2010

Net Profit (baht)	Number of Respondents	Tax Compliance Costs (baht)	Tax Compliance Costs as a Percentage of Net Profit (baht)
0-150,000	71	197,658	263.54
150,001-1,000,000	62	243,976	42.43
1,000,001-3,000,000	22	430,341	21.52
Over 3,000,000	44	287,514	4.40

Notes: 1. There were seven missing values.

2. For the net profit of over 3,000,000 baht, it was assumed that the highest net profit was 10,000,000 baht in order to estimate compliance costs as a percentage of net profit.

5.6 Tax Difficulty

Section C of the questionnaire was designed to elicit the opinions of the respondents as SME taxpayers. The respondents were asked the main reason for employing an external tax professional. The first reason indicated by the respondents was that “technical knowledge is not readily available internally” at 64 percent. The second reason was “corporate income tax matters are complicated” at 55 percent. The third reason was “an external opinion is required” at 40 percent. The fourth reason was “it is more cost-effective to use external tax professionals” at 36 percent. The fifth reason was “for corporate income tax planning” at 32 percent. Lastly, the respondents indicated that they used the external tax professionals in accordance with the tax requirements such as using tax auditors to certify the tax filing. Some also indicated that they were small businesses so it was unnecessary to use external tax professionals, at three percent. More detail of these responses is shown in Table 5.30.

Table 5.30: Main Reason for Employing External Tax Professional, 2010

Main Reason (Number of Respondents)	Yes		No	
	Small	Medium	Small	Medium
	Number (percentage)	Number (percentage)	Number (percentage)	Number (percentage)
Technical knowledge is not readily available internally (205)	100 (48.78)	32 (15.60)	47 (22.92)	26 (12.68)
Corporate income tax matters are complicated (205)	85 (41.46)	28 (13.65)	62 (30.24)	30 (14.63)
External opinion is required (205)	55 (26.82)	27 (13.17)	92 (44.87)	31 (15.12)
It is more cost-effective to use external tax professionals (205)	50 (24.39)	23 (11.21)	97 (47.31)	35 (17.07)
For corporate income tax planning (205)	44 (21.46)	22 (10.73)	103 (50.24)	36 (17.56)
Other (205)	4 (1.95)	2 (0.97)	143 (69.75)	56 (27.31)

Note: There was one missing value.

The respondents were asked to estimate the level of tax compliance burden on their business by comparison with the burden on other businesses. Most of the respondents (61 percent) indicated that their levels of tax compliance burden were “neutral” or “unknown”. The second largest group of respondents (19 percent) indicated that they had a high level of tax compliance burden. The next largest group of respondents (11 percent) reported a low level of tax compliance burden. The fourth group of respondents (5 percent) reported a very high level of tax compliance burden. A small group of respondents (4 percent) reported a very low level of tax compliance burden. More detail of the estimated level of tax burden is shown in Table 5.31.

Table 5.31: Estimated Level of Income Tax Compliance Burden

Level	Small		Medium	
	Number of Respondents	Percentage	Number of Respondents	Percentage
Very high	8	3.88	3	1.46
High	28	13.59	11	5.34
Neutral/Don't know	92	44.66	34	16.50
Low	16	7.77	6	2.91
Very Low	4	1.94	4	1.94
Overall	148	71.84	58	28.16

The respondents were asked about the area of tax compliance that their organisation found difficult. The respondents' opinions indicated that the first difficulty was "understanding corporate income tax legislation" at 66 percent. The second difficulty was "estimating income tax payable" at 64 percent. The third difficulty was "implementing the income tax changes" at 38 percent. The fourth difficulty was the "increasing burden of record-keeping for tax purpose" at 27 percent. The fifth difficulty was "maintaining records for income tax purposes" at 22 percent. The sixth difficulty was "dealing with the tax authority" at 17 percent. The seventh difficulty was "the short period of time given to lodge tax returns" at 14 percent. The eighth ranked difficulty was "dealing with external professionals" at seven percent. Only one respondent indicated other reasons, but without giving details. More detail of the tax compliance areas found to be difficult is shown in Table 5.32.

Table 5.32: Area of Tax Compliance Found to be Difficult, 2010

Area of Tax Compliance	Number of Respondents	Yes		No	
		Small	Medium	Small	Medium
		Number (percentage)	Number (percentage)	Number (percentage)	Number (percentage)
Understanding corporate income tax legislation	206	103 (50.00)	32 (15.53)	45 (21.84)	26 (12.62)
Estimating income tax payable	206	100 (48.54)	31 (15.05)	48 (23.30)	27 (13.11)
Implementing the income tax changes	206	57 (27.67)	22 (10.68)	91 (44.17)	36 (17.48)
Increasing burden of record-keeping for tax purposes	206	41 (19.90)	15 (7.28)	107 (51.94)	43 (20.87)
Maintaining records for income tax purposes	206	27 (13.11)	18 (8.74)	121 (58.74)	40 (19.42)
Dealing with the tax authority	206	23 (11.17)	12 (5.83)	125 (60.68)	46 (22.33)
Short period of time given to lodge tax returns	206	18 (8.74)	10 (4.85)	130 (63.11)	48 (23.30)
Dealing with external tax professionals (such as tax accountants, tax auditors)	206	11 (5.34)	3 (1.46)	137 (66.50)	55 (26.70)
Other	206	1 (0.49)	0 (0)	147 (71.36)	58 (28.16)

5.7 Statistical Tests

5.7.1 Dummy Variables in Multiple Regression Analysis

In order to incorporate qualitative explanatory variables into a linear model, substantially expanding the range of the multiple regression analysis, dummy variable regression was applied to analyse the data gathered in this study. The data was transformed using the natural logarithm and normal distribution test as shown in Table 5.33. Normality was tested by using the Kolmogorov-Smirnov test to see whether the tax compliance costs before and after natural log transformation were normally distributed (Chan, Cheung, Ariff, & Loh, 1999, p. 58). The result of the normality test for tax compliance costs was 0.200. The legal structure, location (geographic), trading period, business type, size, number of employees and net profit were assigned as dummy variables.⁶²

Table 5.33: Normal Test of Before and After Natural Log Transformation of Data

Kolmogorov-Smirnov				
	Raw Data		Transformed Data	
	Statistic	Sig.	Statistic	Sig.
Tax Compliance Costs	0.219	0.000	0.060	0.200

As the results of this study show, the compliance costs of the SMEs were different in regard to the SMEs' legal structure, location, trading period and size. In this section, the relationships between the tax compliance costs and other qualitative explanatory variables are summarised by multiple regression analysis as shown in Table 5.34.

The regression was run by using the ordinary least squares (OLS) and stepwise method. The result from OLS regression found that the adjusted R^2 was 0.215; therefore, about 21.5 percent of variation in tax compliance costs is explained by legal structure, location, trading, definition, size and net profit. However, the interpretation of variation in tax compliance costs by reference to the SME definition is slightly significant. The interpretation was made with caution. In terms of the effect on tax compliance costs, the location for the respondents who were in the Central region had high significance (Sig. = 0.007). In terms of the business type, the variable with the highest tax compliance costs was wholesale (Coefficient = 0.759).

⁶² See Appendix H.

Most wholesale businesses have many staff to deal with tax activities because they have many customers and many products; for example, they have many accounting staff to do tax invoices and many stock clerks to check the stock of products. For wholesale businesses, the taxation-related record-keeping is more complex and must follow more legal requirements. Thus, it can be expected that the number of internal staff and the internal staff costs would be high for SMEs running a wholesale businesses.

In order to confirm the result from the OLS method, the multiple regression was run by using the stepwise method. Location in the Central region was confirmed as the most significance, “the respondents in small size business” was in the second rank of significance, location in the North region was in the third rank of significance, net profit between 150,001 to 3,000,000 baht was in the fourth rank of significance, carrying out a wholesale business was in the fifth rank of significance, and the partnership legal structure was in the sixth rank of significance. More details of the analysis are shown in Table 5.34.

Table 5.34: Dummy Variables in Regression Analysis

Dependent Variable	Tax Compliance Costs					
	OLS			Stepwise		
Method						
N	198			198		
Constant	11.892			11.889		
R²	0.279			(1) 0.315 (2) 0.377 (3) 0.421 (4) 0.458 (5) 0.480 (6) 0.497		
Adj. R²	0.215			(1) 0.099 (2) 0.377 (3) 0.421 (4) 0.458 (5) 0.480 (6) 0.497		
Independent Variables	Coefficient		Std. Error		Significant	
Method	OLS	Stepwise	OLS	Stepwise	OLS	Stepwise
Legal Structure						
Partnership	-0.331	(6) -0.374	0.192	(6) 0.178	0.087	(6) 0.037
Location						
North	0.728	(3) 0.663	0.332	(3) 0.229	0.029	(3) 0.004
Bangkok and its surrounding areas	0.059		0.302		0.846	
Central	-1.017	(1) -1.141	0.375	(1) 0.245	0.007	(1) 0.000
South	-0.045		0.334		0.892	
East	0.669		1.209		0.580	
Trading						
Less than 2 years	0.407		0.269		0.132	
2 to 5 years	-0.036		0.241		0.881	
Business Type						
Production	0.123		0.277		0.657	
Service	0.472		0.277		0.090	
Wholesale	0.759	(5) 0.564	0.304	(5) 0.252	0.014	(5) 0.027
Sizes						
Small	-0.716	(2) -0.582	0.379	(2) 0.186	0.061	(2) 0.002
Employee						
0-150,000	0.129		0.425		0.762	
Net Profit						
0-150,000	-0.143		0.256		0.578	
150,001-1,000,000	0.079		0.250		0.752	
1,000,001-3,000,000	0.727	(4) 0.742	0.311	(4) 0.262	0.020	(4) 0.005

Note: For the stepwise method, predictor (1)-(6) mean: (1) Central region, (2) Small size, (3) North region, (4) Net profit 1,000,001-3,000,000, (5) Wholesale and (6) Partnership.

5.7.2 Testing Accuracy and Consistency

Accuracy and consistency were tested by adding one question about compensation.⁶³

The question asked was:

If your company claims costs from the government for the time and money spent (both internally and externally) by the company in dealing with corporate income tax in 2010, how much do you think is fair compensation?

⁶³ See Chapter Four, Section 4.3.3.1 and 4.3.5.1.

The data (total compliance costs and the claim costs) was transformed using the natural logarithm, as shown in Table 5.35. The correlation between the compliance costs and the claim costs was good (Pearson correlation coefficient: 0.680).

Table 5.35: Normal Test of Before and After Natural Log Transformation of Data

Kolmogorov-Smirnov				
Type of Costs	Raw Data		Transformed Data	
	Statistic	Sig.	Statistic	Sig.
Tax Compliance Costs	0.258	0.000	0.087	0.190
Claim Costs	0.345	0.000	0.106	0.023

5.8 Summary

This chapter has reported the results of the analysis of the responses to Section A (General Information), Section B (Tax Compliance Costs) and Section C (Opinions) in the questionnaire. An analysis of the responses and an estimation of the compliance costs were presented. The estimation of mean corporate income tax compliance costs for SMEs in Thailand in the 2010 tax year was 253,709 baht which was comprised of internal staff costs (72,927 baht), miscellaneous costs (117,357 baht) and external costs (63,425 baht). The internal costs to external costs ratio accounted for 75 and 25 percent of the total tax compliance costs. This result indicates that most SMEs paid high internal costs.

Furthermore, the average tax compliance costs were quite varied according to the legal structure, location, trading period and SME definition. The tax compliance costs of SMEs as a percentage of net profit were regressive. As a percentage comparison, the low net profit enterprises carried relatively higher tax compliance costs compared to the high net profit enterprises. The correlation between the estimated tax compliance costs and the claimed tax compliance costs was tested and the correlation was good.

CHAPTER SIX

QUANTITATIVE RESULTS: AGGREGATE CORPORATE INCOME TAX COMPLIANCE COSTS

6.1 Introduction

This chapter continues from the last chapter to present the quantitative findings on aggregate tax compliance costs. The findings are divided into five sections. In the first section, the gross compliance costs are presented. The findings are presented step-by-step in tables to easily explain the estimation of the tax compliance costs in aggregate. In the next section, the cash flow benefits are analysed. In the third section, the tax deductibility is identified. In the fourth section, the net compliance costs of SME taxpayers in Thailand for 2010 are presented. Finally, the quantitative findings in this chapter are summarised.

6.2 Gross Compliance Costs

The number of SME taxpayers and the amount of tax revenue in the 2010 tax year are presented in Table 6.1. The SMEs with profits between 150,001-1,000,000 baht⁶⁴ constituted the largest group of SME taxpayers, at 50 percent. The Small and Medium Enterprises with profits over three million baht made the highest contribution to tax revenue, at 68 percent of the total tax revenue generated by SMEs overall in 2010.

⁶⁴ See Chapter Three, Table 3.11.

Table 6.1: Number of Small and Medium Enterprise Corporate Income Taxpayers

Net Profit	Number of SME Taxpayers	Percentage	Amount of Tax Revenue (million baht)	Percentage
0-150,000	54,765	29.09	0.00	0.00
150,001-1,000,000	93,026	49.42	3,907.16	10.15
1,000,001-3,000,000	30,187	16.04	8,591.23	22.31
Over 3,000,000	10,258	5.45	26,002.27	67.54
Overall	188,236	100.00	38,500.66	100.00

Source: Thailand Tax Revenue Data (2010).

A summary of the average internal, external and total tax compliance costs from Chapter Five is shown in Table 6.2. The internal costs in each net profit range were higher than the external costs. This summary shows the estimate of the total tax compliance costs which was used to estimate the aggregate tax compliance costs in the next step.

Table 6.2: Mean Corporate Income Tax Compliance Costs, 2010

Net Profit (Number of Respondents)	Internal Costs (percentage)	External Costs (percentage)	Tax Compliance Costs (baht)
0-150,000 (71)	144,504 (73.11)	53,154 (26.89)	197,658
150,001-1,000,000 (62)	195,045 (79.94)	48,931 (20.06)	243,976
1,000,001-3,000,000 (22)	327,750 (76.16)	102,591 (23.84)	430,341
Over 3,000,000 (44)	204,105 (70.99)	83,409 (29.01)	287,514
Overall (199)	193,687 (75.17)	63,993 (24.83)	257,680

Notes: 1. There were seven missing values.

2. The overall average was slightly lower than the 262,760 baht figure given in Table 6.3 because of the effect of missing values.

The method to estimate the total tax compliance costs or aggregate tax compliance costs was to multiply the mean costs of the SME taxpayers in each net profit category with the number of SME taxpayers in each net profit category (Pope, Fayle, & Chen, 1994, p. 66). The estimation of total tax compliance costs of corporate income tax in 2010 was 49,461 million baht. The average tax compliance cost was 262,760 baht. More detail of these calculations is presented in Table 6.3. Moreover, the conversion of the survey mean compliance costs into (aggregate or overall) weighted compliance costs (Pope, J., 1993, p. 92) was computed in order to confirm

the result between the unweighted and weighted mean tax compliance costs (as shown in Appendix I).

Table 6.3: Estimated Corporate Income Tax Compliance Costs, 2010

Net Profit	Number of SME Taxpayers	Mean Costs			Total Compliance Costs (million baht)
		Internal (baht)	External (baht)	Tax Compliance Costs (baht)	
0-150,000	54,765	144,504	53,154	197,658	10,825
150,001-1,000,000	93,026	195,045	48,931	243,976	22,696
1,000,001-3,000,000	30,187	327,750	102,591	430,341	12,991
Over 3,000,000	10,258	204,105	83,409	287,514	2,949
Overall	188,236	-	-	262,760	49,461

6.3 Distribution of Estimated Total Compliance Costs

After estimating the total tax compliance costs of SMEs in Thailand in 2010, the distribution of the estimated tax compliance costs of corporate income tax was computed as shown in Table 6.4. The 0-150,000 baht net profit category of SME taxpayers, constituting 29 percent of the total SME taxpayers, incurred 22 percent of the total tax compliance costs yet did not contribute to tax revenue. Their tax compliance costs were extremely high and greater than their tax remittance. Small and Medium Enterprise taxpayers in the over 3,000,000 baht net profit category, constituting five percent of the total SME taxpayers, incurred six percent of the total tax compliance costs, contributed 68 percent in tax revenue and incurred the lowest costs (11 percent of tax paid). Overall, the result of the compliance costs as a percentage of tax paid was regressive.

Table 6.4: Distribution of Estimated Total Compliance Costs of Corporate Income Tax, 2010

Net Profit	Number of SME Taxpayers (percentage)	Total Compliance Costs (million baht)/ (percentage)	Tax Paid (million baht)/ (percentage)	Compliance Costs as a Percentage of Tax Paid
0-150,000	54,765 (29.09)	10,825 (21.89)	0.00	-
150,001-1,000,000	93,026 (49.42)	22,696 (45.89)	3,907.16 (10.15)	580.88
1,000,001-3,000,000	30,187 (16.04)	12,991 (26.27)	8,591.23 (22.31)	151.21
Over 3,000,000	10,258 (5.45)	2,949 (5.96)	26,002.27 (67.54)	11.34
Overall	188,236 (100.00)	49,461 (100.00)*	38,500.66 (100.00)	128.47

Notes: * Does not sum to 100.0 percent due to rounding.

6.4 Composition of Compliance Costs

The internal and external compliance costs were estimated as shown in Table 6.5. Overall, the internal costs accounted for 77 percent of the total compliance costs and the external costs accounted for 23 percent of the total compliance costs.

Table 6.5: Breakdown of Estimated Total Compliance Costs of Corporate Income Tax, 2010

Net Profit	Internal Costs (baht)/ (percentage)	External Costs (baht)/ (percentage)	Total (million baht)
0-150,000	7,914 (73.11)	2,911 (26.89)	10,825
150,001-1,000,000	18,144 (79.94)	4,552 (20.06)	22,696
1,000,001-3,000,000	9,894 (76.16)	3,097 (23.84)	12,991
Over 3,000,000	2,093 (70.97)	856 (29.03)	2,949
Overall	38,045 (76.92)	11,416 (23.08)	49,461

6.5 Cash Flow Benefits

The following formula was used to calculate the cash flow benefits:⁶⁵

$$\text{Cash flow benefits} = \text{Tax amount in year} * a * r$$

$$\text{Cash flow benefit} = \text{Tax amount in year 2010} * 105/365 * 0.0645$$

where

T	=	Tax amount in the 2010 tax year
a	=	The time (expressed as a fraction of a year) that the 2010 tax liability attaching to 2010 earned income is held from: (1) 1 July - 30 August (until pay P.N.D. 51) = 60 days (2) 1 January - 30 May (until pay P.N.D. 50) = 150 days
a	=	(0.5*60+0.5*150) = 105 days in the 2010 tax year
r	=	0.0645.

The interest rate used in this study was the interest rate of five commercial banks which gave a loan to SMEs in 2010 as similar to other studies in which the interest rate was an average annual business interest rate (Evans, Ritchie, Tran-Nam, & Walpole, 1997; Pope, Fayle, & Chen, 1994). The raw data was obtained from the Bank of Thailand (2010) and the average interest rate in 2010 was computed by the author. The average annual interest rate was 6.45 percent per annum. More detail about the calculation of the minimum lending rate is presented in Table 6.6.

⁶⁵ See Chapter Four, Section 4.3.5.3.

Table 6.6: Average of Minimum Lending Rate, 2010

Month	Interest Rate (percentage)
January	6.38
February	6.38
March	6.38
April	6.38
May	6.38
June	6.38
July	6.50
August	6.50
September	6.50
October	6.50
November	6.50
December	6.63
Average	6.45

The estimation of cash flow benefits for the year of income was 714 million baht, or only 2 percent of the corporate tax revenue of 38,501 million baht. The value of the mean cash flow benefits rose from 779 baht for SME taxpayers in the 150,001 to one million baht net profit category, to 47,033 baht for SME taxpayers in the category of net profit over 3,000,000 baht. Table 6.7 presents further details about the cash flow benefits.

Table 6.7: Value of Estimated Cash Flow Benefits of Corporate Income Tax, 2010

Net Profit	Number of SME Taxpayers	Tax Paid (million baht)	Value of Mean Cash Flow Benefits (baht)	Total Value of Cash Flow Benefits (million baht)
0-150,000	54,765	0.00	-	-
150,001- 1,000,000	93,026	3,907.16	779.31	72.50
1,000,001- 3,000,000	30,187	8,591.23	5,280.70	159.41
Over 3,000,000	10,258	26,002.27	47,033.22	482.47
Overall	188,236	38,500.66	3,795.09	714.38

6.6 Tax Deductibility

To compute tax deductibility,⁶⁶ the following formula was used:

$$\text{Tax deductibility} = \sum_{i=1}^4 NitiCi$$

i = SMEs based on level of tax rate⁶⁷

i = 1 (exempt), i = 2 (15%), i = 3 (25%) and i = 4 (30%)

N = total number of SME taxpayers in each net profit category

t = tax rate in each net profit category

C = tax compliance costs in each net profit category.

Thus, tax deductibility in this current study is shown as:

Tax Deductibility = Number of SME Taxpayers * Tax Rate * Tax Compliance Costs

The carrying forward of loss also counts as tax deductibility.⁶⁸ In Thailand, the loss from corporate income tax can be carried forward to the next five years. Thus, there were two types of SME taxpayers which enjoyed this tax deductibility as follows:

- (1) SME taxpayers which carried a loss forward in the previous year and still carried the loss forward in 2010.
- (2) SME taxpayers which made a loss in 2010.

Publicly available data about the number of SME taxpayers which carried a loss forward in the previous year and still carried it forward in 2010 was not available. However, according to the Thai tax code, SMEs which have profit revenue in the 0-150,000 baht category are charged zero tax rates. It was reasonable to include SMEs that carried a loss forward, gained a loss in 2010 and did not pay tax in 2010 in this category.

The value of the estimated tax deductibility is shown in Table 6.8. Overall, the tax deductibility in 2010 was 7,537 million baht, or 15 percent of the total tax compliance costs of 49,461 million baht.

⁶⁶ See Chapter Four, Section 4.3.5.2.

⁶⁷ See Chapter Three, Table 3.11.

⁶⁸ See Chapter Two, Section 2.7.1.

Table 6.8: Value of Estimated Tax Deductibility of Corporate Income Tax, 2010

Net Profit	Number of SME Taxpayers	Total Compliance Costs (million baht)	Tax Deductibility (million baht)
0-150,000	54,765	10,825	0
150,001-1,000,000	93,026	22,696	3,404.40
1,000,001-3,000,000	30,187	12,991	3,247.75
Over 3,000,000	10,258	2,949	884.70
Overall	188,236	49,461	7,536.85

6.7 Net Compliance Costs

After offsetting the benefits (tax deductibility and cash flow benefits) from the gross tax compliance costs, the net compliance costs were obtained.⁶⁹ Table 6.9 presents the comparison of the estimated total gross compliance costs, the value of cash flow benefits, tax deductibility and net compliance costs of corporate income tax in 2010. The net tax compliance costs for SMEs in the 0-150,000 baht net profit category were not changed according to zero tax rates, no cash flow benefits affected the tax revenue, and there was no tax deductibility in this category. After that, net tax compliance costs fell from 19,219 million baht when SME taxpayers started to pay tax at a rate of 15 percent to 1,582 million baht when SME taxpayers started to pay tax at a rate 30 percent. Overall, the net tax compliance costs were 41,210 million baht.

⁶⁹ See Chapter Two, Section 2.7.

Table 6.9: Comparison of Estimated Total Gross Compliance Costs, Value of Cash Flow Benefits, Tax Deductibility and Net Compliance Costs of Corporate Income Tax, 2010

Net Profit	Number of Taxpayers (percentage)	Total Gross Compliance Costs (million baht)/ (percentage)	Value of Cash Flow Benefits (million baht)/ (percentage)	Tax Deductibility (million baht)/ (percentage)	Total Net Compliance Costs (million baht)
0-150,000	54,765 (29.09)	10,825 (21.89)	0	0	10,825
150,001-1,000,000	93,026 (49.42)	22,696 (45.89)	72.50 (10.15)	3,404.40 (45.17)	19,219
1,000,001-3,000,000	30,187 (16.04)	12,991 (26.27)	159.41 (22.31)	3,247.75 (43.09)	9,584
Over 3,000,000	10,258 (5.45)	2,949 (5.96)	482.47 (67.54)	884.70 (11.74)	1,582
Overall	188,236 (100)	49,461 (100)*	714.38 (100)	7,536.85 (100)	41,210

6.8 Summary

The estimated total compliance costs for SME corporate income tax in 2010 were 49,461 million baht. Internal costs accounted for 77 percent and external costs accounted for 23 percent. Tax compliance costs as a percentage of tax paid were extremely regressive; net tax compliance costs fell from 19,219 million baht when SME taxpayers started to pay tax at a rate of 15 percent for SMEs in the net profit category between 150,001 and one million baht, to 1,582 million baht when SME taxpayers started to pay tax at a rate of 30 percent for SMEs in the over 3,000,000 baht net profit category.

The value of cash flow benefits for SME corporate income tax in 2010 was estimated to be 714 million baht, which was only two percent of the corporate tax revenue of 38,501 million baht. Overall, the tax deductibility was 7,537 million baht and the net compliance costs were 41,210 million baht.

Surprisingly, the estimated total tax compliance costs and the net compliance costs were more than the corporate income tax revenue in 2010. The results reported in this chapter are supported and explained by the qualitative findings presented in the next chapter.

CHAPTER SEVEN

QUALITATIVE FINDINGS

7.1 Introduction

This chapter presents the qualitative findings which were obtained from the interviews. The main purpose of this chapter is to report the results of the interviews which identified the views of the SMEs and supported the quantitative findings. First, the research objective related to these qualitative findings is outlined in order to understand the overview of this chapter. Second, the profiles of the interview participants are discussed to provide a clear picture of the demographic factors of the sample. Third, a background of the preliminary stage of the questionnaire is given in order to support this process of qualitative findings. The subsequent sections analyse the interviews by addressing the research questions. Finally, a summary concludes this chapter.

7.2 Purpose

After obtaining the results from the quantitative data, the qualitative findings were focused on identifying the burden caused by corporate income tax compliance costs for SMEs (objective three). The main qualitative purpose was to support the quantitative results. Confirmation of the estimation of tax compliance costs was sought from the interviewees. Further details identified the tax burden of corporate income tax compliance costs on SMEs. The views of SMEs on tax compliance costs were also explored. The analysis followed the eight research questions.⁷⁰ Overall, it was expected that the qualitative findings would add important details to this research.

7.3 Interviewed Participants

The interviewees were contacted by the staff of TCG as explained in Chapter Four.⁷¹ The interview sessions were conducted in January 2012 by meeting each individual interviewee at a place convenient to him/her; in most cases, this was at the

⁷⁰ See Chapter One, Table 1.7.

⁷¹ See Chapter Four, Section 4.4.2.

interviewee's office. Some interviewees preferred to meet at a restaurant or coffee shop. The interviewees represented the respondents from the North, Bangkok and its surrounding areas, Central, South, East and Northeast regions of Thailand. The author travelled to meet interviewees in the provinces of the North, Central, South, East and Northeast regions of Thailand. Audio-recording was used during the interviews, with permissions for this given by the interviewees. On 9 January 2012, the interviewer started the interviews by meeting respondents in Chonburi and Rayong provinces (East region). The next day, the respondents in Ayuthaya and Saraburi provinces (Central region) were interviewed. On 12 January 2012, the meetings with the interviewees in Samut Sakorn and Bangkok were conducted. The interviews with respondents from Northeast Thailand were conducted at Udon Thani and Nong Khai on 17 and 18 January 2012. Interviews in Chiang Mai province (North region) were undertaken on 19 and 20 January 2012. On 26 January 2012, the interview session in the South area was conducted in Surat Thani. Interviews were conducted in Bangkok on 25, 28 and 29 January 2012.

In total, 38 respondents supported the study by participating in the interviews. Each interview session was conducted for no longer than 45 minutes, and was conducted in the Thai language. The interviews were translated from Thai to English and the interviewees' own words were translated directly; therefore, the extracts from the interview transcripts presented here retain colloquialisms and have not been corrected for English grammar. The interviewees were asked to confirm their contact details for the purpose of asking further follow-up questions if necessary. The key profiles of the interviewees are presented in Table 7.1.

Table 7.1: Key Profiles of Interview Participants

Interviewee Number	Location	Interviewee's Position	Type of Business
Interviewee 1	East	Owner + Accounting staff	Rubber
Interviewee 2	Bangkok	Owner + Secretary	Car wash machines
Interviewee 3	Central	Owner	Logistics
Interviewee 4	Central	Owner + Accounting staff	Export cattle
Interviewee 5	Bangkok	Owner	Garment
Interviewee 6	Bangkok	Accounting Manager	Logistics
Interviewee 7	Bangkok	Accounting Manager	Concrete blocks
Interviewee 8	Northeast	Owner	Logistics
Interviewee 9	Northeast	Owner	Spring water
Interviewee 10	Northeast	Owner	Stainless steel
Interviewee 11	Northeast	Owner	Used car sales
Interviewee 12	Northeast	Owner	Hotel
Interviewee 13	Northeast	Owner	Concrete blocks
Interviewee 14	Northeast	Owner	New car sales
Interviewee 15	Northeast	Owner	Sand business
Interviewee 16	North	Owner	Pottery and sculpture
Interviewee 17	North	Owner	Cold rooms
Interviewee 18	North	Owner	Bakery
Interviewee 19	North	Owner	Hotel
Interviewee 20	North	Accounting Manager	Tea manufacturing
Interviewee 21	North	Accounting staff	Jewellery shop
Interviewee 22	North	Owner	Hardware
Interviewee 23	North	Owner	Sale agent
Interviewee 24	North	Owner	Pharmacy
Interviewee 25	North	Owner	Logistics
Interviewee 26	Bangkok	Owner	Accounting firm
Interviewee 27	South	Owner	Rubber
Interviewee 28	South	Owner	Agricultural products
Interviewee 29	South	Owner	Steel
Interviewee 30	South	Owner	Rubber wood
Interviewee 31	South	Manager	Sales agent
Interviewee 32	South	Owner	Used car sales
Interviewee 33	South	Owner	Rubber wood
Interviewee 34	Bangkok	Owner	Thread
Interviewee 35	Bangkok	Owner	Sugar manufacturing
Interviewee 36	Bangkok	Owner	Colour shop
Interviewee 37	Bangkok	Owner	Foundry industry
Interviewee 38	Bangkok	Owner	Study abroad consultant

7.4 Agreement with the Estimation of Tax Compliance Costs from the Questionnaires

After the quantitative analysis, the corporate income tax compliance costs in Thailand were estimated,⁷² as recapped in Table 7.2.

Table 7.2: Tax Compliance Costs of Small and Medium Enterprises, 2010

	Average Costs (baht)	Percentage
Internal Costs	72,927	28.74
Additional Costs	117,357	46.26
External Costs	63,424	25.00
Tax Compliance Costs	253,708	100.00

These amounts were shown to the interviewees with explanations about the method of estimating the tax compliance costs, including the objectives of the interview. After that, the estimation of tax compliance costs in relation to the type of business conducted by each interviewee was identified to support the estimations based on the questionnaires. The interviewees agreed with the overall estimation of tax compliance costs based on the questionnaires, at 253,708 baht in the 2010 tax year. This confirmed that the estimations of tax compliance costs in the quantitative findings were reliable and were accepted by SMEs in Thailand.

The interviews found that some other costs were incurred by SMEs when they dealt with corporate income taxation in 2010. These outlays had not been counted as compliance costs in the quantitative research, based on the definition of tax compliance costs. These amounts were the fines charged by the Revenue Department for the incorrect filing of tax returns. Such outlays should be considered as indirectly related to tax compliance costs. Selected examples of this evidence in the interviews are as follows:

⁷² See Chapter Five, Table 5.13 and Table 5.17.

Interviewee 4: “I was fined 300,000 baht by the Revenue Department in the tax year 2010 as I did not have much tax knowledge and I did not know how to make it correctly. The Revenue Department just estimated the amount of fine. When I paid, the Revenue Department gave me a receipt of this fine. Now, I still do not understand much how to improve tax accounting in my business.”

Interviewee 16: “Our business got fine every year. We never paid tax correctly, because we do not know how to do tax correctly.”

Interviewee 28: “I got fined by the Revenue Department every year. It was annoying but I did not know how to make it correctly. I would like to pay tax correctly. I do not want the Revenue Department to fine me every year.”

These fines were clearly a burden on the SMEs. Although such outlays were not counted as tax compliance costs and were outside the scope of the present study, the widespread occurrence of this burden for many SMEs is noted as one that should be addressed by policy-makers.

7.5 Details of Internal Costs Incurred by Small and Medium Enterprises

With regard to the estimation of tax compliance costs,⁷³ monetary estimates were primarily identified. More details about the internal costs incurred by SMEs after transcription of the taped interviews were identified by dividing the groups into two major types of SMEs for internal costs as follows:

1. SMEs that dealt with tax matters by themselves.
2. SMEs that used an outsourced or external accounting firm to deal with tax matters on their behalf.

The first type of SMEs usually had one to three staff dealing with corporate income tax matters. The accounting staff who had some years’ experiences received a high salary. The highest number of staff was seven people in one business that had many

⁷³ See Chapter Five, Section 5.4.1.

branches. Writing and collecting tax invoices was a part of the corporate income tax work for that business, and explains why this business had the highest number of dedicated accounting staff. However, in other SMEs, the accounting staff had to sell products or do other tasks. Due to the timing of tax matters and other matters, it might have been difficult for the respondents to identify the exact amount of tax compliance costs of time spent by those staff on tax-related matters.

Most of the SMEs which dealt with tax matters themselves used software that provided tax accounting support. This was described by a number of interviewees as follows:

Interviewee 5: "I would prefer to have a good accounting system so I decided to invest in accounting software that includes tax system. I invested 500,000 baht for the first year. In the year 2010, I had only maintenance expenses around 50,000 baht per year. This good tax accounting system can support my business. I can check my financial status, my sale amount, my business costs, my staff's salaries and so on. It is very useful for my business."

Interviewee 7: "Our business bought software worth 28,000 baht for using within four companies. The price of software in this company was 7,000 baht."

Interviewee 10: "I use software 'Ban Chiang', supported by the Department of Industry Promotion, Ministry of Industry. I spent 80,000 baht, and the government supported of 80,000 baht for the Project Consultancy Fund includes the software program."

Interviewee 17: "I use software 'Express' and it is useful and supports my tax filing."

Interviewee 30: "I use software 'Express'. I have to update software regularly. The software helps me to pay tax correctly."

Most of the SMEs of this type also had high miscellaneous costs such as transportation, software and training costs as indicated below:

Interviewee 5: "I paid for accounting/tax training two courses per year 10,000 baht."

Interviewee 7: "The miscellaneous costs of our business are training costs, software and transportation. Training costs were around 10,000 baht in the year 2010. We went to pay tax at the tax office. We had to pay for transportation costs. Normally, it was very busy at tax office. Our staff had to wait for very long time..... (Interviewer: how about e-filing?)We thought that the fee of e-filing is quite high such as bank fee. If we use bank transaction to pay tax to the Revenue Department, the bank will charge extra amounts."

Interviewee 20: "The training costs of our business are quite high 5,000-8,000 per course."

Interviewee 26: "The training costs for updating tax knowledge and understand tax law are very important and expensive."

Small and Medium Enterprises that used external accounting firms to deal with their tax matters had no staff to deal with this work. Normally, the owners themselves were the people who collected the documents and sent them to the accounting firm, so they did not have accounting staff. Alternatively, in some SMEs, there was one staff member who worked in administration and coordinated the tax matters with the accounting firm. These administrators carried out only basic duties such as collecting the documents, some record-keeping and filing the tax return. There were no training costs involved for the tax-related work in this type of SME.

The internal costs and miscellaneous costs were high for SMEs which had their own accounting division. The Small and Medium Enterprises invested in accounting software to help them deal with tax matters. These costs were high at the initial stage. There were some ongoing maintenance costs and training costs after buying the

accounting software. Regularly updating the software program or attending a course to learn the new software programs was required. The software also had to be updated in line with the government's introduction of any new tax laws. These costs regularly increased for businesses.

According to the notification of Director General, Department of Commerce Registration, Ministry of Commerce, the requirements for being a bookkeeper include continuous professional development and knowledge through hands-on training. This knowledge also includes tax knowledge. Thus, these training costs could not be avoided if SMEs have their own accounting staff to do bookkeeping. Software is one of the additional costs that are incurred for SMEs. It can support SMEs to pay tax correctly, as well as to support business development.

Small and Medium Enterprises that did not have their own accounting division did not have high internal costs; however, they tended to not have a good business structure. They simply collected all the tax documents and sent them to an accounting firm. They would like to pay tax correctly but they did not have tax knowledge and they thought dealing with tax matters wasted their business time. They used an external accounting firm for convenience, but it was probably the reason why they were regularly fined by the Revenue Department. Usually, the external accountants did not have a background in business. They did tax accounting without concern about accuracy with regard to the particular type of business. In addition, poor or incomplete record-keeping was a problem for some SMEs; even though money could be saved in the early stage by neglecting this task, it led to increased costs in the long run (for example, the fines from the Revenue Department when they filed tax returns incorrectly).

7.6 Details of External Costs Incurred by Small and Medium Enterprises and Reasons for Use of External Professionals

7.6.1 Tax Accountants

Small and Medium Enterprises that did not have their own accounting division had to use an external accountant to help them deal with tax matters. Some interviewees gave detailed reasons for why they used an external tax accountant, as follows:

Interviewee 1: “I have to find the accounting firm that has the experience relevant to my business. They should understand my business and be able to deal with tax matters of my business. I used one accounting firm last time. They did not know the nature of my business. It gave me a lot of problems. Normally, I have accounting staff to do accounting records, but I still need to have external accounting firm to do my tax matters, as my staff does not have enough knowledge.”

Interviewee 3: “I do not have enough tax knowledge so I need accounting firm to do all tax matters for me. I try to keep all invoices and bring them to accounting firm. I would like to pay tax correctly because I do not want to get fine.”

Interviewee 4: “I use accounting firm because the law determine the qualification of bookkeeper. My business does not have any staffs that meet the qualification.”

Interviewee 6: “Accounting firm charges me 3,000 baht per month and they summarise the income statement, balance sheet and filing tax, including auditing and the consultant fee.”

Interviewee 21: “I do not know about tax matters. The accounting firm did everything for me.”

Interviewee 23: “I have to use the accounting firm to help me with tax matters.”

Interviewee 33: “I assign all tax matters to the accounting firm.”

Interviewee 37: “I use the accounting firm to take care of all tax matters. I think it is more beneficial. I do not have enough tax knowledge. I do not have to recruit tax or accounting staff. I don’t have to pay salary, bonus and social benefit. Outsourcing should suit my small business. All tax responsibilities are given to the accounting firm.”

7.6.2 Tax Auditors and Auditors

Notification of the Director General of the Revenue Department on Income Tax No. 127 requires SMEs to obtain an audit report from an auditor or tax auditor.⁷⁴ Thus, the external costs of engaging an auditor could not be avoided by the SMEs as it is a legal requirement. Nevertheless, some interviewees queried why they used the external professionals as follows:

Interviewee 2: “I do not understand why the tax law has to require audited by auditor. I did not see why that is necessary. The auditing fee wasted my money.”

Interviewee 5: “Auditor charged the fee according to the profit amounts.”

Interviewee 8: “The audit price for our business is quite high around 25,000 baht per year. If these costs can be reduced, it would help business to save the costs.”

Interviewee 38: “My business is quite small. If I don’t have to pay auditor fee and use auditor, it would be better.”

⁷⁴ See Chapter Three, Section 3.3.3.

7.6.3 Tax or Accounting Consultants/Lawyers

Some SMEs used a tax or accounting consultant/lawyer. The reasons why they used these external professionals were described as follows:

Interviewee 14: "I use external accounting and tax consultant to help once a month. He helped our business a lot. This consultant is different from the consultant of the Revenue Department. He gave advices about business development including how to gain more tax benefits."

Interviewee 16: "We paid extra 10,000 baht per year to the accounting firm for a tax consultant."

Interviewee 26: "I use external tax consultant to advise me in tax matters."

The external costs of SMEs were mostly external accounting fees, tax auditor or auditor fees and tax/accounting consultant fees. Small and Medium Enterprises which did not have their own accounting division normally used an external accounting firm to help them deal with tax matters. The main reasons were:

1. The SMEs did not have enough tax knowledge.
2. The SMEs believed it saved money.

As stated above, according to the Notification of the Director General of the Revenue Department on Income Tax No. 127, all SMEs are required to have an audit report certified by an auditor or tax auditor. These external costs cannot be avoided. All SMEs have to pay these costs each year. Some interviewees expressed dissatisfaction at having to use an external auditor and some SMEs preferred to pay the auditor fee to the public sector rather than pay the fee to the private sector. Some did not see the importance of an auditor.

From the interviews, it was found that SMEs which paid tax/accounting consultant fees tended to have a good business structure. The business development and management systems of these SMEs were strong.

7.7 Reasons for High or Low Tax Compliance Costs in Small and Medium Enterprises

There were two groups of SMEs which gave information about the level of tax compliance costs in the interviews:

1. Small and Medium Enterprises which said that their tax compliance costs were not high.
2. Small and Medium Enterprises which said their tax compliance costs were high.

The following comments are examples from the first group of SMEs which indicated that tax compliance costs were not high for them:

Interviewee 1: "Tax compliance costs are not high for me. I really want to follow tax rule by paying tax correctly."

Interviewee 3: "My business has low tax compliance costs because it is a small business."

Interviewee 11: "Tax compliance costs are not high. We can afford these amounts. There is no problem for our business."

Interviewee 14: "Tax compliance costs are not high compared with sale revenue."

Interviewee 18: "Tax compliance costs are not high compared with revenue."

Interviewee 20: "Overall, our tax compliance costs are not high. For example: our accounting division has lower costs compare with other divisions."

Interviewee 31: Tax compliance costs are not high. It is the duty to pay tax so I accept these costs."

The following comments were made by the second group of SMEs which believed their tax compliance costs were high:

Interviewee 8: "Totally, tax compliance costs are quite high especially auditor fees. It increases every year. The trend of increasing continues."

Interviewee 9: "Definitely, tax compliance costs are high and it is a burden to my business. It would be good if it can decrease and I could give the remains amounts to government sector. There are some similar businesses. They are underground businesses so they do not have to pay tax. They also do not have to pay tax compliance costs; such as, audit fee and accounting fee. It is unfair."

Interviewee 13: "Tax compliance costs are quite high compare with tax revenue. I prefer to pay auditor fee to public sector rather than paying to the private sector."

Interviewee 16: "We have high tax compliance costs compared with other businesses. Some businesses are underground. Our business has a showroom, to represent the image of our business and the main objective is to attract the customers. But the Revenue Department thought that we have high profit. Actually, it is not."

Interviewee 17: "Tax compliance costs are high because I invest in software development. There are many expenses such as maintenance, training and the document design to suit the new software. But these costs are very important, they help business to pay tax correctly."

Interviewee 22: "Our tax compliance costs are high."

Interviewee 25: "Our tax compliance costs are high."

Interviewee 26: "Tax compliance costs are high. It is around six to ten percent of the revenue. It is similar with other businesses of this kind."

Interviewee 38: "Tax compliance costs are quite high and are a burden for the business. It can distort and reduce the business capacity."

Among the SMEs which said that their tax compliance costs were not high, the following two main reasons were given:

1. Filing tax returns was their responsibility. They wanted to do the right thing by following the rules. Thus, they could accept the costs of tax compliance.
2. They compared their tax compliance costs with sales revenue, other divisions in the same company, and other similar businesses. Based on this comparison, they believed the tax compliance costs were not high for their businesses.

The Small and Medium Enterprises which believed their tax compliance costs were high gave three main reasons, as follows:

1. There were similar businesses operating "underground" and avoiding the payment of tax. Businesses which were in the tax system had high tax compliance costs compared with those underground businesses.
2. They compared the tax compliance costs with business revenue. Their business income was not high, yet they had to pay high tax compliance costs.
3. Certain components of their tax compliance costs were high, such as audit fees, software and staff training.

7.8 Tax Burden Issue of Corporate Income Tax Compliance Costs of Small and Medium Enterprises

7.8.1 Introduction

Many studies have confirmed that tax compliance costs are a burden to taxpayers.⁷⁵ In the present study, information was gained from SME personnel regarding their point of view. There were two types of SMEs regarding perceptions of the burden of tax compliance costs; namely, those which thought tax compliance costs were a burden and those which did not.

⁷⁵ See Chapter Two, Section 2.3.

7.8.1.1 Perception of Tax Compliance Costs as a Burdens

The following comments exemplify the point of view of the group of SMEs which found tax compliance costs to be a burden:

Interviewee 4: "Tax compliance costs are a burden to my business. Tax is a complicated matter and makes problems for the business."

Interviewee 5: "Tax compliance costs are a burden because I spent a lot of money to cover these amounts."

Interviewee 8: "Tax compliance costs are a burden. Changing tax law or policy affects our business."

Interviewee 9: "Tax compliance costs are high and a burden."

Interviewee 22: "Tax compliance costs are a burden to our business because these costs are high."

Interviewee 26: "Tax compliance costs are a burden. There are so many expenses in order to pay tax correctly."

Interviewee 27: "Tax compliance costs are burden to our business. We have to collect many documents for tax filing. It is complicated. "

Interviewee 36: "Tax compliance costs are burden. The understanding of tax law gives us trouble."

Interviewee 38: "Tax compliance costs are quite high and are a burden for the business. It can distort and reduce the business capacity."

7.8.1.2 Tax Difficulties of Small and Medium Enterprises Regarding Tax Compliance Costs

Regarding the burden of tax compliance costs, tax difficulties were the major issue identified by many respondents. The issue of tax difficulties was indicated by the quantitative analysis.⁷⁶ The interviews investigated the issue of tax difficulties in more detail. The interviewees made the following comments on this point:

Interviewee 1: "Tax is difficult because I am afraid of the Revenue Department."

Interviewee 4: "Tax is so difficult. I do not have tax knowledge. I do not understand corporate income tax law. I would like to pay tax correctly. I would like to have suggestion from the Revenue Department. I do not want to get fine."

Interviewee 7: "There are many processes of record-keeping for tax purpose."

Interviewee 8: "Tax accounting is very difficult. There are many things to do."

Interviewee 9: "Record-keeping of tax purpose is difficult."

Interviewee 12: "I am afraid to deal with the Revenue Department more than the Police. Tax matters are so complicated and so difficult."

Interviewee 16: "Corporate income tax law distort our business. Corporate income tax law is difficult."

Interviewee 19: "Tax is difficult because there are so many things to do and there are many rules to follow."

⁷⁶ See Chapter Five, Table 5.32.

Interviewee 26: "Tax is difficult. I would like to have simple tax law. There are so many rules and regulations to comply with."

Interviewee 27: "Tax is difficult. The other businesses which we deal with, their tax system is weak. It incurs a bad transaction. For example; our customer does not want tax invoice or we have to buy products from business who cannot issue tax invoice."

Interviewee 36: "Tax is difficult. There are so many rules and regulations to compliance. It is a burden to business."

Most interviewees said that tax was a difficult issue. They found corporate income tax law too difficult to understand. There were so many rules and regulations to comply with. These difficulties affected the tax compliance costs. The Small and Medium Enterprises had to find a tax professional to assist their business. They had to increase their own tax knowledge. Some SMEs said that they could not avoid some costs because of the legal requirements. They felt afraid of dealing with the Revenue Department. This serious problem uncovered through the interviews indicated a weakness of the tax system, namely, that the tax difficulties experienced by SMEs created a "vicious cycle" whereby high compliance costs could not be avoided.

In summary, most of the SMEs said that tax compliance costs were a burden to them. The most burdensome issue related to corporate income tax compliance costs was the tax difficulties. This is in line with previous findings that the effect of the tax burden is high tax compliance costs for SMEs (Evans, 2003b; Pope, 2009). To address the difficulties they experienced in dealing with tax, the SMEs incurred many expenses such as training, auditing and professional staff.

7.8.1.3 Perception of Tax Compliance Costs as Not a Burden

The following comments exemplify the point of view of the SMEs which did not think tax compliance costs were a burden:

Interviewee 14: "Tax compliance costs are not a burden. It is useful for the business."

Interviewee 15: "Tax compliance costs are not a burden. It is a duty of business."

Interviewee 19: "Tax compliance costs are not a burden. It is fair because the benefit from the tax accounting can support our accounting system at the same time."

Interviewee 23: "I think tax compliance costs are not a burden to the business. I never thought about these amounts before. Thank you for letting me know."

For the SMEs which did not think tax compliance costs were a burden, the reasoning was that the tax compliance was a routine job or duty. This group of SMEs saw many benefits from the money spent on tax compliance costs. One interviewee reported that he never thought about these costs before; in fact, his participation in the present study helped him to learn more about these costs.

7.9 Cash Flow Benefits

The quantitative findings indicated the monetary aspect of cash flow benefits.⁷⁷ The interviewees gave details about the cash flow benefits as follows:

Interviewee 1: "I get the benefit from tax payable by using as cash flow before filing date."

Interviewee 2: "Tax payable money is cash flow benefit before filing tax. It is benefit for business."

Interviewee 10: "Tax payable money is useful for business to buy more products or pay debt before paying tax period."

Interviewee 16: "We enjoy tax payable amounts five months before filing date."

Interviewee 17: "I use tax payable money for cash flow benefit. It is better if we pay tax by instalment."

Interviewee 26: "I get the benefit from tax payable money. It is beneficial to business. I would like to pay tax by instalment if it is possible."

In summary, most SMEs enjoyed cash flow benefits from the tax payable amount before the filing date. It showed that they preferred to pay tax on the last day. Some SMEs asked to pay tax instalments. Unfortunately, the Thai tax code does not allow the payment of corporate income taxes by instalment.

⁷⁷ See Chapter Six, Section 6.4.

7.10 Managerial Benefits

It was difficult to identify managerial benefits because these benefits can be abstract.⁷⁸ From the interviews, the following explanations of the managerial benefit concept presented reliable findings and represented the views of the SMEs:

Interviewee 5: “Yes, tax compliance costs are high but I can get many benefits; such as management, tax planning, save costs, interest management, debt management, the management of receivable accounting and increase productivity.”

Interviewee 30: “I invest the software system to help in tax and accounting records. It is a good investment for business. It supports business to do everything correctly. It is very useful for business management.”

In terms of managerial benefits, it is concluded that SMEs can obtain the benefits when they have a good business structure such as a good accounting system and tax planning. They have to invest at first and the results follow. Most SMEs had a limited budget to run their business. Not every SME was aware of the managerial benefits. Thus, they simply saved short-term costs by using external tax accountants.

7.11 Suggestions about Tax Compliance Costs

The overall views of the interviewees can be summarised as follows:

1. The Revenue Department should publish more information for SME taxpayers.
2. The Revenue Department should play other roles, apart from collecting tax, such as the role of tax adviser.
3. Tax policy should reduce tax rules and regulations for SMEs.
4. The tax rate should be reduced.
5. The mandatory requirement for SMEs to engage an auditor or tax auditor should be abolished.
6. The Revenue Department should understand SMEs better.
7. The Thai tax code is out of date. It should be revised.

⁷⁸ See Chapter Two, Section 2.7.2.

8. The Revenue Department should increase the number of free tax seminars for SMEs.
9. The Thai tax code should minimise complications.
10. Underground businesses should be eliminated.
11. Tax policy should be concerned about labour capacity building and should not distort business.
12. Tax policy should be concerned about reducing tax compliance costs.

Many concerns were evident in the interviewees' comments, indicating that SMEs still needed much support to make them stronger. They believed that they received unfair treatment when compared to underground businesses. They asked for understanding from the Revenue Department to support them. They would like to see the Revenue Department become more customer-service focused.

The cycle of the tax system is weak in Thailand. One business can affect another business, with a domino effect. Tax policy should be improved and better reflect an understanding of SMEs from the SMEs' point of view. In conclusion, the development of tax policy in Thailand should meet the needs of SMEs and be more concerned about tax compliance costs.

7.12 Summary

As set out in this chapter, the interviews found that most SMEs agreed with the estimation of tax compliance costs from the questionnaires. Small and Medium Enterprises that did not have their own accounting divisions used external tax accountants to help them deal with tax matters. These SMEs did not have a good business structure. They ran their businesses without tax knowledge. Tax compliance costs were high and had become a burden for them. They could enjoy cash flow benefits but they did not have managerial benefits in their business.

Small and Medium Enterprises with their own accounting divisions usually had a good business structure. They obtained benefits in the form of both cash flow benefits and managerial benefits. These SMEs could accept tax compliance costs as they saw tax reporting as a duty and they obtained benefits at the same time.

These qualitative findings showed that most SMEs had a weak tax accounting system. They would like to pay tax correctly but they did not know how. They asked the government to help them. Moreover, the weak tax system created a “vicious cycle” for the SMEs.

Among the SMEs, the Revenue Department was perceived to be intimidating. This point should be considered and improved. The development of tax policy needs to meet SME needs by being concerned with tax compliance costs. The quantitative and qualitative findings are combined to suggest policy recommendations in the next chapter.

CHAPTER EIGHT

DISCUSSION OF OVERALL RESULTS AND POLICY IMPLICATIONS

8.1 Introduction

This chapter provides an overview of the significant findings of the current study through a discussion of the estimation of tax compliance costs in disaggregate and aggregate terms. The quantitative and qualitative findings are combined in order to identify the details and components of the tax compliance costs of SMEs in Thailand. The main focus in the discussion is on the similarities and differences within the current findings and a comparison with other studies.

The ratio of internal and external costs in disaggregate terms is compared in order to identify more details from the qualitative findings. The average tax compliance costs in different legal structures, locations, trading periods and sizes are discussed. The discussion of aggregate tax compliance costs extends to the implications for policy-makers and the significance of SME tax compliance costs in Thailand.

This chapter also compares the current findings with prior relevant findings. The comparison of tax compliance costs with related studies is discussed. The international comparisons of tax compliance costs examine the tax compliance costs found in the present study with the costs found in Hong Kong, Malaysia, Singapore and Australia. The comparison is made with the latest international studies; therefore, only the internal costs can be explored.

The proportion of tax compliance costs to gross domestic product is evaluated to show the significance of tax compliance costs to the economy. Finally, policy recommendations are suggested based on the quantitative and qualitative findings.

8.2 Corporate Income Tax Compliance Costs of Small and Medium Enterprises in Thailand

8.2.1 Disaggregate Tax Compliance Costs

In disaggregate terms, the tax compliance costs for Thai SMEs was estimated at 253,708 baht in 2010. The tax compliance costs were composed of internal costs totalling 190,284 baht (75 percent of the total compliance costs) and external costs of 63,425 baht (25 percent of the total compliance costs) as shown in Table 8.1.

The estimation of the tax compliance costs from the disaggregate findings was shown to the interviewees to confirm the reliability. All of the interviewees agreed with the estimation of average tax compliance costs at 253,708 baht in 2010.

Table 8.1: Tax Compliance Costs of Small and Medium Enterprises, 2010

	Mean (baht)	Percentage
Internal Costs	190,284	75
External Costs	63,424	25
Tax Compliance Costs	253,708	100

8.2.2 Internal Costs

The internal costs of SMEs were three times higher than the external costs. The comparative proportion between the internal costs and the external costs was relatively high. The components of the internal costs were the internal staff costs and miscellaneous costs.

The components of internal staff costs were the costs related to the manager/accountant, account clerk, administration staff and other staff. The category of “other staff” indicated in the questionnaires included the owners. The management staff costs were the highest staff costs among the internal staff costs. The miscellaneous costs (or the additional, overhead and indirect costs) included items such as stationery, postage, travelling, software computer and others. The other miscellaneous items indicated in the questionnaires included the costs of training staff to increase their tax knowledge. The highest miscellaneous costs were travelling costs.

Some SME tax compliance cost studies have excluded the miscellaneous costs (Abdul-Jabbar, 2009; Evans, Ritchie, Tran-Nam, & Walpole, 1997; Hanefah, Ariff, & Kasipillai, 2002) because these costs might be insignificant to small business. The present study included the miscellaneous costs because SME corporate income taxpayers in Thailand must comply with tax filing requirements that are the same as large corporate income taxpayers; for example, the filing period is the same and the requirement for the certification of an account by an auditor is the same.⁷⁹ The proportion of miscellaneous costs incurred in tax compliance for SME corporate income taxpayers in Thailand should be largely the same as for large corporate income taxpayers. If the study excluded the miscellaneous costs in the estimation, the findings would not be able to show the burden of miscellaneous costs on SME taxpayers.

The amount of the miscellaneous costs (117,357 baht or 62 percent of internal costs) found in this study was greater than the internal staff costs (72,927 baht or 38 percent of internal costs), as shown in Table 8.2. The findings indicate that SMEs in Thailand have high miscellaneous costs. The high miscellaneous costs seem to be a significant factor affecting tax compliance costs for SMEs in Thailand.

Thus, this finding suggests that the miscellaneous costs are not only significant for large businesses and an investigation into the details could provide an important explanation (Pope, 1995, p. 111) as the tax filing requirements for SMEs and large taxpayers are the same. The miscellaneous costs are possibly a significant factor for both SMEs and large taxpayers in Thailand.

The qualitative results show that the internal costs for SMEs which had their own accounting department were high, especially in the miscellaneous costs category. These SMEs had efficient accounting systems in their companies; for example, one of the interviewees said that he had decided to buy accounting software and he gained benefits from the software through its support of his financial decision-making and business functions.⁸⁰ Those SMEs had good accounting staff to deal with taxation. They also gained managerial benefits such as reducing the occurrence of

⁷⁹ See Chapter Three, Section 3.3.3.

⁸⁰ See Chapter Seven, Section 7.10.

any problems with the revenue authority when they paid tax correctly and maintaining good financial control of the business. This result is consistent with the finding by Lignier (2006, 2008, 2009) that management benefits can be derived from the development of accounting systems.

On the other hand, the present study found that SMEs which did not have their own accounting divisions did not have high internal costs and did not obtain many managerial benefits. These SMEs used external tax accountants to help them file tax returns. Most of the external tax accountants did not give suggestions for improvements or pay attention to the tax system of the business. Most external tax accountants simply carried out the basic job in return for receiving a payment without understanding the needs of the particular business.

From the interviews, the two main sources of miscellaneous costs were identified as:

The costs of tax accounting software

- (a) Small and Medium Enterprises invested in tax accounting software to help them in tax matters; for example, one of the interviewees said that tax accounting software was useful and supported the tax filing. The costs of tax accounting software were high at first; for example, one of the interviewees stated that he bought software for 500,000 baht. The costs of tax accounting software included the continuing costs from the maintenance, program updates and training costs; for example, one of the interviewees said that the maintenance expense for the software was around 50,000 baht in 2010. If SMEs do not maintain their tax accounting software, they might have to stop using the software as it becomes out of date. If SMEs do not update the tax accounting software, their tax filing might not be correct according to the latest tax laws. If SMEs do not attend training, they might not understand the latest functions of the tax accounting software. It is necessary for companies to update the software to keep up with changing tax laws or new tax laws. Thus, these costs could not be avoided for SMEs if they started using tax accounting software.

The costs of accounting staff training

- (b) The SME accounting staff were obliged by law to attend training on a yearly basis. The responsibility for these costs depended on the policy of the business: some businesses covered these costs for their accounting staff and some businesses required the accounting staff to pay for it themselves.

To conclude this section, it is noted that the internal costs (190,284 baht) for SME taxpayers in Thailand were higher than the external costs (63,424 baht). The ratio of the internal staff costs (38%) was lower than the miscellaneous costs (62%). The miscellaneous costs were important in this study. The qualitative findings found that the miscellaneous costs for SMEs in Thailand were related to the managerial benefits. The investment in accounting software and the accounting staff training costs were the important factors to make the internal costs high. However, the high internal costs could deliver managerial benefits to the SME. For these two main reasons, it can be said that the category of miscellaneous costs (for example, transportation, software and training costs) plays a significant role in the tax compliance costs for SMEs in Thailand.

Table 8.2: Internal Costs of Small and Medium Enterprises, 2010

	Mean (baht)	Percentage
Internal Staff Costs	72,927	38
Miscellaneous Costs	117,357	62
Internal Costs	190,284	100

8.2.3 External Costs

The external tax compliance costs of SMEs in Thailand were 63,424 baht, or 25 percent of total tax compliance costs. The components of the external costs included the costs of engaging a tax accountant, tax auditor, auditor or lawyer. In the case of Thai SMEs, such external costs cannot be avoided.⁸¹ Their income tax returns were required to include financial statements that have been certified by auditors or tax auditors.

⁸¹ See Chapter Three, Section 3.3.3.

As shown in the quantitative results, there were no respondents who reported a nil amount in the external costs. As the certification of financial statements by an auditor or tax auditor is required by law, SMEs cannot avoid these costs. These costs count as a burden to SMEs which cannot be avoided.

The highest external costs were tax accountant costs. Small and Medium Enterprises that did not have their own accounting division used external tax accountants to help them deal with tax matters. The procedure of most SMEs was to collect all the tax documents and send these to the tax accountant. The results found that these SMEs did not have enough tax knowledge to carry out tax return filing. They encountered many difficulties in the tax area of their business, such as the lack of understanding of corporate income tax legislation, difficulty in estimating the income tax payable, difficulty in implementing the income tax changes, lack of capacity or efficient procedures to maintain records for income tax purposes, and problems when dealing with the tax authority.

The qualitative results indicate that taxation matters were difficult and complicated for SMEs. Most SMEs passed the tax responsibility to external accountants; for example, one of the interviewees said that he did not have enough tax knowledge and he used external tax accountants to deal with all tax matters. Regarding the issue of the audit requirement, some SMEs suggested that the auditing costs should be eliminated; for example, one of the interviewees said that his business was quite small and the elimination of audit costs would reduce his overall costs. These SMEs did not see the benefit of auditing costs to their businesses; for example, one of the respondents said that he did not understand why the auditing procedure was necessary for his business. The auditor or tax auditor costs were therefore seen as a burden to the SMEs.

In terms of perception, most SMEs were willing to pay tax correctly but they did not know how; for example, one of the interviewees stated that he would like to pay tax correctly but he did not have enough tax knowledge. Some SMEs regularly received fines from the Revenue Department; for example, one of the interviewees said that the business was fined every year. Tax accountants could be a convenient choice but they did not help SMEs to reduce the problems that arose with the Revenue

Department; for example, one of the interviewees said that she had to find an external accountant who understood her business and prepared the tax return correctly, otherwise it would be a problem for her business. Some SMEs were fined by the Revenue Department even if they used an external tax accountant because the accountant did not understand the nature of the business of the SME and prepared the tax return incorrectly. The main reason found for this problem was that the SMEs did not themselves understand the tax system. For example, some SMEs bought goods from unregistered taxpayers and did not have the proper evidence of the purchase to send to the tax accountants. As a result, the tax accountants could not include the transaction in the tax return. Therefore, it is concluded that it is necessary for the SMEs themselves to understand at least some aspects of the tax system. Otherwise, tax matters will continue to be a problem for their business operations.

Based on the outcomes of the investigation into the external costs in this study, it is concluded that the SMEs preferred using the external professionals. This finding is similar to the conclusion by Lignier and Evans (2012, pp. 655-656). In order to pay tax correctly, the use of external professionals could be the best choice for SMEs when the SMEs lack tax knowledge; however, tax problems are likely to continue to arise if the SMEs fail to develop at least some tax knowledge to help them better prepare for the tax return task.

8.2.4 Average Tax Compliance Costs

The average tax compliance costs were interpreted and discussed with some caution due to the low number of respondents in some categories. The internal costs (202,292 baht), external costs (68,570 baht) and total tax compliance costs (270,862 baht) of companies in the sample were higher than the internal costs (171,671 baht), external costs (55,449 baht) and total tax compliance costs (227,120 baht) of partnerships in the sample. It is widely accepted that the business operations of a partnership are run on a more informal basis than in a limited company. In regard to the audit requirement, a partnership can choose a tax auditor or auditor. The costs of a tax auditor are generally cheaper than the costs of an auditor. Due to the business functions of a limited company, it is possible to incur high tax compliance costs.

For the analysis of SMEs by location, the highest internal costs were 272,308 baht (77 percent of total compliance costs) in the North region of Thailand and the highest external costs were 86,406 baht (36 percent of total compliance costs) in Bangkok and its surrounding areas. The highest total tax compliance costs were 351,847 baht in the North region of Thailand. The results indicate that SMEs in the North region carried the highest tax compliance costs in 2010. It implies that SMEs in the North region had a higher tax burden compared with SMEs in other locations.

The trading period data is related to characteristics of SMEs such as their commencement and longevity, and is one of the factors that affect tax compliance costs. The tax compliance costs for SMEs with a trading period of less than two years were 271,179 baht, for SMEs with a trading period of between two and five years the costs were 208,988 baht, and for SMEs with a trading period of more than five years the costs were 262,222 baht. These results demonstrate a U-shape effect and may indicate that SMEs pay higher tax compliance costs in their start-up period. The lowest tax compliance costs for a trading period occurred between two and five years. The tax compliance costs then increased when the trading period had continued for more than five years, back to roughly their start-up level, possibly reflecting greater complexity in tax affairs in general and in returns in particular. The highest tax compliance costs for SMEs in Thailand were incurred in the start-up period, and this trend is important for policy-makers to consider as suggested by Rametse and Pope (2005, p. 95).

In accordance with the SME definition, the small enterprises with the highest tax compliance costs (290,818 baht) and internal costs (237,466 baht) were wholesale businesses and the small enterprises with the highest external costs (84,079 baht) were production businesses. The medium enterprises with the highest tax compliance costs (730,437 baht) and internal costs (667,104 baht) were wholesale businesses and the medium enterprises with the highest external costs (122,182 baht) were retail businesses. The findings indicated that wholesale businesses had the highest burden of tax compliance costs compared to other business types such as production, service and retail.

The high compliance costs in wholesale businesses might be because of the high miscellaneous costs and the high numbers of accounting staff to carry out tax-related activities. Wholesale businesses have to produce many tax invoices for many retail customers and require a high number of stock clerks to undertake tasks such as counting the stock of products.

Overall, the average tax compliance costs found in this study differed according to the legal structure, location, trading period and size. These factors affect the costs of tax compliance and are a tax burden on SMEs with different characteristics.

8.2.5 Cost Analysis per Employee and Net Profit

An analysis of the cost per employee and net profit clearly demonstrates the usual regressive nature of internal costs, external costs and total tax compliance costs, also known as the economies of scale effect, which is a feature of nearly all the studies in this field. Indeed, expressing internal costs, external costs and tax compliance costs as a percentage of profits should be seen as a strength rather than a weakness, particularly in the context of a developing country. This data demonstrates the severity of corporate income tax compliance costs on the least profitable SMEs in the Thai economy, with implications not only for economic growth within the country but also concerns regarding a more equitable distribution of income.

The internal costs (656,568 baht), external costs (245,660 baht) and total tax compliance costs (902,228 baht) per employee for SMEs with up to 50 employees were higher than the internal costs (227,366 baht), external costs (56,360 baht) and total tax compliance costs (283,726 baht) per employee for SMEs with between 51-200 employees.⁸² The results of the cost analysis per employee were regressive.

The internal costs (193 baht), external costs (71 baht) and total tax compliance costs (264 baht) as a percentage of net profit for SMEs with a net profit between zero to 150,000 baht were the highest regressive results compared to the other net profit categories. The internal costs (three baht), external costs (one baht) and total tax compliance costs (four baht) as a percentage of net profit for SMEs with a net profit

⁸² See Chapter Five, Table 5.24, Table 5.25 and Table 5.26.

of more than 3,000,000 baht (the highest net profit category of SME taxpayers) were the lowest regressive results.⁸³

Overall, the tax compliance costs of SMEs in Thailand were regressive, which is the same result as found in many tax compliance cost studies (for example: Ariff & Pope, 2002; Evans, Ritchie, Tran-Nam, & Walpole, 1997; Reekmans & Simones, 2009; Sandford & Hasseldine, 1992; Schoonjans, Cauwenberge, Reekmans, & Simones, 2011). Studies have also found the regressive nature of corporate income tax compliance costs, which move up from economies of scale to favour larger sized enterprises (Loh, Ariff, Ismaili, Shamsher, & Ali, 1997, p. 34). The findings of the current study confirm this regressive trend at different levels such as the number of employees and the net profit.

8.2.6 Aggregate Tax Compliance Costs

In terms of aggregate findings, the estimated total compliance costs of corporate income tax in 2010 were 49,461 million baht. Tax compliance costs as a percentage of tax paid were extremely regressive, falling from 581 percent for SMEs in the net profit category of between 150,001 and 1,000,000 baht to 11 percent for SMEs in the net profit category of over 3,000,000 baht.⁸⁴ No taxes were paid by SMEs in the net profit category of between zero and 150,000 baht; thus, there were no compliance costs as a percentage of tax paid.

The value of cash flow benefits for corporate income tax in 2010 was estimated to be 714 million baht (only two percent of the corporate tax revenue of 38,501 million baht). Tax deductibility was 7,537 million baht. Subtracting the value of cash flow benefits and tax deductibility from the (gross) compliance costs gives the net compliance costs (41,210 million baht).⁸⁵ The net compliance costs were 41,210 million baht, compared with total tax revenue of 38,501 million baht. Therefore, SME taxpayers carried higher tax compliance costs than the tax revenue paid to the Revenue Department.

⁸³ See Chapter Five, Table 5.27, Table 5.28 and Table 5.29.

⁸⁴ See Chapter Six, Table 6.4.

⁸⁵ See Chapter Six, Table 6.9.

Table 8.3 compares the percentage of tax compliance cost to tax revenue in Thailand, Australia (Pope, Fayle, & Chen, 1994) and Malaysia (Ariff & Pope, 2002). In Thailand, the present study found that the compliance costs were 128 percent of the tax revenue in 2010. The average income tax compliance costs for companies were 23 percent of the total tax revenue for Australia in 1990/91 (Pope, Fayle, & Chen, 1994, p. 65). The compliance costs for SMEs in Malaysia in 1999 were four percent of the total tax revenue (Ariff & Pope, 2002, p. 123).

The summary shows that the tax compliance costs as a percentage of tax revenue (128 percent) for SMEs in Thailand were higher than in developing countries such as Malaysia (four percent) and in a developed country such as Australia (23 percent). This finding indicates that the percentage of SME tax compliance costs in Thailand to tax revenue is extremely high and higher than others.

Table 8.3: Comparative Percentage of Corporate Income Tax Compliance Costs to Tax Revenue with Selected Countries

Country (year)	Thailand (2010)	Australia (1990/91)	Malaysia (1999)
Type of Taxpayers	SMEs	Companies*	SMEs
Tax Revenue (million baht)	38,509	14,166.00	566,304
Compliance Costs (million baht)	49,641	3,245.90	20,703
Percentage Costs to Tax Revenue	128.44	22.90	3.66

Sources: Australia: Pope et al. (1994, p. 65); Malaysia: Ariff and Pope (2002, p. 123).

Note: * The study in Australia was not specifically focused on SMEs.

8.3 International Comparisons of Tax Compliance Cost Studies

8.3.1 Tax Compliance Costs of the Present Study in US Dollars

The analysis reported in this section starts by converting the average internal costs, external costs and total tax compliance costs from Thai baht to US dollars in order to provide a comparison between the results from other studies. The historical foreign exchange rate from Thai baht to US dollars is one of the international standard rates provided on the website of the Bank of Thailand. The exchange rate on 30 June 2011 was selected for this study.⁸⁶ The tax compliance costs for SMEs in Thailand in 2010 are presented in US dollars for discussion in the next section. With caution, the tax compliance costs for SMEs in Thailand for 2010 were compared to the tax compliance costs for SMEs in other countries for different years, which meant ignoring the effects of inflation. The analysis followed the suggestions of Sandford (1995b, pp. 405-408) regarding the time period studied, the quality of the compared data, and the differences in tax structure and the rates of tax.⁸⁷

In 2010, the internal costs for SMEs in Thailand were US\$6,160, the external costs were US\$2,053 and the total tax compliance costs were US\$8,214, as presented in Table 8.4.

Table 8.4: Tax Compliance Costs of Small and Medium Enterprises in Thailand in US Dollars, 2010

	Average Costs (baht)	Average Costs (US\$)*	Percentage
Internal Costs	190,283.95	6,160.41	75
External Costs	63,424.51	2,053.36	25
Tax Compliance Costs	253,708.46	8,213.77	100

* At an exchange rate on 30 June 2011 of 30.8882 baht = US\$1 from Bank of Thailand

⁸⁶ The currency on 30 June 2010: 30.8882 baht = US\$1 from Bank of Thailand (<http://www.bot.or.th>).

⁸⁷ See Chapter Two, Section 2.4.

8.3.2 Asian Comparison of Tax Compliance Costs

As discussed in Chapter Two,⁸⁸ an international comparison of tax compliance costs in Asia was conducted by Ariff and Pope (2002). The present study compared its own findings with the findings in three Asian countries (Hong Kong, Singapore and Malaysia) taken from the study by Ariff and Pope (2002, p. 41). In order to provide comparisons between the results from these four countries, the local currencies were converted to US dollars based on the average exchange rates on the date of 30 June 2011, as shown in Table 8.5.

The tax compliance costs for small enterprises in Thailand were US\$6,743 in 2010, which was greater than the tax compliance costs of small enterprises in Malaysia but less than the tax compliance costs of small enterprises in Hong Kong and Singapore. The tax compliance costs of medium enterprises in Thailand were US\$11,917 in the year 2010, which was less than the tax compliance costs of medium enterprises in Hong Kong, Singapore and Malaysia. It is noted that Hong Kong and Singapore are in the group of developed countries and Malaysia and Thailand are in the group of developing countries. Hence, the tax compliance costs of small enterprises in Thailand should be of concern when compared with the tax compliance costs of small enterprises in Malaysia, as a developing country and a neighbouring country. For example, the high burden of tax compliance costs could affect the growth of SMEs in the country and distort the market economy (Sandford, 1995b, p. 411). The next section focuses on the comparison of tax compliance costs for SMEs in Thailand and Malaysia.

⁸⁸ See Chapter Two, Section 2.4.

Table 8.5: Comparison of Tax Compliance Costs in Selected Asian Countries

Country (Tax Year)	Small Size		Medium Size	
Thailand^a (2010)	208,270 (baht)	6,743 (US\$)	368,088 (baht)	11,917 (US\$)
Hong Kong^b (1995)	85,950 (HK\$)	11,046 (US\$)	272,410 (HK\$)	35,008 (US\$)
Malaysia^c (1995)	15,048 (RM)	4,983 (US\$)	43,848 (RM)	14,519 (US\$)
Singapore^d (1995)	36,446 (S\$)	29,689 (US\$)	61,715 (S\$)	50,273 (US\$)

Sources: Malaysia: Loh et al. (1997); Singapore: Ariff et al. (1997); Hong Kong: Chan et al. (1999); (in Ariff and Pope, 2002).

Note: ^a At an exchange rate on 30 June 2011 of 30.8882 baht = US\$1 from Bank of Thailand

^b At an exchange rate on 30 June 2011 of HK\$7.7813 = US\$1 from www.xe.com

^c At an exchange rate on 30 June 2011 of RM3.0200 = US\$1 from Bank Negara Malaysia

^d At an exchange rate on 30 June 2011 of S\$1.2276 = US\$1 from www.xe.com

8.3.3 Comparison of Tax Compliance Costs with Studies in Malaysia

As pointed out in the discussion about tax compliance studies in Chapter Two, Malaysia might be the first ASEAN country where the corporate income tax compliance costs of SMEs have been studied. Studies of the corporate income tax compliance costs of SMEs in Malaysia were undertaken in 1995 (Loh, Ariff, Ismail, Shamsher, & Ali, 1997), in 1999 (Hanefah, Ariff, & Kasipillai, 2002) and in 2006 (Abdul-Jabbar, 2009). These three studies indicated that the tax compliance costs for SMEs in Malaysia were reducing over time. As stated in the first study of compliance costs of corporate income tax in Malaysia by Loh et al. (1997, p. 27), it was timely to investigate these costs and their study was initiated to influence Malaysia's policy-makers to be concerned about and reduce corporate income tax compliance costs.

This section compares the tax compliance costs found in this study for the Thai SMEs with the compliance costs in Malaysia in 1999 (Hanefah, Ariff, & Kasipillai, 2002) and in 2006 (Abdul-Jabbar, 2009). In Malaysia, the SME tax compliance costs were higher prior to the introduction of the self-assessment system in 1999 than the SME tax compliance costs following the introduction of the self-assessment system. The possible explanation identified by Abdul-Jabbar (2009) was that the effect of high initial costs or start-up costs had been removed since the commencement of the self-assessment system in Malaysia. However, the comparison carried out for the purpose of the present study did not look at the self-assessment regime. The comparison is considered appropriate because a similar approach was adopted in

prior studies (Abdul-Jabbar, 2009; Hanefah, Ariff, & Kasipillai, 2002); for example, the methodology was mainly based on Pope's study (1994). Moreover, Malaysia and Thailand are neighbouring countries and both are developing countries.

The comparison showed that the tax compliance costs of SMEs in Thailand in 2010 (US\$8,214) were higher than the tax compliance costs of SMEs in Malaysia in 2006 (US\$3,078) (Abdul-Jabbar, 2009) and 1999 (US\$7,273) (Hanefah, Ariff, & Kasipillai, 2002), as presented in Table 8.6.

In terms of ease of doing business (The World Bank, 2011, 2012a) and the global competitive index (Schwab, 2010),⁸⁹ Malaysia was ranked 41 among 183 economies for the ease of doing business in 2010 and ranked 26 among 139 economies in the 2010-2011 global competitive index. Thailand was ranked 100 among 183 economies for the ease of doing business in 2010 and ranked 38 among 139 economies in the 2010-2011 global competitive index. The rankings of Malaysia indicate that it was in a better position than Thailand. All of these indicators confirm that the tax compliance issue should be seriously considered in Thai tax policy, especially the burden of tax compliance costs. The reduction of tax compliance costs will, for example, enhance the ability of SMEs to be ready for full participation in the ASEAN Economic Community in 2015.

Table 8.6: Comparison of Tax Compliance Costs with the Study of Malaysia

Country (Tax Year)	SME Tax Compliance Costs	
Thailand ^a (2010)	260,353 (baht)	8,214 (US\$)
Malaysia ^b (2006)	9,295 (RM)	3,078 (US\$)
Malaysia ^b (1999)	21,964 (RM)	7,273 (US\$)

Sources: Hanefah, Ariff and Kasipillai (1997); Abdul-Jabbar (2009).

Note: ^a At an exchange rate on 30 June 2011 of 30.8882 baht = US\$1 from Bank of Thailand

^b At an exchange rate on 30 June 2011 of RM3.0200 = US\$1 from Bank Negara Malaysia

⁸⁹ See Chapter One, Section 1.2.

8.3.4 International Comparison of Tax Compliance Costs

This study focused on the corporate income tax compliance costs of SMEs. Data on small business internal tax compliance costs in Australia, Canada, South Africa and the UK (Evans, Hansford, Hasseldine, Lignier, Smulders, & Vaillancourt, 2012) is available and is suitable to explore and compare with the findings of the present study.

The study by Evans et al. (2012, p. 14) converted the amount of tax compliance costs to US dollars based on the exchange rate on 30 June 2011, which was the same date used in the current study. The broad findings identified that the internal costs of small enterprises' tax compliance costs in Thailand were ranked the third highest compared to Australia, Canada, South Africa and the UK.

This group of four countries consists of three developed countries (Australia, Canada and the UK) and one developing country (South Africa). Thus, the internal costs in Thailand (US\$6,743) were high compared with South Africa (US\$2,237) as another developing country. The internal costs for small enterprises in Thailand were quite high and should be of concern for policy-makers. More details are shown in Table 8.7.

Table 8.7: Comparison of Internal Costs of Income Tax Compliance Costs of Small and Medium Enterprises

Country (Tax Year)	Internal Costs (US\$)
Thailand (2010)	6,743
Australia (2010/11)	4,570
Canada (2010/11)	24,333
South Africa (2010/11)	2,237
UK (2010/11)	6,935

Source: Evans et al. (2012).

8.4 Tax Compliance Costs as a Percentage of Gross Domestic Product in Thailand

Based on the quantitative results presented in Chapter Six, the net compliance costs for Thai SMEs in 2010 were estimated at 41,312 million baht. The GDP of Thailand in 2010 was 10,104,821 million baht (Office of the National Economic and Social Development Board, 2010). Thus, the average tax compliance costs of SMEs in Thailand as a percentage of GDP were 0.41 percent. The total tax revenue in Thailand was 16 percent of GDP in 2010 (The World Bank, 2010). More details of the tax compliance costs of SMEs relative to GDP are shown in Table 8.8.

Table 8.8: Tax Compliance Costs of Small and Medium Enterprises to Gross Domestic Product in Thailand

Aggregate Net Tax Compliance Costs (million baht)	Local Currency GDP (million baht)	Percentage of GDP	Total Tax Revenue as a Percentage of GDP in 2010
41,312	10,104,821	0.41	16

Studies of tax compliance costs as a percentage of GDP have been undertaken in some countries.⁹⁰ This section presents the data on selected countries, from studies that differed in terms of the types of tax studied and the studied years. The comparison is discussed with caution due to these differences. Broadly speaking, the percentage of tax compliance costs to GDP probably should be low. Technically, a much lower percentage implies a lower burden of tax compliance costs. More details of the comparison are shown in Table 8.9.

⁹⁰ See Appendix B.

Table 8.9: Tax Compliance Costs to Gross Domestic Product in Selected Countries

Country	Authors (Year)	Tax Studies	Percentage of GDP	Total Tax Revenue as a Percentage of GDP in 2010
Armenia	Jrbashyan and Harutyunyan (2006)	All taxes (focused on companies)	0.80	16.9
Canada	Plamondon and Zussman (1998)	Canadian federal and provincial business taxes	0.40	11.9
Croatia	Blazic (2004)	Corporate income tax	1.20	19.2
Indonesia	Susila and Pope (2012)	Corporate income tax, VAT and withholding tax (focused on large corporate taxpayers)	0.19	10.9
Malaysia	Abdul-Jabbar (2009)	SME corporate income tax	0.20	13.8
New Zealand	Sandford and Hasseldine (1992)	Business tax	2.50	27.6
Thailand	Present study	SME corporate income tax	0.41	16.0

8.5 Policy Recommendations for the Small and Medium Enterprise Tax System in Thailand

8.5.1 Definition of Small and Medium Enterprises

This study found that the definition of SMEs in Thailand is complex in terms of the ranges of the employee numbers and the amount of assets. The ranges of employee numbers and the amount of assets overlap. It would be reasonable to categorise enterprises by size in terms of the turnover, tax revenue, and employee numbers without any overlapping of the range. At the time of writing, the employees of small enterprises can be “not more than 15” for retail, “not more than 25” for wholesale and “not more than 50” for production and service. For the amount of fixed assets, the small enterprises can have “not more than 30 million baht” for retail and “not more than 5 million baht” for production, service and wholesale. These parameters are complicated in terms of the measurement of the size of a business.

According to the definition of SMEs used in Thailand since 2002, it is recommended that the definition should be updated to follow the modernisation undertaken by the European Commission (2005). For example, micro enterprises are defined as enterprises which employ fewer than 10 persons and whose annual turnover or annual balance sheet total does not exceed 2 million euro, small enterprises are defined as enterprises which employ fewer than 50 persons and whose annual turnover or annual balance sheet total does not exceed 10 million euro, and medium enterprises consist of enterprises which employ fewer than 250 persons and which have either an annual turnover not exceeding 50 million euro, or an annual balance sheet total not exceeding 43 million euro. The size of each group of enterprises is a continuing range and categorised by staff headcount and annual turnover or annual balance sheet. The importance of the new European SME definitions is that they improve consistency and effectiveness, and limit the distortions of competition.

Thus, a new definition of SMEs in Thailand is suggested as follows:

- Where a very high percentage of SMEs would be expected to be profitable, the use of net profit as an indicator of size can be added.
- Enterprises can be categorised by size in terms of turnover, tax revenue and employees without overlapping. For the number of employees, the small enterprises have not more than 50 employees and medium enterprises have 51 to 200 employees. For the amount of fixed assets, the small enterprises have not more than 50 million baht and medium enterprises have not more than 200 million baht.

8.5.2 Economic Importance of Tax Compliance Costs

The issue of tax compliance costs has been neglected in Thailand, especially SME tax compliance costs. While there has been theoretical acknowledgement by the Revenue Department, there has been no significant policy to estimate tax compliance costs and little awareness of the need to reduce the tax compliance costs for taxpayers, especially SME taxpayers. In the meantime, the tax compliance costs have become an economic burden or resource cost imposed upon taxpayers by the Thai tax system.

For example, 54,765 SME taxpayers (net profit 0-150,000 baht), or 29 percent of total SME taxpayers, had no tax revenue but they still incurred tax compliance costs of around 197,658 baht in 2010.⁹¹ These tax compliance costs place a large economic burden on Thai SMEs. Policy reform to reduce the tax compliance costs of this group of SME taxpayers should be seriously considered. The revenue and size of the business should be one of the factors considered in the imposition of tax compliance costs until these SME taxpayers grow and have general sufficient income to warrant the payment of tax. Otherwise, tax compliance costs will remain a heavy burden on this group of SME taxpayers.

Moreover, the important findings of this study were that the total tax compliance costs as a percentage of tax paid were 128 percent.⁹² The tax compliance costs were greater than the SMEs' overall tax remittance. The study by Evans (2003b, p. 71) indicated that the percentage of tax paid within the international range was around two to 10 percent of tax paid. Tax compliance costs are completely hidden costs of taxation and their impact should be considered by policy-makers. For example, policy-makers could abolish the audit requirements for SME taxpayers with a net profit between zero and 150,000 baht. A reform such as this would help SME taxpayers to reduce some tax compliance costs in the running of their businesses.

The average tax compliance costs were significant when characterised by legal structure, location and trading period. For example, the tax compliance costs of SMEs in the partnership category were 227,120 baht and the costs in the limited company category were 253,709 baht.⁹³ The tax compliance costs of SMEs in the North region were 351,847 baht, in Bangkok and its surrounding areas the costs were 237,928 baht, in the Central region the costs were 178,525 baht, in the South region the costs were 288,603 baht, in the East region the costs were 253,800 baht, and in the Northeast region the costs were 183,098 baht.⁹⁴ The tax compliance costs for SMEs with a trading period of less than two years were 271,179 baht, for SMEs with

⁹¹ See Chapter Six, Table 6.1 and Table 6.3.

⁹² See Chapter Six, Table 6.4.

⁹³ See Chapter Five, Table 5.18.

⁹⁴ See Chapter Five, Table 5.19.

a trading period of between two and five years the costs were 208,988 baht, and for SMEs with a trading period of more than five years the costs were 262,222 baht.

As a result, SMEs do not all have the same tax compliance costs, and policy-makers should recognise and understand the diverse ranges of costs that are incurred by SMEs; for example, SMEs differ in relation to the resources required in each type of legal structure, the staff costs in each region, and the expertise developed in the trading period. These factors affect the costs of tax compliance. Therefore, policy-makers need to consider the many dimensions of SMEs when considering the regulations that affect tax compliance costs.

The tax compliance costs of SMEs in Thailand were relatively high when compared with the tax compliance costs of SMEs in Malaysia. Thailand will become a member of the ASEAN Economic Community in 2015. A current focus on improving the policies related to SME tax compliance costs will help SMEs in Thailand prepare to meet the impact of the ASEAN regulations on member countries' tax compliance costs. A reduction in these costs will strengthen the ability of Thai SMEs to meet the future impact of participation in the proposed free trade zone.

8.5.3 Tax Simplification

The respondents in this study indicated that “understanding corporate income tax legislation” is the most difficult factor. This was related to their opinion that tax difficulty affects tax compliance costs. This is in line with the finding of many other studies (Evans, 2008; Pope, J., 1993; Slemrod, 1992). Therefore, tax simplicity should be considered as a solution to the problem of high tax compliance costs in Thailand; tax simplicity would also increase tax revenue (Pope, 1994a, pp. 113-114). There is the possibility that tax simplicity will encourage taxpayers to pay tax correctly and will increase voluntary tax payments in Thailand.

Tax reform is therefore needed to introduce the processes of tax simplification. Based on the steps outlined in previous Australian tax reform analyses, the following processes should be considered in the reform of the Thailand tax system: (1) clear, achievable aims and a focus on outcomes, not just shuffling taxes; (2) fixed timelines for the fulfilment of agreements; (3) a “package” approach to tax reform, which

works better than small, incremental reforms; and (4) effective implementation and cooperation of both taxpayers and government (Business Coalition for Tax Reform, 2009, p. 67).

Following the tax reform of Australia's tax system, the Henry Review addressed the need to reduce tax system complexity and compliance costs (Business Coalition for Tax Reform, 2009, p. 65). The following main factors related to tax simplification and the minimisation of tax compliance costs should be highlighted in Thailand's tax reform: (1) controlling the changes in legislation; (2) controlling technical complexity by, for example, drafting understandable legislation, abolishing the audit requirements for some enterprises below a certain threshold, and reducing the variety of record-keeping and tax forms (Evans, 2008, pp. 459-460); (3) using a single rate for small enterprises; (4) minimising special exemptions (Sandford, Godwin, & Hardwick, 1989, p. 213); and (5) finding the appropriate balance between the taxation of the returns from work, investment and savings and consumption (Business Coalition for Tax Reform, 2009, p. 66).

Nonetheless, in the Thai context, whereby the audit requirements for some SME corporate taxpayers should be changed, the audit requirement for enterprises with net profit below 150,000 baht might be abolished. Thailand should consider a package approach to tax reform.

8.5.4 Tax Policy Attention and Continual Monitoring

The qualitative results indicated that the number of informal SMEs in Thailand affects the ability of the formal business to participate in the tax system and pay tax correctly. This effect reduces the collection of tax revenue in Thailand. The reduction of the number of informal SMEs will support a healthy tax system in Thailand and create fair competition in the market. Tax policy-makers should thus seriously consider the elimination of underground business practices in the Thai economy. This can increase the tax revenue and reduce unequal or unfair treatment in the Thai economy.

One of the reasons the tax compliance costs were high was because the tax administration (the Revenue Department of Thailand) tried to reduce its costs by transferring the auditing responsibility to taxpayers. For example, the audit requirement is imposed by law and SMEs which pay corporate income tax are required to have their financial statements audited before filing their tax returns. In this process, the audit costs are paid by the taxpayers and this type of external cost is pushed from the public sector to the private sector. In the meantime, these audit costs have become a burden to SMEs in Thailand. The objective of the Revenue Department is the lowest compliance costs for both the tax administration and taxpayers, but no publication has measured this objective. It is suggested that this objective should be measured and published annually.

As taxation in Thailand plays an important role, tax policy is an inexorable necessity. In every aspect of tax policy such as the choice of new tax, tax structure, administrative methods or changes to the whole balance of taxation, there are important factors to consider in terms of compliance costs (Sandford, Godwin, & Hardwick, 1989, p. xiii). Most importantly, a good policy should not have side-effects which harm SME operations; for example, increasing costs for the SMEs in dealing with the policy. In regard to policy development, it becomes critical for SMEs, especially in the case of tax policy, for government to design a suitable tax policy that is not an unreasonable burden. Most tax policy changes have been issued without much attention paid to the cost of tax compliance. Generally speaking, it seems a routine requirement for SME taxpayers to comply with the tax authority's policies. This is the case regardless of the costs involved and SME taxpayers are still responsible for complying with the tax laws.

Tax compliance costs have undesirable distributional effects and represent an extremely serious cost to SMEs (Evans, 2008; Sandford, 2000, p. 140); therefore, what is needed is for tax compliance costs for SMEs to be minimal. Focusing on the substance of the corporate income tax compliance costs of SMEs in Thailand should be a priority of taxation policy; it supports resource savings and determines a reasonable level of tax compliance costs for SMEs in the economy.

In order to promote well-designed regulations, every change in tax regulations and continual tax monitoring should include consideration of the compliance cost implications in detail as is the policy in most developed countries such as the UK (Sandford, Godwin, & Hardwick, 1989, p. 209), Australia (Australian Government, 2010) and the US (Guyton, O'Hare, Stavrianos, & Toder, 2003).

8.6 Summary

This chapter has provided an overall discussion about the disaggregate and aggregate tax compliance costs. The results have showed that the internal tax compliance costs for SMEs in Thailand were higher than the external costs. The miscellaneous costs category was a significant factor affecting the tax compliance costs of SMEs in Thailand. This finding suggested that the miscellaneous costs are not significant only to large businesses. The outcome of the analysis of the external costs was the conclusion that SMEs in Thailand preferred using external professionals and that the elimination of the auditing requirement could save tax compliance costs for SMEs in Thailand. The average tax compliance costs for SMEs were different in terms of their legal structure, location, trading period and size. These factors also affect the costs of tax compliance and place a tax burden on SMEs with different characteristics to different degrees.

The tax compliance costs of SMEs in Thailand were regressive, which is the same result as in many tax compliance cost studies. The comparison of tax compliance costs as a percentage of tax revenue found that the costs in Thailand (128 percent) were higher than in another developing country, Malaysia (four percent) and a developed country, Australia (23 percent). The tax compliance costs of SMEs in Thailand were relatively high compared with other countries and this should be a matter of concern among policy-makers. This is because the burden of tax compliance costs could affect the growth of SMEs and distort the market economy.

Therefore, a process of tax simplification is recommended to reduce tax compliance costs. Tax policy reform and continual monitoring should be promoted to ensure that tax compliance implications are considered in every tax change and that well-designed regulations are delivered.

CHAPTER NINE

CONCLUSIONS

9.1 Introduction

This final chapter presents an overview of the research and its findings. The main objectives of this thesis were: (1) to identify the economic role of SMEs in the Thai economy; (2) to estimate the corporate income tax compliance costs of SMEs in Thailand; (3) to identify the burden caused by corporate income tax compliance costs for SMEs in Thailand; and (4) to use these estimates and findings to place the issue within a taxation policy context to draw appropriate policy implications. To conclude this research, a review of the key findings is presented in this chapter by reference to these four main objectives.

This thesis began with an overview of Thailand's economy and taxation, the background of the research, the research objectives and the significance of this research. A review of the literature was reported, with a focus on international corporate income tax compliance cost studies and SME tax compliance costs in selected countries and the definitions of tax compliance costs. The definition and taxation framework for SMEs in Thailand were discussed. The rationale for the mixed method research design employed in this thesis was explained, and the findings from the quantitative and qualitative data collection processes were presented. The main findings were then discussed and policy recommendations for the SME tax system in Thailand were suggested from this analysis. This final chapter concludes the thesis with a summary, a discussion of the strengths and limitations of this research, and an outline of areas in which further research may be considered fruitful.

9.2 Summary of Findings

9.2.1 Economic Role of Small and Medium Enterprises in Thailand (First Objective)

After the 1997 Asian financial crisis, SMEs were promoted as a flagship for economic recovery. Since then, SMEs have become the largest group of enterprises in Thailand.

The main definition of SMEs in Thailand is characterised by the number of salaried workers and fixed assets (with land costs not included in the calculation of fixed assets). The SME business types are classified into three sectors, namely: production, services, and trading (wholesale and retail). The numbers of SMEs in 2008 (2,827,633), 2009 (2,896,106) and 2010 (2,913,167) were significantly greater than the number of large enterprises in 2008 (4,586), 2009 (4,653) and 2010 (9,140). Thus, SMEs are clearly important to Thailand's economy, accounting for 99.6% of all businesses.

Small and Medium Enterprises play a vital role in every sector and region in Thailand. The high number of SMEs can stimulate employment and the economy. The percentage of contribution of SMEs to Thailand's GDP for the years 2008-2010 was around 37 to 38 percent. This is quite a high proportionate contribution to Thailand's GDP.

Thailand's policy-makers and politicians readily claim to be in favour of tax incentives for SMEs. One important effect of tax incentives is the change of the taxation law. Yet, changes in the taxation law are usually made without any consideration of the tax compliance costs. These costs then become a hidden burden on SMEs.

Consequently, the estimated level of SME tax compliance costs should be of concern to the country and particularly its policy-makers. This gap in knowledge about SME compliance costs is apparent in Thailand. Therefore, compliance costs were chosen in this study as one of the key determinants to identify the burden of corporate income tax compliance costs on SMEs in Thailand. The goal was to use these

estimates and findings to place the issue within a taxation policy context and to draw appropriate policy implications.

9.2.2 Corporate Income Tax Compliance Costs of Small and Medium Enterprises in Thailand (Second Objective)

This study has shown that the average corporate income tax compliance costs were 253,708 baht per SME in 2010. The average corporate income tax compliance costs were composed of internal staff costs (72,927 baht per SME), miscellaneous costs (117,357 baht per SME) and external costs (63,425 baht per SME).

Analysis of the relationship among the components of tax compliance costs found that the ratio of internal staff costs to miscellaneous costs was 38:62 percent of compliance costs. In the quantitative results, it was found that the highest costs were the miscellaneous costs of in-house expenses, such as travel, stationery, computers and software. In qualitative results, it was found that the main categories of miscellaneous costs of SMEs in Thailand were transportation, software and training costs.

The ratio of internal costs to external costs was 75:25 percent of compliance costs. In addition, in the qualitative results it was found that SMEs which had their own accounting division had high miscellaneous costs, including travel, tax accounting software and staff training costs. The miscellaneous costs for SMEs in Thailand were high. Previous studies have suggested that miscellaneous costs might not be significant for small business, and the findings of this study have presented a different conclusion. As discussed in Chapter Eight,⁹⁵ the tax filing requirements for SMEs and large companies are the same in Thailand; for example, both are required to carry out an audit before filing their tax return. In some other countries, no such audit is required for SMEs; in Singapore, for example, an audit is not required for a company with a revenue of less than S\$5 million (Inland Revenue Authority of Singapore, 2004). Thus, this study found that the miscellaneous costs are significant for SMEs in Thailand as they have tax filing requirements which are the same as for

⁹⁵ See Chapter Eight, Section 8.2.2.

large companies. The compliance costs that are incurred by a large company could also be incurred by a small or medium enterprise.

Some SMEs which had their own accounting division also had a good business structure such as a well-designed accounting system and tax planning system even though they had to cover high internal costs (such as high salaries for accounting staff, software, and regular training). These SMEs carried out stringent record-keeping to comply with the requirements of the tax system and this provided a range of managerial benefits to their businesses.

Some of the SMEs investigated in this study did not receive the managerial benefits because they did not have their own accounting division and they used an external tax professional to help them file their tax returns. The main reason for employing an external tax professional was that “technical knowledge was not readily available internally”. These SMEs bore external costs that were higher than their internal costs. These SMEs did not invest in software or human resources so they did not receive any managerial benefits, but they had lower internal tax compliance costs.

Following the definition of SMEs in Thailand,⁹⁶ this study found that the average tax compliance costs for small enterprises in 2010 were 253,708 baht per company while the average tax compliance costs for medium enterprises were 368,088 baht per company. Moreover, the relative importance of tax compliance costs was illustrated in terms of net profit.⁹⁷ Tax compliance costs as a percentage of 0-150,000 baht net profit were 264 baht (for every 100 baht of net profit), tax compliance costs as a percentage of 150,001-1,000,000 baht net profit were 42 baht (for every 100 baht of net profit), tax compliance costs as a percentage of 1,000,001-3,000,000 baht net profit were 22 baht (for every 100 baht of net profit), and tax compliance costs as a percentage of more than 3,000,000 baht net profit were 4 baht (for every 100 baht of net profit). This clearly demonstrated the usual regressive nature of tax compliance costs, also known as the economies of scale effect, which is a feature of nearly all tax compliance cost studies. Indeed, expressing tax compliance costs as a percentage of

⁹⁶ See Chapter Three, Section 3.2.1.

⁹⁷ See Chapter Five, Table 5.29.

profits should be seen as a strength rather than a weakness, particularly in the context of a developing country. This data demonstrated the severity of corporate income tax compliance costs for the least profitable SMEs in the Thai economy, with implications not only for economic growth within the country but also raising concerns regarding a more equitable distribution of income.

The relationships between the tax compliance costs and other qualitative explanatory variables were identified by multiple regression analysis using the OLS and stepwise method. The results from the OLS regression found that the adjusted R^2 was 0.215; therefore, about 21.5 percent of the variation in tax compliance costs was explained by legal structure, location, trading, definition, size and net profit. The interpretation of variation in tax compliance costs by reference to the SME definition was fairly significant and made with caution. The analysis of the effect on tax compliance costs indicated that the location for the respondents who were in the Central region of Thailand had high significance (Sig. = 0.007) and the variable with the highest tax compliance costs was the wholesale type of business (coefficient = 0.759). The stepwise method was used to confirm the results from the OLS regression. Regarding the location, the impact for the respondents in the Central region was confirmed through the number one ranking in the stepwise method, the same as with the OLS method.

The ordinary least squares analysis found that wholesale businesses had high tax compliance costs. Wholesale businesses have many customers and many products; for example, they have many accounting staff to do tax invoices and many stock clerks to check the stock of products. Thus, many staff have to deal with tax activities in these businesses. The wholesale businesses might need to pay for the cost of tax accounting training for their staff as the training of the accounting staff training is required by law.⁹⁸ These reasons could explain the accrual of high tax compliance costs in wholesale businesses.

The aggregate amount of tax compliance costs was 49,461 million baht for the 2010 tax year. The offsets of tax compliance costs were cash flow benefits at 714 million

⁹⁸ See Chapter Three, Section 3.3.4.

baht and tax deductibility at 7,537 million baht. The total net compliance costs were 41,210 million baht.⁹⁹ On the other hand, the amount of tax revenue from SME corporate income tax was 38,501 million baht.¹⁰⁰ Consequently, the tax compliance costs of SMEs were higher than the tax revenue from SME corporate income tax. This result might be because 54,765 SME taxpayers from a total of 188,236 taxpayers were in a category of tax exemption.¹⁰¹ These 54,765 SME taxpayers still carried tax compliance costs of 197,658 baht per SME.¹⁰² This finding also confirmed that tax compliance costs were a high burden on the SMEs.

For the 2010 tax year, the proportion of tax compliance costs of SMEs in Thailand to GDP was 0.41 percent. This was low compared with the international range (up to 2.5 percent of GDP) (Evans, 2003b, p. 71). However, it was higher than the tax compliance costs for SMEs in Malaysia in 2006 (0.2 percent of GDP) (Abdul-Jabbar, 2009, p. 227). In summary, Table 9.1 shows the overall answers of the research questions in the second objective.

⁹⁹ See Chapter Six, Table 6.9.

¹⁰⁰ See Chapter Six, Table 6.1.

¹⁰¹ See Chapter Six, Table 6.1.

¹⁰² See Chapter Six, Table 6.3.

Table 9.1: Research Questions (Second Objective)

Objective	Research Questions	Answer Research Questions
<p>To estimate the corporate income tax compliance costs of SMEs in Thailand</p>	<p>Q1: How much are the internal costs?</p>	<p>A1: Internal costs of SMEs in Thailand were 190,284 baht in year 2010. (Composed of internal staff costs: 72,927 baht and miscellaneous costs: 117,357 baht)</p>
	<p>Q2: How much are the miscellaneous costs?</p>	<p>A2: Miscellaneous costs of SMEs in Thailand were 117,357 baht in 2010.</p>
	<p>Q3: How much are the external costs?</p>	<p>A3: External costs of SMEs in Thailand were 63,424 baht in 2010.</p>
	<p>Q4: What is the relationship among those costs?</p>	<p>A4: Internal costs of SMEs were three times higher than the external costs. The components of internal costs were the staff costs and the miscellaneous costs. Miscellaneous costs (for example, travelling costs, stationery, computer, software and training costs) were very high and significant for SMEs in Thailand. Those SMEs carried out stringent record-keeping to comply with the requirements of the tax system and this provided a range of managerial benefits to their businesses.</p>
	<p>Q5: How much are the mean internal costs, external costs and tax compliance costs by tax legal structure, location, trading period, definition, employees?</p>	<p>A5: By tax legal structure: Internal costs (202,292 baht), external costs (68,570 baht) and tax compliance costs (270,862 baht) of companies were higher than the internal costs (171,671 baht), external costs (55,449 baht) and tax compliance costs (227,120 baht) of partnership. By location: Internal costs: 272,308 baht (North), 151,522 baht (Bkk & surrounding areas), 146,715 baht (Central), 245,500 (South), 232,800 baht (East) and 149,241 baht (Northeast). External costs: 79,539 baht (North), 86,406 baht (Bkk & surrounding areas), 31,810 baht (Central), 43,103 baht (South), 21,000 baht (East)</p>

Objective	Research Questions	Answer Research Questions
		<p>and 33,857 baht (Northeast). Tax compliance costs: 351,847 baht (North), 237,928 baht (Bkk & surrounding areas), 178,525 baht (Central), 288,603 baht (South), 253,800 baht (East) and 183,098 baht (Northeast). By trading period: Internal costs: 156,871 baht (less than 2 years), 166,177 baht (2 to 5 years) and 202,771 baht (more than 5 years). External costs: 114,308 baht (less than 2 years), 42,811 baht (2 to 5 years) and 59,451 baht (more than 5 years). Tax compliance costs: 271,179 baht (less than 2 years), 208,988 baht (2 to 5 years), 262,222 baht (more than 5 years). By definition: Internal costs: 102,413 baht (production/small enterprises), 208,335 baht (service/small enterprises), 237,466 baht (wholesale/small enterprises), 101,922 baht (retail/small enterprises), 269,624 baht (production/medium enterprises), 302,562 baht (service/medium enterprises), 667,104 baht (wholesale/medium enterprises) and 195,130 baht (retail/medium enterprises). External costs: 84,079 baht (production/small enterprises), 48,061 baht (service/small enterprises), 53,352 baht (wholesale/small enterprises), 27,682 baht (retail/small enterprises), 92,291 baht (production/medium enterprises), 47,119 baht (service/medium enterprises), 63,333 baht (wholesale/medium enterprises) and 122,182 baht (retail/medium enterprises).</p>

Objective	Research Questions	Answer Research Questions
		<p>Tax compliance costs: 186,492 baht (production/small enterprises), 256,396 baht (service/small enterprises), 290,818 baht (wholesale/small enterprises), 129,604 baht (retail/small enterprises), 361,915 baht (production/medium enterprises), 349,681 baht (service/medium enterprises), 730,437 baht (wholesale/medium enterprises) and 317,312 baht (retail/medium enterprises).</p> <p>By employees: Internal costs: 164,142 baht (0-50 employees) and 285,344 baht (51-200 employees). External costs: 61,415 baht (0-50 employees) and 70,732 baht (51-200 employees). Tax compliance costs: 225,557 baht (0-50 employees) and 356,076 baht (51-200 employees).</p>
	<p>Q6: What are the internal costs, external costs and tax compliance costs analysed per employee and as a percentage of net profit?</p>	<p>Per employee: Internal costs (656,568 baht per employee), external costs (245,660 baht per employee) and tax compliance costs (902,228 baht per employee) for SMEs that had 0-50 employees were higher than internal costs (227,366 baht per employee), external costs (56,360 baht per employee) and tax compliance costs (283,726 baht per employee) for SMEs that had 51-200 employees.</p> <p>Net profit: Internal costs, external costs and tax compliance costs as a percentage of net profit between 0-150,000 baht, were 193 baht, 71 baht and 264 baht. Internal costs, external costs and tax compliance costs as a percentage of net profit between 150,001-1,000,000 baht were 34 baht, 9 baht and 42 baht. Internal costs,</p>

Objective	Research Questions	Answer Research Questions
		external costs and tax compliance costs as a percentage of net profit between 1,000,001-3,000,000 baht were 16 baht, 5 baht and 22 baht. Internal costs, external costs and tax compliance costs as a percentage of net profit over 3,000,000 baht were 3 baht, 1 baht and 4 baht. Overall, internal costs, external costs and tax compliance costs as a percentage of net profit were regressive.
	Q7: What are the main reasons to employ an external professional?	The reasons for employing an external tax professional indicated that: (1) technical knowledge is not readily available internally, (2) corporate income tax matters are complicated, (3) an external opinion is required, (4) it is more cost-effective to use external tax professionals, (5) for corporate income tax planning and (6) external tax professionals are used according to the tax requirements such as tax auditors.
	Q8: What are the areas of business found difficult?	The areas of business found difficult were: (1) understanding corporate income tax legislation, (2) estimating income tax payable, (3) implementing the income tax changes, (4) increasing burden of record-keeping for tax purposes, (5) maintaining records for income tax purposes, (6) dealing with the tax authority, (7) the short period of time given to lodge tax return, and (8) dealing with external professionals.
	Q9: How much are the cash flow benefits?	The cash flow benefits of SMEs in Thailand were 714 million baht in 2010.
	Q10 How much is the tax deductibility?	The tax deductibility of SMEs in Thailand was 7,537 million baht in 2010.
	Q11 How much are the net tax compliance costs?	The net tax compliance costs of SMEs in Thailand were 41,210 million baht in 2010.

9.2.3 Burden of Corporate Income Tax Compliance Costs for Small and Medium Enterprises in Thailand (Third Objective)

As mentioned earlier, this study found that tax compliance costs were regressive and were a heavy burden on SMEs which had low taxable revenue and no tax liability. Small and Medium Enterprises in Thailand have to file tax returns that comply with the audit requirement¹⁰³ even if they have no taxable revenue. The cost of employing a tax auditor or auditor cannot be avoided for SME corporate income taxpayers. In the qualitative results, it was found that the auditing process provided no benefit for some SMEs. These SMEs still reported their tax affairs incorrectly and received fines from the Revenue Department. They used an auditor or tax auditor because of the legal requirements, and did not see the benefit from using an auditor or tax auditor. These audits costs were a tax burden for the SMEs, and they expressed the view that such costs should be eliminated through tax reform. Table 9.2 summarises the answers to these research questions in the third objective.

¹⁰³ See Chapter Three, Section 3.3.3 and Section 3.3.4.

Table 9.2: Research Questions (Third Objective)

Objective	Research Questions	Answer Research Questions
<p>To identify the burden caused by corporate income tax compliance costs for SMEs in Thailand</p>	<p>Q1: Do the interviewees agree with the estimation of tax compliance costs from the questionnaire?</p>	<p>Yes, the interviewees agreed with the estimation of tax compliance costs at 253,708 baht (internal costs: 72,927 baht, additional costs: 117,357 baht and external costs: 63,424 baht) in 2010 from the qualitative results.</p>
	<p>Q2: What are the details of internal costs that are incurred in SME business activities?</p>	<p>For SMEs that dealt with tax matters by themselves, they had high number of staff and high miscellaneous costs such as transportation, software and training costs. For SMEs that used an outsourced or external accounting firm to deal with tax matters for them, they had low internal costs and they did not invest in human resources and accounting software.</p>
	<p>Q3: What are the details of external costs that are incurred in SME business activities and what are the reasons for SMEs to use an external professional?</p>	<p>Small and Medium Enterprises in Thailand are required to have an auditor report certified by auditors (for companies or limited partnerships) or tax auditors (for limited partnerships), according to the legal requirements. Thus, SMEs could not avoid these external costs (auditing fees). Some SMEs with good business structures paid external tax/accounting consultant fees to develop their management systems. The reasons for SMEs to use an external professional were: (1) the SMEs did not have enough tax knowledge, and (2) the SMEs believed that using an external professional can save their money.</p>
	<p>Q4: Are tax compliance costs high for SMEs? Why?</p>	<p>Some SMEs said tax compliance costs were not high for them because: (1) tax is their responsibility and they want to do the right thing, and (2) comparing tax compliance costs with their sales revenue, it is reasonable to pay the costs. Some SMEs said tax</p>

Objective	Research Questions	Answer Research Questions
		<p>compliance costs were high for them because: (1) the problem of underground businesses created unfair competition in businesses such as high tax compliance costs for legitimate businesses and no tax compliance costs for underground businesses, (2) their business income was not high but they had to pay high tax compliance costs, and (3) certain components of their tax compliance costs were high such as audit fees, software and staff training.</p>
	<p>Q5: What is the tax burden issue of corporate income tax compliance costs to SMEs?</p>	<p>Some SMEs said that tax compliance costs were a burden because tax was difficult to understand. Some SMEs said that tax compliance costs were not a burden because tax compliance was their own duty and supported their business management.</p>
	<p>Q6: Are there any cash flow benefit in SME business activities?</p>	<p>Most SMEs enjoyed their cash flow benefits from the tax payable amount before their filing date.</p>
	<p>Q7: Are there managerial benefits in SME business activities?</p>	<p>Managerial benefits are extra benefits for some SMEs. They can obtain the benefits when they have a good business structure such as a good accounting system and tax planning.</p>
	<p>Q8: What suggestions do SMEs make about tax compliance costs?</p>	<p>The suggestions of SMEs about tax compliance costs were: (1) the Revenue Department should publish more information for SMEs taxpayers; (2) the Revenue Department should play other roles, apart from collecting tax, such as the role of tax adviser; (3) tax policy should reduce tax rules and regulations for SMEs; (4) the tax rate should be reduced; (5) the mandatory requirements for an auditor or tax auditor for SMEs should be abolished; (6) the Revenue Department should understand SMEs</p>

Objective	Research Questions	Answer Research Questions
		better; (7) the Thai tax code is out of date and should be revised; (8) the Revenue Department should increase the number of free tax seminars for SMEs; (9) the Thai tax code should minimise complications; (10) underground businesses should be eliminated; (11) tax policy should be concerned about labour capacity building and should not be distort businesses; and (12) tax policy should be concerned about reducing tax compliance costs.

Moreover, the study found that the main reasons behind the burden of corporate income tax compliance costs on SMEs in Thailand were tax difficulties and complexity. For example, the different approach to profit for accounting and taxation purposes was one area of complexity that increased tax compliance costs.¹⁰⁴

The quantitative results showed that tax difficulties were related to the issues of: (1) understanding the corporate income tax legislation; (2) estimating the income tax payable; (3) implementing the income tax changes; (4) dealing with the increased burden of record-keeping for tax purposes; (5) maintaining records for income tax purposes; (6) dealing with the tax authority; (7) lodging the tax return within the short period of time made available; and (8) dealing with external tax professionals (such as tax accountants and tax auditors). These reasons were in line with the following findings from the qualitative data regarding the difficulties faced by the respondents: (1) there were many record-keeping processes for tax purposes; (2) there were many rules to follow when dealing with taxation; and (3) there were few apparent benefits from engaging the auditors. One important finding in relation to the tax difficulties was the effect of informal SMEs in business transactions. For example, some informal SMEs did business without being registered for tax purposes. They sold products without invoices. This issue indicated a weakness of

¹⁰⁴ See Chapter Three, Section 3.3.4.

the tax system and affected some legitimate businesses because they had to buy products from these informal SMEs.

In addition, the qualitative results found that there were two groups of opinion in relation to the issue of the tax burden. One group of respondents confirmed that the tax compliance costs were a burden for them. For example, they faced high expenses in order to pay their taxes correctly. The second group of respondents did not think that the tax compliance costs were a burden. This group identified tax compliance as a routine job or duty and saw a number of benefits from the process of tax compliance. Although the costs were high, the costs were not a burden and the compliance activities were useful for some businesses in terms of the managerial benefits.

9.2.4 Policy Implications (Fourth Objective)

Many studies have presented tax compliance costs by size in terms of turnover, tax revenue and per employee. Unfortunately, this study of Thai tax compliance costs could not follow this convention essentially because of the complex and unusual definition of SMEs used in Thailand, particularly in terms of assets, as discussed in Chapter Eight. Thus, it is suggested that the definition of SMEs in Thailand should be updated to better suit the contemporary approach.

The most surprising finding from this study was that the total tax compliance costs as a percentage of tax paid were 128 percent. This percentage was extremely high and thus greater than the SMEs' overall tax remittance. The percentage of tax compliance costs within the international range was around two to 10 percent of tax paid (Evans, 2003b, p. 71). It should be a matter of serious concern for Thai policy-makers that these costs are completely hidden costs of taxation. Every tax should be charged from the pocket of the people as little as possible over and above what it brings into the treasury of the country (Sandford, 1973, p. 2). This study recommends that Thai policy-makers reconsider the audit requirement in order to reduce or eliminate tax compliance costs for small size companies.

This study found that the corporate income tax compliance costs of SMEs in Thailand were 260,353 baht (around US\$8,214) in 2010 on average, and each SME carried these costs in order to deal with corporate income tax requirements to the satisfaction of the Revenue Department. This appeared to be a relatively high figure when compared with the broadly similar developing country of Malaysia (US\$3,078 in 2006).¹⁰⁵ Moreover, ASEAN countries will form the ASEAN Economic Community in 2015. An improvement in SME tax compliance policies will help Thailand prepare to meet the impact of the ASEAN regulations on member countries' tax compliance costs. A reduction in these costs will strengthen Thai SMEs to be ready to meet the future impact in this free trade zone. The findings of the current study may influence policy-makers in Thailand to consider and reduce the corporate income tax compliance costs for SMEs in Thailand.

Furthermore, the average tax compliance costs were estimated in terms of legal structure, location and trading period. The findings were quite diverse; for example, the tax compliance costs in limited companies (253,709 baht) were higher than in partnerships (227,120 baht), the tax compliance costs were highest in the North region (351,847 baht) compared with other regions, and the highest tax compliance costs were incurred in the start-up period. Thus, policy-makers need to consider these various dimensions of SMEs during the policy-making process regarding any changes to corporate income tax laws and the ensuing tax compliance costs. Tax reform is therefore needed through the process of tax simplification. Tax simplicity is a solution to reduce tax compliance costs and at the same time try to increase the tax revenue in Thailand. In order to make and keep tax compliance costs low, the continual review and monitoring of tax-related policies needs to be promoted. The estimation of tax compliance costs needs to be undertaken regularly and in every change of tax regulations.

In light of the view of some respondents that they were afraid of the Revenue Department, the service provided by the department should be improved and a new image should be promoted. Indicators of the service quality of the Revenue Department should then be regularly made available for examination by taxpayers.

¹⁰⁵ See Chapter Eight, Table 8.6 (this comparison ignored inflation effects).

It is hoped that the results of this research will contribute to the tax policy-making process in Thailand regarding the recognition of the magnitude and relevance of SME income tax compliance costs. A better tax policy that recognises tax compliance costs might be possible and may become one tool to enhance robust SME productivity. If constructive policy is formulated to support SMEs, the SMEs may contribute even more to the Thai economy. It is timely for the Minister of Finance and other relevant policy-makers in Thailand to recognise this issue. Although incidental to the main findings of this research, a revised definition of SMEs (based on size by annual turnover and/or number of employees) to replace the cumbersome and out-dated current definition is also recommended. This would also place Thailand in line with best international practice.

9.3 Limitations of the Research

This was the first attempt to estimate the tax compliance costs of SMEs in Thailand. The research design used questionnaire surveys to collect the primary data as there was no secondary data available to estimate SME tax compliance costs. A survey about taxation might not be an attractive or welcome topic for Thai taxpayers, and the concept of tax compliance costs is still new for Thai taxpayers. Unfortunately, these factors may have led to the first limitation of this study, namely, the low response rate of 10 percent. This response rate would be considered low in the context of international tax studies, but could be considered reasonable in the context of Asian tax studies (Abdul-Jabbar, 2009, p. 243) and a response rate of at least 10 percent was expected.¹⁰⁶ The reason might be that other tax compliance cost studies with higher response rates often had extra funds such as the support of the tax authority or prize incentives to the respondents such as the chance to win a computer (Pope, 2009, p. 6).

The second limitation of this study was the difficulty some respondents encountered in completing the internal costs question. During the main data collection period, some respondents enquired about how to answer the internal costs question. It seemed that some respondents did not understand the concept of tax compliance costs well, perhaps reflecting that the topic had been neglected in Thailand. The term

¹⁰⁶ See Chapter Four, Section 4.3.2.

“tax compliance costs” might have been a new term for some SME personnel. Thus, some caution needs to be applied to the estimates developed in this study regarding internal costs in particular.

The third limitation was that the respondents from the Market for Alternative Investment were eliminated from this study in the analysis process. This was due to the low number of respondents from that group and because the secondary data provided by the Revenue Department was not available to estimate the aggregate tax compliance costs. These two issues were identified in the analysis period.

The fourth limitation was that the respondents were not a fully representative sample of SMEs in Thailand; for example, the number of SMEs in the East region was low and represented only one enterprise. The low number of respondents overall (10.41 percent) meant that any interpretation of the results must be made with caution.

The fifth limitation was that some respondents did not give much information in the survey questionnaire and interview. They were concerned about confidentiality, even though the researcher carefully explained the procedure regarding the disclosure of information and ethics approval. They still did not want to disclose some information. Taxation in Thailand is a challenging topic for researchers. The present researcher also found that the interviewees displayed a range of emotions at the time of the interviews. Despite agreeing to meet and making an appointment, some interviewees were inhospitable on the interview day, and did not want to disclose the tax compliance costs in their business and participate fully in the research. Some respondents were distracted during the interviews by problems with their staff and customers. Some respondents expressed anger. This experience reaffirmed for the researcher that good preparation and the development of interviewing skills are very important. It is necessary to predict, control and practise interviewing in order to handle interviewees’ sometimes unexpected responses and achieve successful interviews.

The sixth limitation concerned the tax revenue data. In Thailand, the tax revenue data of SMEs is not published. The revenue data was provided in terms of types of

taxation (for example, corporate income tax, personal income tax, value-added tax, petroleum tax, specific business tax and stamp duty). Personal contacts were necessary to coordinate access to the internal data from the Revenue Department before the questionnaire design. It was also necessary to match the data from the survey questionnaires with the tax revenue data on SMEs. The research methodology was designed to address this limitation.

Lastly, the SME definition in Thailand was a limitation as the rather cumbersome current definition is an unusual approach to the estimation of tax compliance costs. The ranges of the employee numbers and the amount of assets are complex and overlap. The conventional method used in studies in other country settings is to define SMEs by reference to size in terms of turnover, tax revenue and number of employees.

9.4 Recommendations for Future Research

The present study was the first attempt to estimate the tax compliance costs of SMEs in Thailand. According to Pope's classification of the development of compliance costs as a policy area (1993), Thailand might only be in phase two, namely, "the recognisable period of compliance costs by experts" or possibly phase three, namely, "the initial period of estimating tax compliance costs" which would include the present study. Thus, there are many opportunities for further research investigating tax compliance costs in Thailand.

To specifically address the corporate income tax compliance costs of SMEs, firstly, future studies could study tax compliance costs in terms of diary entries with the same respondents of this study in order to help increase the response rate, and with greater reliability in the findings. Diary entries can be used to check the costs which are regularly incurred in SMEs. Small and Medium Enterprises will also, over time, become more familiar with the components of tax compliance costs. These developments will support the reliability of the data collection and findings.

Secondly, the use of a third party in future research can help increase the response rate and support the budget during data collection. To supplement the limited budget,

the third party could also support the expenses incurred during the data collection period. An extensive network of the researcher is necessary to collect the data relevant to the tax compliance costs in Thailand. A good network is one important factor to convince respondents to answer survey questionnaires and to trust the researcher. Future research in Thailand should take this aspect into account before undertaking a tax compliance cost study.

Thirdly, the present study found that the miscellaneous costs for SMEs were as significant as they are for large companies and this differs from the findings in previous studies. Future research might further investigate the details of the miscellaneous costs of SMEs in Thailand. These details will support policy-makers to develop tax policies to better suit SME needs.

Fourthly, the study found that the ratio of internal costs was higher than the ratio of external costs. The quantitative findings concluded that some SMEs preferred to use external professionals rather than in-house staff. However, the qualitative findings showed that some SMEs considered the component costs incurred in external costs to be excessive; for example, they complained that tax auditors and auditors were unnecessary and expensive. Future research might compare the differences between in-house staff and external professionals for dealing with SME taxation in Thailand. The views of tax auditors and auditors might also be usefully studied to provide more details in future study.

9.5 Concluding Remarks

Research into tax compliance costs has been neglected in Thailand. This study sought to overcome this deficiency and was the first attempt to estimate the tax compliance costs of SMEs in Thailand, focusing on the important corporate income tax. The evidence from this study indicated that tax compliance costs for SMEs in Thailand were relatively high when compared with the costs for SMEs in selected countries such as Malaysia.

In 2015, the ASEAN countries including Thailand will form the ASEAN Economic Community. A reduction in tax compliance costs will strengthen Thai SMEs and help them be ready to conduct their business in this new free trade zone.

The awareness of tax compliance costs in both the public and private sectors should be enhanced in Thailand. This will increase the development of tax compliance cost strategies in the policy area. Future research needs to be undertaken to increase the number of tax compliance cost studies and to improve the overall development of tax policy in Thailand.

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Appendix A: Thailand Map



**Appendix B: Summary of Tax Compliance
Costs Studies in Various Countries
(From 1973 to Present)**

**Summary of Tax Compliance Costs Studies in Various Countries
(From 1973 to Present)**

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
ARMENIA	Jrbashyan & Harutyunyan (2006)	All taxes	<ul style="list-style-type: none"> • Focused on companies. • Interview, 1,300 sample size, 328 respondents and response rate of 25.2 percent. • Compliance costs were regressive in terms of number of employees and sales volume. • The industrial sector was the biggest average compliance costs compared to other sectors. • Compliance costs were 0.8 percent of GDP and 11.5 percent of tax revenue.
AUSTRALIA	Pope, Fayle & Duncanson (1990)	Personal income tax	<ul style="list-style-type: none"> • Focused on Australian registered voters. • Postal survey, 6,737 sample size, 1,098 respondents and response rate of 16 percent. • Compliance costs of PIT were between \$2.8b and \$3.8b, or between 7.9 percent and 10.8 percent of revenue yield in 1986-87; they were relatively higher than countries with comparable PIT systems; they were regressive; main determinants were level of income and type of return submitted.
	Pope, Fayle & Chen (1991)	Corporate income tax	<ul style="list-style-type: none"> • Focused on Australian public companies. • Postal survey, 1,837 sample size, 298 respondents and response rate of 16 percent. • Gross compliance costs of public companies

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
			<p>were between \$0.65b and \$1.3b, or between 11.4 percent and 23.7 percent of revenue yield in 1986-87.</p> <ul style="list-style-type: none"> • Cash flow benefits were \$0.95b, or 16.9 percent of revenue yield. • Compliance costs were regressive and higher than other comparable countries.
	Wallschutzky & Gibson (1993)	Business taxes	<ul style="list-style-type: none"> • Focused on Australian small businesses. • Case study (using diaries and face-to-face interviews), 12 sample size and 12 respondents. • With the exception of wholesale sales tax, participants found taxes neither difficult to deal with nor time-consuming. • Outcomes caused researchers to question their initial assumption that compliance costs were significant.
	Pope, Fayle & Chen (1993)	Employer related taxes (pay as you earn, fringe benefits tax, prescribed payment system, payroll tax)	<ul style="list-style-type: none"> • Focused on Australian businesses. • Postal survey, 2,739 sample size, 745 respondents and response rate of 27 percent. • The compliance costs of employers' PAYE and payroll tax were reasonable by international standards (1.7 percent of revenue yield compared to Canada's 3.5 percent). • FBT compliance costs were relatively high (10.9 percent of revenue yield). • High burden of employment related taxes on small businesses noted.

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
	Pope, Fayle & Chen (1993)	Wholesale sales tax (WST)	<ul style="list-style-type: none"> • Focused on Australian businesses. • Postal survey, 2,467 sample size, 593 respondents and response rate of 24 percent. • Net compliance costs of WST were \$201m, or 2.1 percent of revenue yield. • Compliance costs were highly regressive. • WST generated a cash flow cost overall rather than a benefit.
	Pope, Fayle & Chen (1994)	Companies income tax	<ul style="list-style-type: none"> • Focused on Australian companies. • Postal survey, 2,531 sample size, 571 respondents and response rate of 23 percent. • Net compliance costs of companies were \$2.05b, or 14.5 percent of revenue yield. • Compliance costs were regressive.
	Evans, Ritchie, Tran-Nam & Walpole (1996, 1997)	All federal taxes	<ul style="list-style-type: none"> • Focused on Australian business and personal taxpayers. • Postal survey: <ul style="list-style-type: none"> (a) Business taxpayers, 7,496 sample size, 2,464 respondents and response rate of 33 percent. (b) Personal taxpayers, 1,867 sample size, 936 respondents and response rate 50 percent. • Federal tax compliance costs (after offsets) are \$6.2 billion, representing approximately 7 percent of all federal tax revenue and 1.36 percent of GDP. • Compliance costs were regressive and larger businesses actually

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
	Yellow Pages Small Business Index (1996)	All taxes	<p>enjoyed net compliance benefits rather than costs.</p> <ul style="list-style-type: none"> • Focused on small businesses. • Telephone interviews (commercial opinion poll), 1,200 sample size, 1,200 respondents and response rate of 100 percent. • Small businesses spend 832 hours pa (16 hours per week) on financial accounts, invoices tax and other compliance matters. • Tax element is less than 25 percent (3 hours per week). • The hours a firm spent on tax matters increased directly with the size of the firm, the number of taxes involved and the sector of activity. • One third of all small businesses considered the time spent on tax compliance to be excessive.
	Pope & Rametse (2002)	Start-up costs of the Goods and Services Tax (GST)	<ul style="list-style-type: none"> • Focused on Western Australian business taxpayers (small business). • Postal survey, 3,199 sample size, 868 respondents and response rate of 27 percent. • Estimated GST start-up compliance costs for small businesses were AUD\$7,600. • This included owner/manager time of 131 hours. • Start-up costs were considerably higher than official government estimates.
	Tran-Nam & Glover (2002)	Transitional costs of Goods and	<ul style="list-style-type: none"> • Focused on small business taxpayers.

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
		Services Tax (GST), Australian Business Number (ABN), Pay as you Go (PAYG) and Business Activity Statement (BAS)	<ul style="list-style-type: none"> • Case study, 31 sample size and 31 respondents. • Small businesses incurred net transitional compliance costs of AUD\$4,853 (mean) or AUD\$2,393 (median). • In addition to monetary costs, small business taxpayers appeared to suffer substantial psychological costs during the transitional period.
	Evans, Tran-Nam & Jordan (2002)	Tax Value Method (TVM)	<ul style="list-style-type: none"> • Focused on business taxpayers. • Case study, 40 sample size and 40 respondents. • There were be significant transitional compliance costs for businesses of all sizes and in all sectors if the Tax Value Method of identifying and calculating assessable income were to be introduced. • Practitioners and businesses were unable to identify any recurrent compliance benefits that would offset these transitional costs over the longer term after the introduction of the Tax Value method.
	CPA Australia (2003)	Business taxes	<ul style="list-style-type: none"> • Focused on small taxpayers. • Telephone interviews of: <ul style="list-style-type: none"> (a) Small businesses, 701 sample size, 701 respondents and response rate of 100 percent. (b) Tax practitioners conducted by market research firm, 105 sample size, 105 respondents and response rate of 100 percent. • Many businesses,

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
			<p>particularly non-employers, had experienced little change in compliance obligations over the past two years, however where change had occurred it was more likely to be an increase than a decrease.</p> <ul style="list-style-type: none"> • 30 percent had seen an increase in time for completion of annual return.
	Glover & Tran-Nam (2005)	GST	<ul style="list-style-type: none"> • Focused on small business (especially those located in the rural sector). • Case studies with 22 respondents (Quantitative data). • Postal survey questionnaire & supplement by face-to-face and telephone interviews, agreed to participate 53 and collected data from 31 (Qualitative data). • Small business incurred gross recurrent costs of \$2,481 (mean) and \$4,500 (median). • Subtracting tax deductibility and cash flow benefits, the net recurrent compliance costs of the GST for small business was estimated to be \$1,244 on average. • Small business, especially the farm sector, has not fully come to grips with the GST on a day to day basis. Transitional issues still exist. • Current estimates of the GST recurrent costs are on the high side but should decline over time

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
			<p>as business becomes more familiar with it.</p> <ul style="list-style-type: none"> • The ATO should consider implementing some of the suggestions from respondents of this study in order to make the GST friendlier to small business in their capacity as tax collectors.
	McKerchar, Hodgson, & Walpole (2009)		<ul style="list-style-type: none"> • Focused on small businesses. • Using a grounded theory approach. • In depth interviews and observations, 30 small business respondents (using convenience sampling), 3 accountants. • Using a matrix analysis, five theories were identified, refined and then validated by reference to other sources. • Increasing tax compliance costs were not major concern to SMEs.
	Lignier and Evans (2012)	GST, Income Tax, Payroll PAYG, Capital Gains Tax (CGT) and Fringe Benefit Tax (FBT)	<ul style="list-style-type: none"> • Focused on small business. • Using email survey and referred to a survey webpage with 3,500 sample size small businesses, 159 respondents and response rate of 4.5 percent. • The tax compliance costs of small business estimated at \$32,389 for the 2009/10 tax year in Australia.
Australia & UK	Evans (2003a)	Personal capital gains tax	<ul style="list-style-type: none"> • Focused on Australia and the UK (tax practitioners). • Focused more on operating costs. • Postal survey:

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
			<p>(a) Australian tax practitioners, 321 sample size, 94 respondents and 29 percent response rate.</p> <p>(b) UK tax practitioners, 320 sample size, 89 respondents and 28 percent response rate.</p> <ul style="list-style-type: none"> • There was relatively greater concern among UK practitioners about capital gains tax compliance costs issues compared to their Australian counterparts.
Belgium	Schoonjans, Cauwenberge, Reekmans & Siomens (2011)	Value-added tax, labour tax, corporate tax	<ul style="list-style-type: none"> • Focused on members of VOKA (a professional network of Flemish entrepreneurs)/Belgian SMEs. • Web-based survey, 10,300 sample size, 184 respondents and response rate of 1.8 percent. • Tax compliance costs were significant and regressive, exceeding over 7 percent of added value.
Brazil	Bertolucci (2002)	Corporate and business taxes	<ul style="list-style-type: none"> • Focused on Brazilian public companies. • Email & postal survey, 211 sample size, 25 respondents and response rate of 12 percent. • Compliance costs were R\$7.2b, or 0.75 percent of GDP. • Highly regressive internal compliance costs approximately 80 percent of all costs.
Canada	Thompson (1984)	Personal income tax	<ul style="list-style-type: none"> • Focused on Ontario personal taxpayers. • Estimate, based on assumption applied to provincial tax statistics. • Compliance costs that would be associated with the introduction of a

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
			personal income tax system in Ontario would be roughly C\$150m or C\$42 per taxpayer.
	Arthur Anderson & Co for the Department of Finance (1985)	Federal sales and excise taxes	<ul style="list-style-type: none"> • Focused on Canadian businesses. • Face-to-face interviews (using survey instrument) with large firms, 76 sample frame, 36 respondents, and 47 percent response rate. • Postal survey for other firms, 1,600 sample frame, 171 respondents and 11 percent response rate. • Compliance costs were C\$731.4m or 7.56 percent of revenue yield. • Significant variation depending on size of firm, with compliance costs being higher for smaller firms.
	Arthur Anderson & Co for the Department of Finance (1985)	Ontario retail sales tax	<ul style="list-style-type: none"> • Focused on Ontario businesses/postal survey/600 sample size/43 respondents/7 percent response rate. • Compliance costs were 5.85 percent of revenue yield. • Significant variation depending on size of firm, with compliance costs being higher for smaller firms.
	Vaillancourt (1989)	Personal income tax & payroll tax	<ul style="list-style-type: none"> • Focused on Canadian individual taxpayers and employers. • Interviews (face-to-face) with questionnaire of 2,040. individuals/2,040 respondents/response rate of 100 percent. • Postal survey for 4,196 employers/385 respondents/9 percent response rate. • Individuals' compliance

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
			<p>costs were C\$1.95b, or 2.5 percent of revenue yield, with the tax complexity of the taxpayer situation being the main determinant.</p> <ul style="list-style-type: none"> • Employers' compliance costs were C\$2.75b, or 3.5 percent of revenue yield, with a decreasing cost-size relationship.
	Erard & Vaillancourt (1992)	Personal income tax	<ul style="list-style-type: none"> • Focused on Ontario personal taxpayers. • Simulation: estimate based on line count of items on individual returns. • Introducing a personal income tax system to Ontario would increase net steady state compliance costs for taxpayers, employers and financial institutions by between C\$244.5m and C\$372.5m (between 2 percent and 3.1 percent of provincial revenue yield), depending on the model adopted.
	Plamondon (1993)	Goods and services tax	<ul style="list-style-type: none"> • Focused on Canadian small businesses. • Interviews (face-to-face) conducted by accountants with questionnaire, 200 sample size, 200 respondents and 100 percent response rate. • Compliance costs were not as high as previous studies had shown, but were regressive. • Businesses using computers for accounting routines had compliance costs 20 percent to 40 percent lower than those operating manually.
	Gunz, Macnaughton &	Tax expenditures (scientific	<ul style="list-style-type: none"> • Focused on Ontario corporations.

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
	Wensley (1995)	research and experimental development (SRED) initiatives)	<ul style="list-style-type: none"> • Face to face or telephone interviews with survey instrument, 111 sample size, 51 respondents and response rate of 46 percent. • Compliance costs of SRED initiatives were quite low in aggregate, representing less than 1 percent of credits claimed. • Compliance costs not regressive based on firm size, but were highly regressive based on the size of claim.
	Plamondon (1995)	Goods and services tax (Quick method of accounting for GST)	<ul style="list-style-type: none"> • Focused on Canadian small businesses. • Interviews (face-to-face) conducted by accountants with questionnaire, 200 sample size, 200 respondents and response rate of 100 percent. • Small businesses were not using the quick method of accounting for GST due to a lack of awareness. • Those who knew of it but did not use it were not overly concerned about compliance costs. • Savings in tax were more important than savings in compliance costs.
	Erard (1997a)	Federal and provincial corporate income and capital taxes	<ul style="list-style-type: none"> • Focused on large Canadian corporations. • Postal survey, 250 sample size, 59 respondents and 24 percent response rate. • Compliance costs of top 500 corporations were C\$250m, or between 4.6 percent and 4.9 percent of revenue yield. • The compliance burden

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
			<p>increase with firm size, but less than proportionately.</p> <ul style="list-style-type: none"> Foreign operations and involvement in the mining, oil and gas industries likely to lead to relatively higher compliance costs.
	Plamondon (1997)	Federal and provincial payroll taxes	<ul style="list-style-type: none"> Focused on Ontario employers. Interviews (face to face) conducted by accountants with questionnaire, 40 sample size, 40 respondents, response rate of 100 percent. Compliance costs were “relative low” (2.76 percent of revenue yield for 30 SMEs interviewed). Ontario workers’ compensation system causing confusion and uncertainty. Support from employers for harmonization of payroll taxes.
	Plamondon & Zussman (1998)	Canadian federal & provincial business taxes	<ul style="list-style-type: none"> Focused on Canadian business taxpayers. Estimation of compliance costs followed by panel discussion and poll. Compliance costs for Canadian business estimated at C\$3.4b, or 0.4 percent of GDP, 1.5 percent of revenue yield. A single tax administration would reduce annual compliance costs by between C\$171m and C\$285m.
	Valliancourt & Clemens (2007)	Personal income taxes, business taxes & property taxes	<ul style="list-style-type: none"> Survey questionnaire. Total compliance costs for personal income taxes represented between 1.7 percent and

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
			<p>3.3 percent of total personal income taxes collected federally and provincially and between 0.2 percent and 0.4 percent of GDP in 2005.</p> <ul style="list-style-type: none"> • Personal income tax compliance costs were \$5.4 billion, business tax compliance costs were \$19.3 billion (included overhead costs). • Tax compliance costs of property taxes (personal) were between \$124 and \$248.4 million. • Tax compliance costs of property taxes (business) were between \$100.1 and \$200.1 million.
	Charron, Chow & Halbesma (2008)	All taxes	<ul style="list-style-type: none"> • Focused on SME business. • Internet mail survey, sample size (not address) and respondents 6,939. • Tax compliance costs were significant at \$12.6 billion per year.
Croatia	Blazic (2004)	Corporate income tax	<ul style="list-style-type: none"> • Focused on companies. • Survey (interviews), 1,200 sample size, 339 respondents and response rate of 28 percent. • Compliance costs for 2001/2002 were HRK27,113 per company and HRK2,038.6 million in aggregate level, representing around 1.2 percent of the GDP. • Tax compliance costs, measured as a percentage of relevant tax revenues, were 4.47 percent for VAT, 2.90 percent for wage taxes including social security, and 11.76 percent for profit tax.

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
Ethiopia	Yesegat (2009)	VAT	<ul style="list-style-type: none"> • Focused more on operating costs (2005/6). • Interviews to collect data from 193 businesses and 29 tax practitioners. • The recurrent compliance costs of VAT were estimated at 2.04 percent and 0.13 percent of VAT revenue and GDP respectively. The results of the study indicate that the compliance costs of VAT in Ethiopia are low, and appear to disagree with the evidence provided by the existing literature.
Hong Kong	Chan, Cheung, Ariff & Loh (1999)	Corporate income tax	<ul style="list-style-type: none"> • Focused on Hong Kong Stock Exchanged listed corporate taxpayers. • Postal survey, 496 sample size, 75 respondents and response rate of 15 percent. • Established a positive relationship between company size and compliance costs. • Compliance costs were regressive. • Average compliance costs were relatively high compared to Singapore and Australia (as a result of low administrative costs, difficulties with territorial source basis and higher level of external costs). • No major industry variations in patterns of compliance costs.
India	Chattopadhyay & Das-Gupta (2002a)	Personal income tax	<ul style="list-style-type: none"> • Focused on Indian personal taxpayers. • Postal survey, 5,435 sample size, 128 respondents and response rate of 12

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
			<p>percent.</p> <ul style="list-style-type: none"> • Compliance costs for individuals were “extraordinarily high” (between 49 percent and 56 percent of revenue yield). • High for salary earners and “excessive” (7-10 times higher) for non-salaried taxpayers; regressive.
	Chattopadhyay & Das-Gupta (2002b)	Income tax of company	<ul style="list-style-type: none"> • Focused on Indian corporate taxpayers. • Postal survey, 3,913 sample size, 45 respondents and 1 percent response rate. • Gross compliance costs for companies were between 5.6 percent and 14.5 percent of revenue yield (but negative when cash flow benefits and tax deductibility of certain costs are taken into account); regressive.
Indonesia	Susila & Pope (2012)	Corporate income tax, VAT and withholding tax	<ul style="list-style-type: none"> • Focused on large corporate taxpayers. • Survey questionnaire, 3,000 sample size, 246 respondents and response rate of 8.2 percent. • The gross compliance costs were significant with IDR12.3 trillion, and account for 3.16 percent of tax revenue for large corporations and 0.19 percent of the GDP in 2010. • The average costs per large company were IDR 420,933,442 (around A\$55,000 at the December 2010 exchange rate).

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
Malaysia	Loh, Ariff, Ismail, Shamsher & Ali (1997)	Corporate income tax	<ul style="list-style-type: none"> • Focused on Malaysian Stock Exchange listed corporate taxpayers. • Postal survey, 300 sample size, 80 respondents and response rate of 27 percent. • Compliance costs were regressive, and primarily comprised computational costs (59 percent) as opposed to planning costs (41 percent).
	Hanfah, Ariff, & Kasipillai (2002)	Corporate income tax	<ul style="list-style-type: none"> • Focused on SMEs. • Survey, 300 sample size, 67 respondents and response rate of 22 percent. • Compliance costs were RM21,964 in 1998 of assessment (the 1999 tax year).
	Abdul-Jabbar & Pope (2008)	Corporate income tax	<ul style="list-style-type: none"> • Focused on SMEs. • Large-scale mail survey, 1,300 sample size, 175 respondents and response rate of 16 percent. • Tax compliance costs were RM 9,295 in 2006.
The Netherlands	Allers (1994)	Total Dutch tax benefits	<ul style="list-style-type: none"> • Focused on Dutch individuals. • Postal survey for business compliance costs, 5,252 sample size, 1,116 respondents and response rate of 21 percent. • Commercial postal polling for non-business costs, sample size not known, 10,992 respondents and response rate of 44 percent. • Regressive of compliance costs confirmed, and self-employed also typically

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
			incurred high compliance costs.
New Zealand	Sandford & Hasseldine (1992)	Business taxes (employer and business income tax GST)	<ul style="list-style-type: none"> • Focused on New Zealand businesses. • Postal surveys. • Employers, 4,734 sample size, 1,887 respondents and 40 percent response rate. • Businesses, 9,541 sample size, 2,594 respondents and 31 percent response rate. • Compliance costs of business taxes were large and cumulative in impact (2.5 percent of GDP). • Compliance costs were regressive, falling with disproportionate severity on smaller businesses.
	Prebbie (1995)	Companies subject to controlled foreign company regime	<ul style="list-style-type: none"> • Focused on New Zealand companies • Two personal interviews, 200 sample size and 14 respondents. • Compliance costs for controlled foreign companies are relatively lower than compliance costs for domestic companies of a comparable size.
	KPMG (2003)	All taxes	<ul style="list-style-type: none"> • Focused on New Zealand businesses. • 760 respondents (11 paper-based and 749 web-based). • Internal tax compliance hours were 316 hours and internal tax compliance costs were NZ\$6,008 per year. • External adviser costs were NZ\$11,817 per year. • Total tax compliance costs were NZ\$15,859 per year.

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
	Inland Revenue (2010)	Provisional tax, GST, PAYE, KiwiSaver, FBT	<ul style="list-style-type: none"> • Focused on SME taxpayers. • The changes in SME tax compliance costs that tax compliance costs of SMEs reduced from NZ\$5,628 in 2004 to NZ\$5,557 in 2009, a reduction of \$71.
Singapore	Ariff, Loh & Talib (1994)	Corporate income tax	<ul style="list-style-type: none"> • Focused on Singapore Stock Exchange listed corporate taxpayers. • Postal survey, 200 sample size, 65 respondents and response rate of 33 percent. • Compliance costs were “reasonable” compared to other countries, but the large element of fixed costs caused them to be particularly regressive.
	Ariff, Ismail & Loh (1997)	Corporate income tax	<ul style="list-style-type: none"> • Focused on Singapore Stock Exchanged listed corporate taxpayers. • Postal survey, 234 sample size, 62 respondents and response rate of 26 percent. • Limited reduction in compliance costs of larger firms as a result of simplification, compared to 1994 study. • Most of reduction was due to lower computational (as opposed to planning) costs.
Slovenia	Klun (2004a)	Personal income tax	<ul style="list-style-type: none"> • Focused on individual taxpayers. • Postal survey & interviews, 350 sample, 226 respondents and response rate of 64 percent. • Compliance costs were SIT 5,053 in 2000. • Compliance costs were

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
			relatively low, most taxpayers considered filing their tax declaration to be a simple procedure, which meant that consultancy costs were low.
	Klun (2004b)	Corporate income tax/Social security contribution with payroll tax/VAT	<ul style="list-style-type: none"> • Focused on companies. • Postal survey plus interviews, 200 sample size, 126 respondents and response rate of 64 percent. • Compliance costs per company were SIT 1.5 million or 4.2 percent of tax revenue in 2002 (1 percent of GDP). • The above compliance costs represent costs for complying with corporate income tax (23 percent), VAT (67 percent) and taxes deducted from wages (10 percent).
	Klun (2009)	Personal income tax	<ul style="list-style-type: none"> • Evaluate the reduction in tax compliance costs for personal income taxpayers after the introduction of pre-filled tax return (excluded tax planning costs & psychological costs). • Postal survey and web survey with 439 respondents. • Pre-filled tax returns reduce compliance costs for personal income taxpayers by around 73 percent (compare tax compliance costs for 2000 and 2006).
Slovenia & Croatia	Klun & Blazic (2005)	Business-tax compliance costs (corporate income tax, VAT, personal income taxes on wages, and social security	<ul style="list-style-type: none"> • In Slovenia, postal survey and followed with face-to-face interviews, 126 respondents. • In Croatia, face-to-face interviews, 339 respondents.

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
		contributions)	<ul style="list-style-type: none"> • An attempt to make one of the first comparative analyses of the tax compliance costs in countries in transition and compare them with other countries. • The results confirm some previous findings in the field, but also reveal interesting similarities between the neighbouring countries of Croatia and Slovenia. • Compliance costs of VAT/GST/WST were 66.9 percent, business income taxes were 23 percent and wage-related taxes were 10.1 percent in Slovenia. • Compliance costs of VAT/GST/WST were 47.5 percent, business income tax were 19.3 percent, wage-related taxes were 25.3 percent and other taxes were 7.9 percent in Croatia.
South Africa	Investment Climate Advisory Service (2007)	All taxes	<ul style="list-style-type: none"> • Focused on small businesses. • Electronic survey, 27,747 sample size, 3,429 respondents and response rate of 15.75 percent. • Basic service of tax accounting costs were R12,185 in average per year. • Total service costs were R36,343 per year. • Most burdensome tax is provisional tax. • The burden from preparing returns is larger than the burden from audits, inspections and objections.

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
	Smulders (2012)	Business taxes (VAT/income tax/PAYE/CGT/ Customs/Excise)	<ul style="list-style-type: none"> • Focused on small businesses. • Electronic survey, 88,057 sample size, 5,865 respondents and 6.7 percent response rate. • The internal cost in business were 221,591. • Tax compliance costs as well as core accounting costs are regressive with respect to business size, with the compliance burden being heavier for smaller businesses.
Spain	Diaz & Delgado (1995)	Personal income tax	<ul style="list-style-type: none"> • Focused on Spanish taxpayers. • Interviews (face-to-face) with questionnaire, 2,500 sample size, 2,355 respondents and response rate of 94 percent. • Compliance costs were 3.3 percent of revenue yield, with time costs comprising 73 percent and monetary costs 27 percent.
	Delgado Lobo, Salinas-Jiminez & Sanz Sanz (2001)	Personal income tax	<ul style="list-style-type: none"> • Focused on Spanish individuals. • Interviews (face-to-face) with questionnaire, 2,500 sample size, 2,388 respondents (1998) & 2,499 respondents (1999), response rate of 96 percent (1998) & response rate of 98 percent (1999). • Compliance costs were 1.8 percent of revenue yield in 1998 and 1.3 percent in 1999. • Reduction due to PIT reform operative from 1 Jan 1999.
Sweden	Malmer (1995)	Personal income tax and business taxes	<ul style="list-style-type: none"> • Focused on Swedish individuals and businesses. • Postal survey of

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
			<p>individuals 1986, 1989 & 1992, 12,000 sample size, 8,040 respondents and 67 percent response rate.</p> <ul style="list-style-type: none"> • Personal interviews of individuals in 1983,1985, 1986, 1987, 1988, 1989, 1992 & 1993, 1,000 sample size, 1,000 respondents and response rate of 100 percent. • Postal survey of individuals and companies 1993, 1,000 sample size, 599 respondents and response rate of 60 percent. • Swedish tax reform in 1990 and 1991 resulted in lower operating costs. • Compliance costs for individuals were reduced, but employers faced higher compliance costs.
	Skatteverket (2006)	Value-added tax	<ul style="list-style-type: none"> • Focused on companies. • Mail survey and interview, sample size of 5,463, with 2,077 respondents and response rate of 43 percent. • Total compliance costs for VAT were SEK6.3 thousand million. • Business with between 0-4 employees carry 73 percent of total compliance costs or SEK4.5 thousand million and business with more than 500 employees carry 4 percent of total compliance costs or SEK270 million.
Tanzania	Shekidele (1999)	Excise duties	<ul style="list-style-type: none"> • Focused on Tanzanian large businesses. • Hand-delivered survey

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
			<p>(supplemented with semi structured interviews with firms and tax officials), 14 sample size, 9 respondents and response rate of 64 percent.</p> <ul style="list-style-type: none"> • Compliance costs of excise duties were relatively high (15.57 percent of revenue yield) compared to developed countries.
Ukraine	Investment Climate Advisory Service (2009)	All taxes	<ul style="list-style-type: none"> • Focused on companies, 8,000 sample size, 2,082 respondents and response rate of 26 percent. • Average time (companies) was 1,335 hours per year. • The ranking of costs (companies) – (1st) tax accounting (2nd) visit to tax office (3rd) inspections. • The ranking of taxes (companies) – (1st) VAT (2nd) profit tax (3rd) other taxes and duties. • Tax compliance costs (companies) were \$3,769 per company, regressive in terms of turnover and 1 percent of GDP. • Focused on sole proprietors, 2,678 sample size, 1,004 respondents and 43 percent response rate. • Average time (sole proprietors) was 155 hours per year with the larger of owner’s time. • The ranking of costs (sole proprietors) – (1st) tax accounting (2nd) visit to tax office (3rd) inspections. • The ranking of taxes (sole proprietors) – (1st)

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
			unified tax (2 nd) personal income tax (3 rd) fixed tax (patent). <ul style="list-style-type: none"> • Tax compliance costs were \$438 and regressive in terms of turnover.
U.K.	Sandford (1973)	Personal direct taxes, capital gains tax	<ul style="list-style-type: none"> • Need to speedily to the attention of the policy-makers. • Personal direct taxes <ol style="list-style-type: none"> (a) Focused on professional tax advisers: accountants (postal survey and interview), the income tax departments of all banks (postal survey). (b) Focused on personal taxpayers, interview a national sample of taxpayers, re-surveyed with a detailed postal questionnaire with respondents who revealed 'high' compliance costs. (c) Focused on tax enquiries to press bureaux and Citizens' Advice Bureaux, analysed documents, individual interviews. • Capital gains tax, case study. • The tax work was growing more rapidly than accountancy work.
	Godwin (1978)	Review of other tax compliance cost study	<ul style="list-style-type: none"> • Compliance costs of changes in the tax system are high. • Compliance costs are highly variable, tending to bear most heavily on those whose taxable activities are

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
			<p>unpredictable.</p> <ul style="list-style-type: none"> • There are economies of scale to compliance; they are a greater burden on the small than on the large business. • Self-employed personal taxpayers incur high compliance costs. • Compliance costs of minor taxes are often high in relation to revenue. • Inter-state trading in the US increases costs of compliance. • Sales tax compliance costs vary with the number of sales transactions and the number of tax rate. • Most tax compliance cost were studied and few emphasised methodology. • Taxation is a sensitive subject for research. • Response rates of tax compliance cost studies are quite low at around 30-45 percent. • Compliance cost studies should be considered by policy-makers.
	Sandford, Godwin, Hardwick & Butterworth (1981)	Value added tax	<ul style="list-style-type: none"> • Focused on: <ul style="list-style-type: none"> (a) UK VAT registered traders, 9,094 sample size, 2,799 respondents and response rate of 31 percent. (b) Their advisers, 445 sample size, 263 respondents and response rate of 59 percent. • Postal surveyed, followed by: <ul style="list-style-type: none"> (a) telephone and personal interviews and; (b) interviews with advisers (sample and responses not published for this element).

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
			<ul style="list-style-type: none"> • Gross compliance costs for VAT estimated as £392m in 1997-78. • VAT compliance costs “exceptionally regressive in their incidence”. • Cash flow benefits (£73m) and managerial benefits (difficult to quantify) exacerbate the regressiveness. • Net compliance costs affected by size of firm, sector (relatively lower compliance costs in primary production and higher in financial and services sector), primary or repayment situation.
	Leonard & O’Hagan (1985)	Pay as you earn and national insurance contributions	<ul style="list-style-type: none"> • Focused on employers. • Postal survey, 300 sample size, 119 respondents and response rate of 40 percent. • Compliance costs exceed the administrative costs by a factor of three. • Compliance costs were regressive – gross cost per employee decreased as firm size increased. • Firms employing more than 100 staff enjoyed a net compliance benefit as a result of cash flow benefits from operating PAYE.
	Sandford, Godwin, & Hardwick (1989)	Pay as you earn and national insurance contributions	<ul style="list-style-type: none"> • Focused on UK employees. • Postal survey with some (17) interviews, 3,039 sample size, 783 respondents and 29 percent response rate. • Aggregate compliance costs in 1981-82 were £449m, or just over 1 percent of combined revenue yield from PAYE and NIC.

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
			<ul style="list-style-type: none"> • The impact of compliance costs was regressive. • Substantial cash flow benefit of £878m, which probably wiped out compliance costs for the large firms.
		Personal income tax	<ul style="list-style-type: none"> • Focused on personal income taxes. • Postal survey followed by anonymised matching data from Inland Revenue, 4,241 sample size, 1,776 respondents and response rate of 43 percent. • Compliance costs in 1983-84 were £1.15b, or 3.6 percent of revenue yield. • Impact was regressive for the self-employed, though they enjoyed cash flow benefits. • The most important factors determining the level of compliance costs were size of income and category of employment. • CGT was an important source of high compliance costs but affected relatively few taxpayers.
		Excise duties	<ul style="list-style-type: none"> • Focused on UK alcohol, tobacco and oil companies. • Postal survey of alcohol industry, 369 sample size, 99 respondents and response rate of 30 percent included interviews with 7 tobacco and 3 oils companies and others. • Compliance costs were £33.3m.
		Petroleum revenue tax	<ul style="list-style-type: none"> • Focused on UK oil companies.

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
			<ul style="list-style-type: none"> • Postal survey, 14 sample size, 9 respondents, response rate of 64 percent. • Compliance costs in 1986-87 were £5.25m, or 0.44 percent of revenue yield. • Low revenue yield in 1986-87 makes this ratio particular unreliable but compliance costs were relatively low (compared to other central government taxes).
		Corporation tax (part of value-added tax survey below)	<ul style="list-style-type: none"> • Focused on UK VAT registered traders. • Postal survey, 3,000 sample size, 680 respondents and response rate of 24 percent. • Compliance costs in 1986-87 were £300m (2.22 percent of revenue yield), roughly 50 percent of compliance costs were external fees to advisers. • Compliance costs were regressive. • Cash flow benefits exceeded compliance costs.
		Value-added tax	<ul style="list-style-type: none"> • Focused on UK VAT registered traders. • Postal survey, 3,000 sample size, 680 respondents and response rate of 24 percent. • Aggregate compliance costs were £791m (3.69 percent of revenue yield) and cash flow benefits (disproportionately enjoyed by large firms) were £580m. • Net compliance costs were 1 percent of revenue yield. • Compliance costs were

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
			regressive and fallen since 1977-78.
	National Audit Office (1994)	Value-added tax	<ul style="list-style-type: none"> • Focused on UK Vat traders. • Updated of earlier VAT survey conducted by Sandford et al (1981&1989). • Compliance costs of VAT were £1.6b off set by compliance benefits (cash & management) of £750m. • Compliance costs were regressive.
	Green (1994)	Income tax (including national insurance), corporate tax and capital taxes	<ul style="list-style-type: none"> • Focused on UK tax practioners. • Postal survey, 6,000 sample size, 1,500 respondents and response rate of 25 percent. • Practioners perceived that there were increasing compliance costs associated with the UK direct tax system. • The causes of this trend were the complexity of the tax system and deficiencies in the legislative process.
	KPMG (1996)	Corporate taxes	<ul style="list-style-type: none"> • Focused on UK listed companies. • Postal survey, 1,200 sample size, 266 respondents and 22 percent response rate. • Total compliance costs for UK listed companies estimated to be £265m. • Tax compliance costs increased by 33.6% in the period 1991-96. • Major causes were complex, uncertain and badly drafted legislation.
	Collard & Godwin (1999)	Pay as you earn and national insurance contributions	<ul style="list-style-type: none"> • Focused on UK employers. • Postal survey, respondents over 1,300.

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
			<ul style="list-style-type: none"> • Compliance costs were £1.32b, or 1.3 percent of revenue yield. • Compliance costs highly regressive (bottom 30 percent pay 75 percent of compliance costs). • Labour costs account for approximately half of compliance costs.
	Hasseldine & Hansford (2002)	Value-added tax	<ul style="list-style-type: none"> • Focused on business taxpayers. • Postal survey, 6,232 sample size, 1,449 respondents and response rate of 23 percent. • Increased compliance costs were associated with increased turnover, newly registered businesses, increased complexity and perceived psychological costs. • No significant differences in patterns of core compliance costs and planning costs. • Businesses with computerised systems faced relatively higher compliance costs than businesses with manual procedures.
	Chittenden, Kauser & Poutziouris (2005)	Pay As You Earn (PAYE)-National Insurance Contributions (NIC)	<ul style="list-style-type: none"> • Focused on UK firms (Cheshire and London). • A self administered questionnaire (fax-back questionnaire insert in 10,000 copies of Magazine), 431 respondents and response rate of 2 percent. • The first time, attempted to use a self-administered questionnaire to capture separately psychological costs and opportunity costs.

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
			<ul style="list-style-type: none"> • Mean and median psychological costs are higher than additive costs in the smallest employment size band only. • Policy recommendation to contribute to the amelioration of the disproportionate burden of PAYE-NIC related compliance costs borne by the small business sector in the UK.
	Kausser, Chittenden, Poutziouris & Sloan (2005)	Corporation tax	<ul style="list-style-type: none"> • Focused on SME Companies. • Postal and email survey, 8,000 sample size, 131 respondents and response rate of less than 2 percent. • The aggregate compliance costs of SME companies in 2001 amounted to UK£608 million, with more than half internal in nature.
	Mathieu, Waddams & Antwi (2010)	All taxes	<ul style="list-style-type: none"> • Individual taxpayers. • Survey questionnaire, 1,000 sample size, 320 respondents. • Total tax compliance costs were £285 in 2000. • Positive correlation of tax compliance costs and income, education and difficulty in attending to tax affairs. • Age and marital have no effect on tax compliance costs.
UK & German	Bannock & Albach (1989)	Value-added tax	<ul style="list-style-type: none"> • Focused on UK and German businesses. • Postal survey and telephone (15 calls in each country). • 600 UK sample size, 262 respondents and response rate of 44 percent. • 800 German sample size , 197 respondents and

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
			<p>response rate of 25 percent.</p> <ul style="list-style-type: none"> • Dissatisfaction with VAT system was much greater among small firms in the UK than in German. • Compliance costs for smaller traders were significantly higher in the UK than in German.
U.S.A.	Slemrod & Sorum (1984)	Personal income tax	<ul style="list-style-type: none"> • Postal survey, 2,000 sample size, 653 respondents and response rate of 33 percent. • Compliance costs were 5 percent to 7 percent of revenue yield. • Self-employed incur relatively higher costs.
	Arthur D Little Inc. (1988)	Federal taxes	<ul style="list-style-type: none"> • Diary study of 750 individual/750 respondents and response rate of 100 percent. • Postal survey of 6,200 individuals/3,831 respondents and response rate of 62 percent. • Postal survey of 4,000 businesses/1,474 respondents and response rate of 37 percent. • Total estimated taxpayer paperwork burden increased from 4,342m hours in 1983 to 5,427m hours in 1985. • Record-keeping accounted for 50 percent of this time and form preparation 29 percent. • High degree of correlation between the total time spent on record-keeping, learning, preparation and sending time associated with filing individual tax

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
			returns and the number of line items present on the tax return.
	Blumenthal & Slemrod (1992)	Personal income taxes	<ul style="list-style-type: none"> • Focused on Minnesota residents. • Postal survey, 2,000 sample size, 826 respondents and response rate of 40 percent. • Upward drift in compliance costs 1989 compared to 1982 survey by Slemrod & Sorum. • Tax Reform Act 1986 did not stem this growth.
	Oster & Lynn (1995)	The Ohio axle mile tax	<ul style="list-style-type: none"> • Focused on owners of a commercial car (truck). • Case study basis by selected 18 Ohio trucking companies. • The Ohio axle mile tax compliance costs were higher variable and burden. • Recommend policy action to consider tax compliance burden of this tax.
	Mills (1996)	Income tax	<ul style="list-style-type: none"> • Tested the relationship between taxes paid and compliance costs by using secondary data. • The result is spending more on tax research and planning pay taxes at lower effective rate.
	Slemrod & Blumenthal (1996)	Federal and sub-federal corporation income taxes	<ul style="list-style-type: none"> • Focused on largest US corporations. • Postal survey, 1,329 sample size, 365 respondents and response rate of 27 percent. • Compliance costs of 1,329 largest US corporations US\$2.1 b, or 3.2 percent of revenue yield. • The state ratio (5.6 percent) is higher than

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
	Stavrianons & Greenland (2002) (PWC Consulting)	Personal income tax	<ul style="list-style-type: none"> • the federal (2.6 percent), reflecting non-uniformity of state tax systems. • Tax Reform Act 1986 increased compliance costs. • Focused on individuals with wage and investment income. • Postal survey or telephone interviews, 11,086 sample size, 6,366 respondents (2,551 by post and 3,815 by telephone), response rate of 57 percent. • The objective is to develop an improved methodology for measuring and modelling the sompliance burden. • The initial report does not provide any estimates, only details of microsimulation model used.
	Slemrod & Venkatesh (2002)	Business taxes	<ul style="list-style-type: none"> • Focused on large and mid-size businesses, postal surveys (a) Corporations, 2,499 sample size, 225 respondents and response rate of 9 percent. (b) Tax advisers, 1,824 sample size, 218 respondents and 12 percent reponse rate. • Compliance costs were regressive. • Compliance costs of corporations required to file as “non-US corporations” were, on average, higher than for other similar sized corporations. • Compliance costs of firms in the media, communications and

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
			<p>technology industry had the highest average total compliance costs and those in the retail, food and healthcare group had the lowest average amount.</p>
	Guyton, O'Hare, Starvianons & Toder (2003)	Individual income tax	<ul style="list-style-type: none"> • Focused on individual taxpayers (Wages and Investment (W&I) and Self-Employed (SE)). • Telephone interviews and mail surveys: <ul style="list-style-type: none"> (a) W&I, 6,366 respondents (3,815 by telephone and 2,551 by mail) and response rate of 60.5 percent. (b) SE, 9,081 respondents by interviews and 56.4 percent response rate. • In 2000 tax year, total individual taxpayers compliance burden was 3.21 billion hours and \$18.8 billion. • SE taxpayers (59.5 hours, \$363) was substantially greater than W&I tax payers (13.8 hours, \$75).
	Moody Warcholik & Hodge (2005)	Federal taxes	<ul style="list-style-type: none"> • Focused on individuals, businesses and non-profits. • Estimated based on IRS data. • Total compliance costs were \$265.1 billion, \$148 billion (56 percent) for businesses, \$111 billion (42 percent) for individuals, \$7 billion (2.5 percent) for non-profits. • Compliance costs were regressive with 22 percent of tax revenue.
	Merrill, Ma, Scheuren, Mustaq, Slemrod & Erard (2006)	Retail taxes	<ul style="list-style-type: none"> • Focused on all taxpayers. • Mail survey, 13,872 sample size, 796 respondents and

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
			<p>response rate of 8 percent.</p> <ul style="list-style-type: none"> • Gross compliance costs were 3.09 percent of national sales tax. • Gross compliance costs were 0.19 percent of taxable sales. • Average gross compliance costs for small businesses were \$2,388, medium businesses \$5,279 and large businesses \$118,233. • Compliance costs of small businesses is six times larger than larger businesses in term of tax collected and taxable sales.
	Deluca, Stilmar, Guyton, Lee and O'Hare (2007)	All taxes	<ul style="list-style-type: none"> • Focused on small businesses. • Mail survey and telephone interview, 20,000 sample size, 7,243 respondents and response rate of 36.2 percent. • Total time spent 1,709-1,944 million hours, average 236-255 hour per company. • Total money spent \$14,976-16,411 million, average \$2,068-2,266. • The ranking of time spent: (1st) record keeping (2nd) paid professional (3rd) tax planning time. • The ranking of money spent: (1st) professional (2nd) software and (3rd) others.
Multi-country (Australia, Austria, Belgium,	Cordova-Novion & De Young (2001)	Business taxes	<ul style="list-style-type: none"> • Focused on Multi-country. • Postal survey, 22,544 sample size, 7,859 respondents and response rate of 35%. • Tax regulations impose

COUNTRY	AUTHOR/S (year)	Taxes Studied	Main Findings
Finland, Iceland, Mexico, New Zealand, Norway, Portugal, Spain, and Sweden)			high compliance costs on businesses. <ul style="list-style-type: none"> • Regressive nature of compliance costs confirmed. • Compliance costs appear to be increasing over time.

Source: Adapted from Evans (2003) and latest updated studies by author.

Appendix C: P.N.D. 51 and P.N.D. 50 Forms



Income Tax Return for Companies or Juristic Partnerships

under Section 67 Bis of the Revenue Code

P.N.D.51

Company or Juristic Partnership

Taxpayer Identification Number

Name

(Please clearly specify: Company Limited, Public Company Limited, Partnership Limited, etc.)

Office address: Building.....Room No.....Floor No.....

Village.....No.....Moo.....Soi/Lane.....

Road.....Sub-District.....

District.....Province.....

Post Code Tel.

Accounting Period

From: Date.....Month.....Year(B.E.).....

To: Date.....Month.....Year(B.E.).....

(1) Ordinary filing

(2) Additional filing: No. of.....time(s)

Juristic Person Registration No.

Tax Computation

- 1. General case
- 2. Tax rate reduction case (please specify)
 - (2.1) (2.2) (2.3) (2.4) (2.5) (2.6)
- 3. Tax exemption case
 - Total Partial

D.....
 U.....
 Date.....
 Receipt No.....
 Amount.....Baht
 (.....)

Tax Computation and Payment

- 1. One half of estimated net profits
- 2. Actual net profits of the first six months of accounting period

Item 1 Taxable income and tax computation

	Amount
1. One half of estimated <input type="checkbox"/> (1) taxable net profits <input type="checkbox"/> (2) net losses (from item 2 1. (7))	
2. <input type="checkbox"/> (1) taxable actual net profits <input type="checkbox"/> (2) net losses (from item 2 2. (4))	
3. Computed tax	
4. Less (1) withholding income tax and tax paid by other person	
(2) tax granted rate reduction of 50% from normal rate	
(3) tax paid under P.N.D.51 form (for additional filing)	
	---->Total
5. Remaining income tax <input type="checkbox"/> to be paid <input type="checkbox"/> paid in excess	
6. Plus surcharge (if any)	
7. Total income tax <input type="checkbox"/> to be paid <input type="checkbox"/> paid in excess	

For a company or juristic partnership that meets criteria, procedures and conditions prescribed by the Director General of the Revenue Department and pays tax based on **actual net profits**,.....(pages) of **financial statement** (which were reviewed and certified by a tax auditor authorised by the Director General of the Revenue Department, for the first six months of the accounting period) and **tax auditor's certification statement** are attached herewith.

Certification Statement of Director, Partner, or Manager

I wish to hereby certify that the particulars within this P.N.D.51 tax return are correct, complete and true in all respects, and agree to be bound by the such particulars.

Filing Date: Date.....Month.....Year(B.E.).....

Taxpayer Identification Number (of tax auditor) <input type="text"/>	Name of Tax Auditor	Registration No. <input type="text"/>	Taxpayer Identification Number (of tax audit office) <input type="text"/>
Report Date of Tax Auditor: Date.....Month.....Year(B.E.).....			

Taxpayer Identification Number (of accounting personnel) <input type="text"/>	Name of Accounting Personnel	Code No. <input type="text"/>	Taxpayer Identification Number (of accounting office) <input type="text"/>
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Warning: Please declare items in the tax form truthfully and completely. Declaring false information for tax evasion purpose is considered to commit offence and must face punishment under the Revenue Code.

Item 2	Tax base computation	Amount
1. For tax payment from one half of estimated net profits under Section 67 Bis (1) of the Revenue Code		
(1)	Estimated gross receipts or gross sales, before deduction of expenses, of current accounting period	<input type="text"/>
(2)	Less estimated expenses of current accounting period	<input type="text"/>
(3)	Remaining estimated <input type="checkbox"/> net profits <input type="checkbox"/> net losses	<input type="text"/>
(4)	Less net losses carried over within 5 years before current accounting period	<input type="text"/>
(5)	Less estimated net profits granted exemption under the Investment Promotion Act	<input type="text"/>
(6)	Estimated <input type="checkbox"/> net profits that must calculate tax <input type="checkbox"/> net losses	<input type="text"/>
(7)	One half of estimated <input type="checkbox"/> taxable net profits <input type="checkbox"/> net losses	<input type="text"/>
2. For tax payment from actual net profits of the first six months of accounting period under Section 67 Bis (2) of the Revenue Code		
(1)	<input type="checkbox"/> Net profits <input type="checkbox"/> Net losses of the first six months of accounting period	<input type="text"/>
(2)	Less net losses carried over within 5 years before current accounting period	<input type="text"/>
(3)	Less net profits granted exemption under the Investment Promotion Act	<input type="text"/>
(4)	<input type="checkbox"/> Taxable actual net profits <input type="checkbox"/> Net losses	<input type="text"/>



Income Tax Return for Companies or Juristic Partnerships
under Section 68 and Section 69 of the Revenue Code

P.N.D.50

Company or Juristic Partnership

Taxpayer Identification Number -----

Name.....
(Please clearly specify: Company Limited, Public Company Limited, Partnership Limited, etc.)

Office address: Building.....Room No.....Floor No.....
Village.....No.....Moo.....Soi/Lane.....
Road.....Sub-District.....
District.....Province.....
Post Code ----- Tel.

Accounting Period

From: Date.....Month.....Year(B.E.).....
To: Date.....Month.....Year(B.E.).....

(1) Ordinary filing (3) Advanced filing
 (2) Additional filing: No. of.....time(s)

Juristic Person Registration No.

Status of Companies or Juristic Partnerships

(1) Companies or partnerships established under **Thai law** that are not companies or partnerships under (2) or (3)

(2) Companies **listed** with the **Securities Exchange of Thailand**

(3) Companies **listed** with the **New Securities Exchange of Thailand**

(4) Companies or partnerships established under **foreign law** and **carrying on business in Thailand**

(5) Other juristic persons established under **foreign law**

(6) Business of foreign governments or organisations of foreign governments

(7) Joint ventures

(8) International banking facilities

(9) Business that is exempted from income tax on international sea transport of goods

(10) Regional operating headquarters

D.....
U.....
Date.....
Receipt No.....
Amount.....Baht
(.....)

Additional Tax Payment

Amount.....Baht

Operation of Business

(Please state type of business in order of importance on the basis of sales or revenue derived from the operation of business.)

1.
For officials ISIC CODE

2.
For officials ISIC CODE

3.
For officials ISIC CODE

Excess Tax Payment

Amount.....Baht

**Certification Statement of Director,
Partner, or Manager**

Request for tax refund

I wish to request refund for excess tax payment.
 I do not wish to request refund for excess tax payment.
.....
.....

Filing Date: Date.....Month.....Year(B.E.).....

I have examined the particulars in P.N.D.50 form, balance sheets, operating account and profit and loss account as attached herewith. I hereby certify that they are correct, complete and true and are supported by complete and correct accounting documents. I have not omitted any other businesses undertaken. In addition, I have given explanation as well as accounting and tax information truthfully and completely to the appointed tax auditors who certified all of the aforementioned documents and information

conditionally.
 unconditionally.

.....
.....
Filing Date: Date.....Month.....Year(B.E.).....

Taxpayer Identification Number (of tax auditor) <input type="text"/> - <input type="text"/>	Name of Tax Auditor	Registration No. <input type="text"/>	Taxpayer Identification Number (of tax audit office) <input type="text"/> - <input type="text"/>
Report Date of Tax Auditor: Date.....Month.....Year(B.E.).....			

Taxpayer Identification Number (of accounting personnel) <input type="text"/> - <input type="text"/>	Name of Accounting Personnel	Code No. <input type="text"/>	Taxpayer Identification Number (of accounting office) <input type="text"/> - <input type="text"/>
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Warning: Please declare items in the tax form truthfully and completely. Declaring false information for tax evasion purpose is considered to commit offence and must face punishment under the Revenue Code.

Please fill in every item as appeared in this P.N.D.50 form and do not edit or add further items.

Item 1 Privileges under investment promotion schemes (If there is more than 1 investment promotion certificates, please provide details.)

1. According to Investment Promotion Certificate No.....Date.....Month.....Year(B.E.).....
 2. Business granted privileges under investment promotion schemes.....

For officials
 ISIC code

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	For (years)	From: Date/Month/Year	To: Date/Month/Year
<input type="checkbox"/> (1) Granted reduction of income tax rate to 50% from normal rate			
<input type="checkbox"/> (2) Granted full income tax exemption			
<input type="checkbox"/> (3) Granted partial income tax reduction			
<input type="checkbox"/> (4) Others (specify).....			

Item 2 Taxable income and tax computation

Amount

1. (1) Taxable net profits (2) Net losses (from item 3 20.)
 (3) Gross receipts before deduction of expenses
(for those pay tax on the basis of gross receipts)

2. Tax computation (see explanation on application of tax rate in tax computation below)
 (1) General case (2) With tax rate reduction
 (3) Where the Revenue Department approves to pay tax on the basis of gross receipts

Computed tax

3. Less (1) Income tax granted exemption under Royal Decree (No.18)
 (2) Income tax granted exemption under Royal Decree (No.300)
 (3) Withholding tax and tax paid by other persons
 (4) Tax paid under P.N.D.51
 (5) Tax granted tax rate reduction of 50% from normal rate
 (6) Tax paid under P.N.D.50 (for additional filing)

4. Tax Additional tax payable Excess tax payment

5. Plus Surcharge (if any)

6. Total Additional tax payable Excess tax payment

No.	Explanation on application of tax rate in tax computation	Amount of net profits	Tax rate (%)
(1)	General case	All	30
(2)	With tax rate reduction		
	(2.1) Companies that listed securities with the Securities Exchange of Thailand before 6 September 2001 (Please compute for 5 consecutive accounting periods commencing from the first accounting period that began on or after 6 September 2001.)	1 - 300,000,000 Baht Over 300,000,000 Baht	25 30
	(2.2) Companies that listed securities with the Securities Exchange of Thailand from 6 September 2001 onwards	All	25
	(2.3) Companies that listed securities with the Securities Exchange of Thailand in accordance with requirements of the Securities Exchange of Thailand on the listing of securities in the "new Securities Market" from 6 September 2001 onwards	All	20
	For (2.2) and (2.3), please compute for 5 consecutive accounting periods commencing from the first accounting period that began on or after the listing date from 6 September 2001 onwards. In addition, companies must comply with the criteria, procedures and conditions of Royal Decree (No.387)		
	(2.4) Companies or juristic partnerships with paid up capital not exceeding 5 million baht on the last day of accounting period for net profits incurred during the accounting period that began on or after 1 January 2002	1 - 1,000,000 Baht 1,000,001 - 3,000,000 Baht Over 3,000,000 Baht	20 25 30
	(2.5) Net profits of banks on the operation of international banking facilities	All	10
	(2.6) Business of Regional Operating Headquarters	All	10
(3)	Where the Revenue Department approves to pay tax on the basis of gross receipts, business must pay tax at the rate of 5% of gross receipts		

Item 3	Revenue, expenditures, and net profits or losses	1 Business granted income tax exemption	2 Business liable for income tax	3 Total
	1. Revenue connected directly with the operation of business			
	2. Less cost of sales or expenses for computation of gross profits <i>(From item 4 9.)</i>			
	3. <input type="checkbox"/> Gross profits <input type="checkbox"/> Gross losses			
	4. Other incomes <i>(From item 6 7.)</i>			
	5. Total (3. + 4.) If gross losses (4. - 3.)			
	6. Less other expenses <i>(From item 7 5.)</i>			
	7. Total (5. - 6.) If gross losses (5. + 6.)			
	8. Less selling and administrative expenses <i>(From item 8 21.)</i>			
	9. <input type="checkbox"/> Net profits <input type="checkbox"/> Net losses according to profit and loss account			
	10. Plus revenues treated as revenues under the Revenue Code			
	11. Plus expenses not treated as expenses under the Revenue Code <i>(From item 9 6.)</i>			
	12. Total (9.+10.+11.) If loss (10.+11.-9.)			
	13. Less revenues granted income tax exemption or expenses that are deductible at a greater amount <i>(From item 10 5.)</i>			
	14. Total (12.-13.) If losses (12.+13.)			
	15. Less net losses deductible by law <i>(From item 11)</i>			
	16. Total (14.-15.) If losses (14.+15.)			
	17. Plus contributions to public charities on the part that exceeds 2% of taxable net profits			
	18. Plus expenses for education or sports on the part that exceeds 2% of taxable net profits			
	19. Total (16.+17.+18.) If loss (16.-17.-18.)			
	20. <input type="checkbox"/> Taxable net profits <input type="checkbox"/> Net losses			

Item 4	Costs of sales or expenses for computation of gross profits	1 Business granted income tax exemption	2 Business liable for income tax	3 Total
	1. Remaining goods at the beginning of accounting period			
	2. Purchase of goods			
	3. Manufacturing costs <i>(From item 5 17.)</i>			
	4. Goodwill, copyright or other royalties			
	5. Other expenses in purchase of goods			
	6. Total 3. to 5.			
	7. Total (1.+2.+6.)			
	8. Less remaining goods at the end of accounting period			
	9. Cost of sales or expenses for computation of gross profits (7. - 8.)			

For companies that are granted investment promotion, fill in 1, 2 and 3, for general cases fill 3 only

Item 5	Manufacturing Costs	1 Business granted income tax exemption	2 Business liable for income tax	3 Total
	1. Raw materials and remaining stocks at the beginning of accounting period			
	2. Purchase of raw materials and stocks			
	3. Other expenses for the purchase of raw materials and stocks			
	4. Total 1. to 3.			
	5. Less raw materials and remaining stocks at the end of accounting period			
	6. Cost of used raw materials and stocks (4. - 5.)			
	7. Remaining work or goods in process at the beginning of accounting period			
	8. Salaries and labor expenses			
	9. Goodwill, copyrights and other royalties			
	10. Fuel or energy expenses			
	11. Container and packaging expenses			
	12. Wear and tear and depreciation expenses			
	13. Other manufacturing expenses			
	14. Total 8. to 13.			
	15. Total (6.+7.+14.)			
	16. Less remaining work or goods in process at the end of accounting period			
	17. Manufacturing costs (15. - 16.)			

Item 6	Other Incomes	1 Business granted income tax exemption	2 Business liable for income tax	3 Total
	1. Profits from alienation of property			
	2. Profits from currency exchange rate			
	3. Interest received			
	4. Dividends or shares of profits			
	5. Tax reimbursement			
	6. Revenue other than 1. to 5.			
	7. Total 1. to 6.			

Item 7	Other Expenses	1 Business granted income tax exemption	2 Business liable for income tax	3 Total
	1. Losses from alienation of properties			
	2. Losses from currency exchange rate			
	3. Interest paid			
	4. Expenses other than 1. to 3.			
	5. Total 1. to 4.			

Item 8	Selling and administrative expenses	1 Business granted income tax exemption	2 Business liable for income tax	3 Total
	1. Personnel expenses			
	2. Directors' fees			
	3. Electricity, water, and telephone expenses			
	4. Fare and travelling and accommodation expenses			
	5. Freight, and transportation expenses			
	6. Rent			
	7. Repair expenses			
	8. Entertainment expenses			
	9. Commission, advertisement and sales promotion expenses			
	10. Specific business tax (local tax inclusive)			
	11. Other taxes			
	12. Interest paid			
	13. Audit fees			
	14. Contributions to public charities			
	15. Expenditures for education or sports			
	16. Consultancy service fees			
	17. Other fees			
	18. Bad debts			
	19. Wear and tear and depreciation of assets			
	20. Expenses other than 1. to 19.			
	21. Total 1. to 20.			

Item 9	Expenses not treated as expenses under the Revenue Code	1 Business granted income tax exemption	2 Business liable for income tax	3 Total
	1. Corporate income tax			
	2. Entertainment expenses			
	3. Bad debts			
	4. Reserves			
	5. Expenses not treated as other expenses			
	6. Total 1. to 5.			

Item 10	Revenues that are granted income tax exemption or expenses that are deductible at a greater amount	1 Business granted income tax exemption	2 Business liable for income tax	3 Total
	1. Revenues granted income tax deduction or exemption			
	2. Expenses that are deductible at a greater amount from actual expenses			
	2.1 Increased by 50%			
	2.2 Increased by 100%			
	3. Total (2.1 + 2.2)			
	4. Other adjustments			
	5. Total 1.+3.+4.			

Declaration Statement of Director or Partner or Manager

Name (company or juristic partnership).....

For accounting period starting from Date.....Month.....Year.....to Date.....Month.....Year.....

I wish to declare the operation of the company or juristic partnership as follows:

1. Sale of goods, services, or properties, provision of loans, or rental of properties without consideration or with consideration that is substantially lower than the market price.

- Yes, we have because.....
- No, we do not have.

2. Purchase of properties including expenses connected to the purchase, and service charge at a price that is substantially more than realistic situation.

- Yes, we have because.....
- No, we do not have.

3. Establishment of debtors or creditors that are invisible, or visible but the number is substantially more than realistic situation.

- Yes, we have because.....
- No, we do not have.

4. Business with net losses for more than 3 consecutive accounting periods, that is expanding.

- Yes, we have because.....
- No, we do not have.

5. Have you proceeded and completed the withholding tax and remittance process for the business?

- Yes, we have.
- No, we have not because.....

I hereby certify that the particulars given above are correct and complete in all respects. And tax auditors have examined the particulars given above in the declaration statement of director, partner or manager and have the following opinions:

1. they are true. In addition, further opinion is provided as follows:

2. Other cases.....

.....
Date.....Month.....Year(B.E.).....

Warning

1. Tax auditors must comply with the Notification of the Director General of the Revenue Department on the audit and certification of accounts with respect to the regulations relating to the establishment of regulations on the audit and certification of accounts under section 3 septem of the Revenue Code. Otherwise, they are considered to commit offence and must face punishment under the Revenue Code.
2. Accountants must produce correct accounts in accordance with the Accounting Royal Act B.E. 2543. If they violate the provisions, they are considered to commit offence and must face both commercial and/or criminal punishment under the Accounting Royal Act B.E. 2543.

Appendix D: Ethics Approval

memorandum



To	Papapom Chunhachatrachai
From	<i>Dr Tom Cronje</i>
Subject	Protocol Approval : E&F/005/2010
Date	14 February 2013
Copy	A/Prof Thorsten Stromback

Office of Research and Development

Human Research Ethics Committee

TELEPHONE 9266 2784
FACSIMILE 9266 3793
EMAIL hrec@curtin.edu.au

Thank you for your "Form C Application for Approval of Research with Minimal Risk (Ethical Requirements)" for the project titled "INCOME TAX COMPLIANCE COSTS OF SMALL AND MEDIUM ENTERPRISES IN THAILAND". On behalf of the Human Research Ethics Committee I am authorised to inform you that the project is approved.

Approval of this project is for a period of twelve months 01/11/2010 to 01/11/2011.

If at any time during the twelve months changes/amendments occur, or if a serious or unexpected adverse event occurs, please advise me immediately. The approval number for your project is **E&F/005/2010**. *Please quote this number in any future correspondence.*

Dr Tom Cronje

Please Note: The following standard statement must be included in the information sheet to participants: *This study has been approved by the Curtin University Human Research Ethics Committee. If needed, verification of approval can be obtained either by writing to the Curtin University Human Research Ethics Committee, c/- Office of Research and Development, Curtin University of Technology, GPO Box U1987, Perth, 6845 or by telephoning 9266 2784.*

**Appendix E: Survey Questionnaire (English
Version/Thai Version)**

Dear Participant,

INCOME TAX COMPLIANCE COSTS OF SMALL AND MEDIUM ENTERPRISES IN THAILAND

While income tax compliance costs of small and medium enterprises (SMEs) in Thailand are neglected, these costs are important for policy-making. The costs ought to be measured and recognised by government, yet at present nobody knows their magnitude.

I am currently a doctoral candidate at the Curtin Business School within Curtin University in Perth, Australia. My survey **Income Tax Compliance Costs of Small and Medium Enterprises in Thailand** will be used to estimate the income tax compliance costs of SMEs in Thailand evaluate the impact of SME compliance on the SME taxation and propose policy recommendations for the taxation of SMEs.

I request your kind assistance to complete the anonymous questionnaire attached. This questionnaire is best completed by a person/staff that is in an area involving tax accounting or accounting within the company. Your valuable information will help in estimating how much money and time are actually spent by your business in fulfilling your income tax obligations. The findings from the survey provide the empirical evidence of the burden of income tax on SMEs in Thailand. The survey has been approved by Curtin University's Ethics Committee (Form C – The Approval No: E&F/005/2010).

The questionnaire is related to the income tax year 2010. It is expected to take only about 15-20 minutes to complete. Please be assured that all information obtained will be treated with strict confidence and used solely for the purpose of this study. Name, address and other personal/organisational details will not be identified, or divulged to any third party. If the survey is not applicable to your business please be kind enough to forward it to another known business in which this survey is relevant.

If you would like to discuss the questionnaire or need any help in completing particular questions, please do not hesitate to contact me by phoning (Thailand) 083 123 3737 or (Australia) +61(0)451 953 737 or by e-mailing me at p.chunhachatrachai@postgrad.curtin.edu.au

Thank you so much for your kind cooperation and assistance.

Your faithfully

Papaporn Chunhachatrachai

Doctoral candidate,

Curtin Business School, Curtin University.

Supervisor

Professor Jeff Pope

Curtin Business School, Curtin University.

CORPORATE INCOME TAX 2010

A survey of income tax compliance costs of Small and Medium Enterprises in Thailand

All responses will be kept strictly confidential
Please tick one box; or fill in the appropriate details as requested.
SECTION A: GENERAL INFORMATION

1. Please indicate the legal structure of your company:

- Partnership 1
 Limited Company 2
 Others, please state 3

If your company has any related business or other entities such as group companies or partnerships, please note that this questionnaire is only concerned with the income tax compliance costs of the companies at which it was addressed. Please DO NOT include information about related or other business entities when completing the questionnaire.

2. In which area of Thailand is your company's head office located?

- North 1
 Bangkok and its surrounding areas 2
 Central 3
 South 4
 East 5
 Northeast 6

3. How long has your company been trading?

- Less than 2 years 1
 2 to 5 years 2
 More than 5 years 3

4. What is your current position within the company?

- Chief Executive Officer 1
 Managing Director 2
 Manager/Accountant 3
 Account clerk 4
 Other, please state 5

5. On which date did the accounting period for 2010 start at your company?

 dd mm

6. On which date did the accounting period for 2010 end at your company?

 dd mm

7. Please indicate the main business activity of your company in 2010.

(a) If your company is **Small Enterprise** (according to the definition of SMEs by Ministry of Industry), please fill in this question. If not, please go to part 'B'.

Type	Small Enterprise		Please select one
	Employees	Fixed Assets (million baht)	
Production	Not more than 50	Not more than 50	<input type="checkbox"/> 1
Service	Not more than 50	Not more than 50	<input type="checkbox"/> 2
Wholesale	Not more than 25	Not more than 50	<input type="checkbox"/> 3
Retail	Not more than 15	Not more than 30	<input type="checkbox"/> 4

(b) If your company is **Medium Enterprise** (according to the definition of SMEs by Ministry of Industry), please fill in this question.

Type	Medium Enterprise		Please select one
	Employees	Fixed Assets (million baht)	
Production	51-200	51-200	<input type="checkbox"/> 1
Service	51-200	51-200	<input type="checkbox"/> 2
Wholesale	26-50	51-100	<input type="checkbox"/> 3
Retail	16-30	31-60	<input type="checkbox"/> 4

8. (a) On which date was filing the 'P.N.D. 51' form for 2010?

dd mm

(b) According to 'P.N.D. 51', the taxable income of your company was:

Taxable net profit ₁ Net losses ₂

9. (a) On which date was filing the 'P.N.D. 50' form for 2010?

dd mm

(b) According to 'P.N.D. 50', the taxable income of your company was:

Taxable net profit ₁ Net losses ₂

If the taxable income of your company was net loss, please go to Section B.

10. Which net profit amount of corporate income tax did you pay in 2010?

Explanation on application of tax rate in tax computation	Amount of net profits (Baht)	Please select one
Companies or juristic partnerships with paid up capital not exceeding 5 million baht on the last day of accounting period for net profits incurred during the accounting period that began on or after 1 January 2008	0 - 150,000	<input type="checkbox"/> ₁
	Over 150,000-1,000,000	<input type="checkbox"/> ₂
	Over 1,000,000-3,000,000	<input type="checkbox"/> ₃
	Over 3,000,000	<input type="checkbox"/> ₄
Companies that listed securities with the Securities Exchange of Thailand accordance with requirements of the Securities Exchange of Thailand on the listed of securities in the "MAI Securities Market"	Net Profit for first 20 million baht	<input type="checkbox"/> ₅
General case	All (30%)	<input type="checkbox"/> ₆

SECTION B: TAX COMPLIANCE COSTS

11. What type of filing system did your company use to prepare the taxable income in 2010?

Self-filing taxes (Paper based) ₁
 e-filing (Internet) ₂
 Other, please state ₃

INTERNAL COSTS

12. If your company prepares tax filing internally, please ESTIMATE the time spent and monthly wage rates by these people working exclusively on corporate income tax activities (exclude usual book keeping and overhead costs) within the company in 2010. (Please write '0' amount if you do not incur these costs at your company.)

	Total Hours (per month)	Average Wage Rate (baht/month)
Manager/Accountant	<input type="text"/>	<input type="text"/>
Account clerk	<input type="text"/>	<input type="text"/>
Administration staff	<input type="text"/>	<input type="text"/>
Other staff	<input type="text"/>	<input type="text"/>

13. Did your company incur any other additional non-staff costs in meeting corporate income tax requirements in 2010? Please PROVIDE or ESTIMATE the amount spent on. (Please write '0' amount if you do not incur these costs at your company.)

(baht/month)

Stationery

Postage

Travelling

Software

Computer

Other, please state

14. Of all the time spent and costs incurred internally in complying with corporate income tax laws for 2010, state approximately what percentage was related to the following: (Please write '0' amount if you do not incur these costs at your company.)

Approximate Breakdown	
Routine Corporate Income Tax return work (for annual return)	<input type="text"/> %
Corporate Income Tax planning work (longer term)	<input type="text"/> %
Other, please state	<input type="text"/> %
<input type="text"/>	
Total	100 %

EXTERNAL COSTS

15. If your company employs external tax professionals to handle corporate income tax in 2010, please PROVIDE or ESTIMATE the amount spent on to external professionals for corporate income tax in 2010. (Please write '0' amount if you do not incur these costs at your company.)

	(baht/year)
Tax Accountant	<input type="text"/>
Tax Auditor	<input type="text"/>
Auditor	<input type="text"/>
Lawyer	<input type="text"/>
Other, please state	<input type="text"/>
<input type="text"/>	

16. If your company claim costs from the government for the time and money spent (both internally and externally) by the company in dealing with corporate income tax in 2010, how much do you think is fair compensation? (Please identify '0' amount if you do not have these costs incur at your company.)

Internal Cost	<input type="text"/>	Baht
External Cost	<input type="text"/>	Baht

SECTION C: OPINIONS

17. The main reason your company employs external tax professionals was: (Please tick more than one box if appropriate)

Technical knowledge is not readily available internally	<input type="checkbox"/>	1
Corporate Income tax matters are complicated	<input type="checkbox"/>	2
External opinion is required	<input type="checkbox"/>	3
It is more cost-effective to use external tax professionals	<input type="checkbox"/>	4
For corporate income tax planning	<input type="checkbox"/>	5
Other, please state	<input type="checkbox"/>	6
<input type="text"/>		

18. Compared with other businesses in your industry, the estimated level of income tax compliance burden to your business is:

Very High		Neutral/don't know		Very Low
<input type="checkbox"/>	1	<input type="checkbox"/>	2	<input type="checkbox"/>
<input type="checkbox"/>	3	<input type="checkbox"/>	4	<input type="checkbox"/>
<input type="checkbox"/>	5			

19. Which of the following areas does your business find difficult? (Please tick more than one box if appropriate)

Estimating income tax payable	<input type="checkbox"/>	1
Understanding corporate income tax legislation	<input type="checkbox"/>	2
Implementing the income tax changes	<input type="checkbox"/>	3
Maintaining records for income tax purpose	<input type="checkbox"/>	4
Increasing burden of record keeping for tax purpose	<input type="checkbox"/>	5
The short period of time given to lodge tax return	<input type="checkbox"/>	6
Dealing with the tax authority	<input type="checkbox"/>	7
Dealing with external tax professionals (Such as tax accountants, tax auditors)	<input type="checkbox"/>	8
Other, please state	<input type="checkbox"/>	9
<input type="text"/>		

20. Please state if you have any other comments and/or suggestions regarding taxation on small and medium-sized enterprises.

If you are willing to answer any further questions that may arise from this questionnaire, or participate further, or if you would like to know the key finding of this research, please provide contact details. Your response will be treated with strict confidence and solely for the purpose of this study.

Contact person	<input type="text"/>
Business name	<input type="text"/>
Address	<input type="text"/>
Telephone	<input type="text"/>
E-mail address	<input type="text"/>

Thank you very much for taking your time to complete this questionnaire. Your time is very much appreciated.

Papaporn Chunchatrachai
Doctoral Candidate
School of Economics and Finance
Curtin University, Australia
P.Chunchatrachai@postgrad.curtin.edu.au



เรียน ท่านเจ้าของกิจการธุรกิจขนาดกลางและขนาดย่อม

เรื่อง งานวิจัยค่าใช้จ่ายของการดำเนินการเพื่อชำระภาษีเงินได้นิติบุคคลของธุรกิจขนาดกลางและขนาดย่อมในประเทศไทย

ด้วยการระดมทุนทางภาษีของธุรกิจขนาดกลางและขนาดย่อมในประเทศไทยเป็นเรื่องที่ยังถูกละเลยในเชิงนโยบายจากภาครัฐ ซึ่งต้นทุนดังกล่าวควรมีการนำมาคำนวณและคำนึงถึงในการจัดทำนโยบาย แต่ในปัจจุบันยังไม่มีกรวิจัยหรือคำนวณต้นทุนดังกล่าวในประเทศไทย

ผู้วิจัยอยู่ระหว่างการศึกษาระดับปริญญาเอก ณ Curtin University เมืองเพิร์ธ ประเทศออสเตรเลีย และแบบสอบถามเรื่อง ค่าใช้จ่ายของการดำเนินการเพื่อชำระภาษีเงินได้นิติบุคคลของกิจการขนาดกลางและขนาดย่อมในประเทศไทยนี้ จะนำมาซึ่งการคำนวณค่าใช้จ่ายดังกล่าว อีกทั้งจะวิเคราะห์ผลกระทบของค่าใช้จ่ายดังกล่าวต่อธุรกิจขนาดกลางและขนาดย่อมเพื่อสะท้อนให้ภาครัฐ ได้สังเกตเห็นถึงความสำคัญและการค่าใช้จ่ายของการดำเนินการเพื่อชำระภาษีเงินได้นิติบุคคลของธุรกิจขนาดกลางและขนาดย่อมในปัจจุบัน

ผู้วิจัยขอความอนุเคราะห์จากท่านเพื่อกรอกแบบสอบถาม โดยโปรดพิจารณามอบหมายให้บุคคลซึ่งเกี่ยวข้องกับ การทำบัญชีภาษีของกิจการท่านในการกรอกแบบสอบถามดังกล่าว ซึ่งข้อมูลอันมีค่าของท่าน อาทิ การประเมินจำนวนเงิน และเวลา รวมถึงปัจจัยอื่นๆ ในการก่อให้เกิดค่าใช้จ่ายของการดำเนินการเพื่อชำระภาษีเงินได้นิติบุคคลของธุรกิจขนาดกลางและขนาดย่อม จะเป็นประโยชน์ต่องานวิจัย เรื่องนี้อย่างยิ่ง โดยจะให้ทราบถึงจำนวนเงินที่ธุรกิจขนาดกลางและขนาดย่อมในประเทศไทยต้องจ่ายไปในการดำเนินการเพื่อชำระภาษีเงินได้นิติบุคคล ทั้งนี้การวิจัยครั้งนี้ได้ผ่านการรับรองด้านจริยธรรม (Ethic Form C - The Approval No: E&F/005/2010) จากทาง Curtin University

แบบสอบถามนี้เกี่ยวกับภาษีเงินได้นิติบุคคล ปี 2553 โดยท่านสามารถใช้เวลาในการตอบแบบสอบถามประมาณ 15-20 นาที และขอรับรองว่าข้อมูลของท่านจะถูกเก็บรักษาในชั้นความลับและจะนำมาใช้ในการศึกษานี้เท่านั้น ชื่อและที่อยู่ของท่านจะไม่ถูกเปิดเผยต่อบุคคลภายนอก หากความต้องการตามแบบสอบถามนี้ไม่ตรงกับคุณสมบัติของกิจการท่าน โปรดพิจารณาส่งต่อแบบสอบถามไปยังกิจการอื่นที่ท่านรู้จัก และมีคุณสมบัติตามแบบสอบถามนี้

ในการตอบแบบสอบถาม หากท่านมีข้อเสนอแนะหรือข้อสงสัยเพิ่มเติมประการใด กรุณาติดต่อผู้วิจัยทางโทรศัพท์ (ประเทศไทย) 083-123-3737 หรือ (ประเทศออสเตรเลีย) +61 (0) 451 953 737 หรือ อีเมล p.chunhachatrachai@postgrad.curtin.edu.au

ขอขอบพระคุณ ในการสละเวลาอันมีค่าของท่าน

ขอแสดงความนับถือ

ปภาภรณ์ ชูณหัชชาชัย

Doctoral candidate

Curtin Business School, Curtin University

Supervisor

Professor Jeff Pope

Curtin Business School, Curtin University

เรื่อง ค่าใช้จ่ายของการดำเนินการเพื่อชำระภาษีเงินได้นิติบุคคลของธุรกิจขนาดกลางและขนาดย่อมในประเทศไทย
 (งานวิจัยดุษฎีบัณฑิตกิตติมศักดิ์ของประเทศไทยในการคำนวณค่าใช้จ่ายของผู้เสียภาษีอากร เพื่อสะท้อนให้ภาครัฐเห็นถึงความสำคัญของภาระผู้เสียภาษี)
 ชื่อและที่อยู่ของท่านจะไม่ถูกเปิดเผยต่อบุคคลภายนอก ข้อมูลของท่านจะถูกเก็บรักษาในชั้นความลับ (Ethic Form C - Curtin University)

โปรดทำเครื่องหมาย / หรือเติมคำตอบ ในคำถามแต่ละข้อ
ส่วนที่ 1 : คำถามทั่วไป
1. กิจการของท่านจดทะเบียนธุรกิจในรูปแบบใด

- ห้างหุ้นส่วนจำกัด 1
 บริษัทจำกัด 2
 อื่นๆ, โปรดระบุ 3

หากกิจการของท่านมีธุรกิจอื่นๆที่เกี่ยวข้อง เช่น บริษัทในเครือ
 แบบสอบถามนี้จะเกี่ยวข้องกับค่าใช้จ่ายของการดำเนินการเพื่อยื่น
 ชำระภาษีเงินได้นิติบุคคลของกิจการที่ได้รับบัญชี ที่อยู่
 แบบสอบถามนี้เท่านั้น โปรดอย่ากรอกข้อมูลของกิจการอื่นๆ
 ที่เกี่ยวข้อง ในแบบสอบถามนี้

2. สถานที่ตั้งของกิจการของท่านตั้งอยู่ในภาคใด

- ภาคเหนือ 1
 กรุงเทพฯและปริมณฑล 2
 ภาคกลาง 3
 ภาคใต้ 4
 ภาคตะวันออก 5
 ภาคตะวันออกเฉียงเหนือ 6

3. กิจการดำเนินการมาเป็นระยะเวลาเท่าใด

- น้อยกว่า 2 ปี 1
 2-5 ปี 2
 มากกว่า 5 ปี 3

4. ตำแหน่งของท่านในกิจการ คือ

- ประธานเจ้าหน้าที่บริหาร 1
 กรรมการผู้จัดการ 2
 ผู้จัดการ/หัวหน้าแผนกบัญชี 3
 พนักงานบัญชี 4
 อื่นๆ โปรดระบุ 5

5. วันเริ่มต้นของรอบระยะเวลาบัญชีปี 2553 ของกิจการท่าน คือ

วันที่ เดือน

6. วันสิ้นสุดของรอบระยะเวลาบัญชีปี 2553 ของกิจการท่าน คือ

วันที่ เดือน

**7. โปรดพิจารณาว่ากิจการของท่านจัดอยู่ใน ประเภทธุรกิจขนาด
 เล็กหรือขนาดกลาง ตามคำนิยามของกระทรวงอุตสาหกรรม
 แล้วเลือกทำข้อ ก หรือ ข ข้อใดข้อหนึ่งเท่านั้น**

ก. หากกิจการของท่านจัดอยู่ในประเภทธุรกิจขนาดเล็ก กิจการของ
 ท่านอยู่ในประเภทธุรกิจใด มีจำนวนคนงานเท่าไร และจำนวน
 สินทรัพย์ถาวรเท่าไร ในรอบระยะเวลาบัญชีปี 2553

ประเภทธุรกิจ	ธุรกิจขนาดเล็ก		โปรด เลือก 1 ข้อ
	คนงาน	สินทรัพย์ถาวร (ล้านบาท)	
การผลิต	ไม่เกิน 50 คน	ไม่เกิน 50 ล้านบาท	<input type="checkbox"/>
บริการ	ไม่เกิน 50 คน	ไม่เกิน 50 ล้านบาท	<input type="checkbox"/>
ธุรกิจขนส่ง	ไม่เกิน 25 คน	ไม่เกิน 50 ล้านบาท	<input type="checkbox"/>
ธุรกิจขายปลีก	ไม่เกิน 15 คน	ไม่เกิน 30 ล้านบาท	<input type="checkbox"/>

ข. หากกิจการของท่านจัดอยู่ในประเภทธุรกิจขนาดกลาง กิจการของ
 ท่านอยู่ในประเภทธุรกิจใด มีจำนวนคนงานเท่าไร และจำนวน
 สินทรัพย์ถาวรเท่าไร ในรอบระยะเวลาบัญชีปี 2553

ประเภทธุรกิจ	ธุรกิจขนาดกลาง		โปรด เลือก 1 ข้อ
	คนงาน	สินทรัพย์ถาวร (ล้านบาท)	
การผลิต	51-200 คน	51-200 ล้านบาท	<input type="checkbox"/>
บริการ	51-200 คน	51-200 ล้านบาท	<input type="checkbox"/>
ธุรกิจขนส่ง	26-50 คน	51-100 ล้านบาท	<input type="checkbox"/>
ธุรกิจขายปลีก	16-30 คน	31-60 ล้านบาท	<input type="checkbox"/>

8. (ก) รอบระยะเวลาบัญชีปี 2553 กิจการของท่านอื่น
แบบ ก.จ.ด . 51 เมื่อใด
วันที่ เดือน
- (ข) การยื่นแบบ ก.จ.ด. 51 กิจการของท่านมีกำไรสุทธิหรือ
ขาดทุนสุทธิ
กำไรสุทธิที่ต้องเสียภาษี ขาดทุนสุทธิ

9. (ก) รอบระยะเวลาบัญชีปี 2553 กิจการของท่านอื่น
แบบ ก.จ.ด . 50 เมื่อใด
วันที่ เดือน
- (ข) การยื่นแบบ ก.จ.ด. 50 กิจการของท่านมีกำไรสุทธิหรือ
ขาดทุนสุทธิ
กำไรสุทธิที่ต้องเสียภาษี ขาดทุนสุทธิ
- หากกิจการของท่านยื่นขาดทุนสุทธิ โปรดชี้แจงไปตอนเป็น ส่วนที่ 2

10. กำไรสุทธิที่ต้องเสียภาษีเงินได้มีบุคคล สำหรับรอบ
ระยะเวลาบัญชีปี 2553 ของกิจการท่าน จัดอยู่ในข้อใด

คำอธิบายการใช้ตราในการ คำนวณภาษี	กำไรสุทธิ (บาท)	โปรดเลือก 1 ข้อ
บริษัทหรือห้างหุ้นส่วนนิติ บุคคลที่มีทุนที่ชำระแล้วใน วันสุดท้ายของรอบ ระยะเวลาบัญชีไม่เกิน 5 ล้านบาท สำหรับกำไรสุทธิ ที่เกิดขึ้นในรอบระยะเวลา บัญชีที่ เริ่มขึ้นหรือหลังวันที่ 1 มกราคม 2551 เป็นต้นไป	0-150,000	<input type="checkbox"/>
	เกิน 150,000 - 1,000,000	<input type="checkbox"/>
	เกิน 1,000,000 - 3,000,000	<input type="checkbox"/>
	เกิน 3,000,000 ขึ้นไป	<input type="checkbox"/>
บริษัทที่มีหลักทรัพย์มาจด ทะเบียนกับตลาดหลักทรัพย์ ตามข้อบังคับตลาด หลักทรัพย์แห่งประเทศไทย ว่าด้วย การรับหลักทรัพย์ จดทะเบียนใน "ตลาดหลักทรัพย์เอ็มเอไอ"	0 - 20,000,000 บาท (20%)	<input type="checkbox"/>
กรณีทั่วไป	ทั้งจำนวน (30%)	<input type="checkbox"/>

ส่วนที่ 2: ต้นทุนในการชำระภาษี

11. กิจการของท่านยื่นชำระภาษีเงินได้มีบุคคลสำหรับรอบ
ระยะเวลาบัญชีปี 2553 ด้วยวิธีใด
ยื่นแบบฟอร์มกระดาษด้วยตนเอง 1
e-filing (internet) 2
อื่นๆ โปรดระบุ 3

12. หากกิจการของท่านดำเนินการยื่นแบบชำระภาษีด้วยตนเอง
โปรดประมาณการจำนวนเวลา และต้นทุนของค่าใช้จ่ายภายใน
กิจการเพื่อปฏิบัติตามกฎระเบียบเพื่อยื่นแบบชำระภาษีเงินได้
มีบุคคล (ไม่นับรวมการบันทึกบัญชีปกติและค่าใช้จ่ายต่างๆ)
ในรอบระยะเวลาบัญชีปี 2553 (โปรดใส่จำนวนเลข "0" ใน
ช่องว่าง หากกิจการของท่านไม่มีค่าใช้จ่ายดังกล่าว)

	จำนวนชั่วโมง (ต่อเดือน)	เฉลี่ยอัตราค่าจ้าง (บาท/เดือน)
ผู้จัดการ/หัวหน้าแผนกบัญชี	<input type="text"/>	<input type="text"/>
พนักงานบัญชี	<input type="text"/>	<input type="text"/>
พนักงานธุรการ	<input type="text"/>	<input type="text"/>
พนักงานอื่นๆ	<input type="text"/>	<input type="text"/>

13. กิจการของท่านมีค่าใช้จ่ายอื่นที่ไม่ใช่เงินเดือน ค่าจ้างของ
พนักงาน ลูกจ้าง เช่น ค่าเครื่องเขียน อื่นๆ ในการปฏิบัติตาม
กฎระเบียบเพื่อยื่นชำระภาษีเงินได้มีบุคคล ในรอบระยะเวลา
บัญชี ปี 2553 หรือไม่ โปรดระบุ หรือประมาณการ ค่าใช้จ่าย
ดังกล่าว (โปรดใส่จำนวนเลข "0" ในช่องว่าง หากกิจการของ
ท่านไม่มีค่าใช้จ่ายดังกล่าว)

	(บาท/เดือน)
ค่าเครื่องเขียน	<input type="text"/>
ค่าจัดส่งเอกสาร/ไปรษณีย์	<input type="text"/>
ค่าเช่าพาหนะ	<input type="text"/>
ค่าโปรแกรมสำเร็จรูป	<input type="text"/>
ค่าคอมพิวเตอร์	<input type="text"/>
อื่นๆ โปรดระบุ	<input type="text"/>

20. โปรดระบุหากท่านมีข้อเสนอแนะ หรือข้อแนะนำเกี่ยวกับวิทยานิพนธ์ได้ของธุรกิจขนาดกลางและขนาดย่อม

หากท่านมีความประสงค์ที่ต้องการให้ข้อมูลเพิ่มเติม หลังจากการวิเคราะห์ข้อมูลจากแบบสอบถาม และทราบผลงานวิจัยครั้งนี้ โปรดระบุรายละเอียดเพื่อติดต่อกลับ ชื่อและที่อยู่ของท่านจะไม่ถูกเปิดเผยต่อบุคคลภายนอก ข้อมูลของท่านจะถูกเก็บรักษา ในชั้นความลับ (Ethic Form C - The Approval No: E&F/005/2010) ของ เพื่อนำมาใช้ในการศึกษานี้เท่านั้น

ชื่อผู้ติดต่อ

ชื่อกิจการ

ที่อยู่

โทรศัพท์

E-mail address

ขอขอบคุณทุกท่านที่กรุณาใช้เวลาอันมีค่าในการตอบแบบสอบถามนี้

ปภาภรณ์ ทุนหัชชาชัย

นักศึกษาปริญญาเอก

Curtin University

P.Chunhachatrachai@postgrad.curtin.edu.au



Appendix F: Postcard Reminder




ไปรษณียบัตร
POSTCARD



ไปรษณียบัตรที่ระลึกพระราชพิธีมหามงคลเฉลิมพระชนมพรรษา ๙๓ พรรษา ๙ มิถุนายน ๒๕๕๙

ชื่อและที่อยู่ผู้รับ/Addressee

ปภาภรณ์ ชูณพวีระชัย

1476-8 ถนนกรุงเกษม

ป้อมปราบฯ กทม. 10100

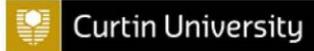
งานวิจัยปริญาเอก เรื่อง ค่าใช้จ่ายของการดำเนินการเพื่อชำระ
ภาษีเงินได้นิติบุคคลของธุรกิจขนาดกลางและขนาดย่อมในประเทศไทย
เรียน ท่านผู้จัดการฝ่ายบัญชี

หากท่านยังมีได้ตอบแบบสอบถามที่ได้ส่งมาก่อนหน้านี้
ขอความอนุเคราะห์โปรดตอบเพียงหนึ่งคำถามสั้นๆ ดังนี้
หากเปรียบเทียบธุรกิจของท่านกับธุรกิจอื่นในประเภทเดียวกัน ท่านคิดว่า
อุปสรรคทางภาษีของกิจการท่านอยู่ในระดับใด (โปรดทำเครื่องหมาย /)
สูงมาก ปานกลาง/ไม่ทราบ ต่ำมาก

1 2 3 4 5

ขอขอบคุณในการสละเวลาอันมีค่าของท่าน

Appendix G: Participant Information Sheet



PARTICIPANT INFORMATION SHEET

INCOME TAX COMPLIANCE COSTS OF SMALL AND MEDIUM ENTERPRISES

I am a Doctoral Research Student at the Tax Policy Research Unit, School of Economics and Finance, Curtin University, Perth, Australia. I am conducting research on Income Tax Compliance Costs of Small and Medium Enterprises (SMEs) in Thailand. This research is towards fulfilling my PhD thesis.

The purpose of the study is to estimate the income tax compliance costs of SMEs in Thailand and the impact of SME compliance costs to Thai SMEs. The research will estimate how much money and effort is actually spent by your business in filling your income tax returns.

I am writing to kindly request your assistance and support in this research. Participation is by interview. This will take place at a time and date convenient to you. The interview session will take around 30 minutes. Participation is voluntary and all interview responses will be totally confidential and anonymity is assured. Participants may also withdraw from the study at any time without penalty.

Once you have read through the information sheet and have confirmed that you would like to participate, please print out and sign the **Consent Form** and return it to the address provided. I will collect the original consent form during the interview session.

If confirmation of these details is needed, please feel free to contact my supervisor Professor Jeff Pope via email: Jeff.Pope@cbs.curtin.edu.au

This interview exercise has been approved by the Curtin University Human Research Ethics Committee (Approval No: E&F/005/2010). Should you wish to lodge a complaint about any matter relating to this survey, please contact:

Secretary
Human Research Ethics Committee
Office of Research and Development
P.O. Box U1987
Perth WA 6845 Australia
hrec@curtin.edu.au

We thank you for your kind support.

Papaporn Chunchatrachai
Doctoral Research Student
School of Economics and Finance
Curtin Business School
Curtin University



CONSENT FORM

Income Tax Compliance Costs of Small and Medium Enterprises in Thailand

The following consent form is provided with respect to the interview session.

I have read the information sheet and understand the purpose of the study and have been given the opportunity to ask any related questions. I understand that I may withdraw from the study at any time.

I understand that all information provided by me is strictly confidential. Any published material will not include participants' names or other identifying information. I understand that the interview session will be taped and/or videotaped for the purposes of facilitation and analysis. The tapes/videotapes will be stored in a locked cabinet for the duration of the study, after which they will be erased. I understand that written records will be kept for a period of 5 years in a locked cabinet at Curtin University.

On the basis of the above, I agree to participate in this study.

Name
Signature
Date



PARTICIPANT INFORMATION SHEET (Thai version)

เอกสารชี้แจงขอสัมภาษณ์เพื่อเก็บข้อมูล

**งานวิจัยเรื่อง ค่าใช้จ่ายของการดำเนินการเพื่อชำระภาษีเงินได้นิติบุคคลของ
ธุรกิจขนาดกลางและขนาดย่อมในประเทศไทย**

ผู้วิจัยอยู่ระหว่างการศึกษาระดับปริญญาเอกด้านนโยบายภาษี ภาควิชาเศรษฐศาสตร์และการเงิน ณ มหาวิทยาลัยเคอทีน (Curtin University) เมืองเพิร์ธ ประเทศออสเตรเลีย และกำลังเก็บข้อมูลงานวิจัยดังกล่าว ซึ่งเป็นส่วนหนึ่งของงานวิทยานิพนธ์ปริญญาเอกชิ้นนี้

วัตถุประสงค์ของงานวิจัยนี้ คือ การประเมินจำนวนเงินและเวลา รวมถึงปัจจัยอื่นๆ ในการก่อให้เกิดค่าใช้จ่ายของการดำเนินการเพื่อชำระภาษีเงินได้นิติบุคคลของกิจการขนาดกลางและขนาดย่อมในประเทศไทย รวมถึงผลกระทบดังกล่าวต่อผู้ประกอบการกิจการขนาดกลางและขนาดย่อมในประเทศไทย

ผู้วิจัยขอความอนุเคราะห์จากท่านผู้ประกอบการฯ เพื่อสนับสนุนงานวิจัยครั้งนี้ โดยการขอสัมภาษณ์เพื่อเก็บข้อมูล ซึ่งการสัมภาษณ์จะคำนึงถึงความสะดวกและเหมาะสม ตามความพอใจและสมัครใจของท่านผู้ประกอบการฯ การสัมภาษณ์จะใช้เวลาประมาณ 30 นาที ท่านผู้ประกอบการฯ มีสิทธิ์ที่จะยกเลิกการสัมภาษณ์เมื่อใดก็ได้ตามความประสงค์ เมื่อท่านผู้ประกอบการฯ ได้อ่านรายละเอียดข้างต้นแล้วและสมัครใจที่จะเป็นให้ข้อมูลในการสัมภาษณ์ โปรดลงลายมือชื่อและมอบให้ผู้วิจัยในวันสัมภาษณ์

รายละเอียดและขั้นตอนการสัมภาษณ์ครั้งนี้ได้ผ่านการรับรองด้านจริยธรรม (Ethic Form C – The Approval No: E&F/005/2010) จากทาง มหาวิทยาลัยเคอทีน (Curtin University) เพื่อป้องกันมิให้เกิดการละเมิดทางด้านสิทธิ และการรับรองในเรื่องการเก็บรักษาข้อมูลในระดับชั้นความลับและเพื่อนำมาใช้ในงานวิจัยนี้เท่านั้น หากมีข้อร้องเรียนในการสัมภาษณ์ โปรดติดต่อ

Secretary
Human Research Ethics Committee
Office of Research and Development
P.O. Box U1987
Perth WA 6845 Australia
hrec@curtin.edu.au

ขอขอบพระคุณในการสละเวลาอันมีค่าของท่าน

ปภากรณ์ ชูณหัชชาชัย
นักศึกษาระดับปริญญาเอก



CONSENT FORM (Thai version)

หนังสือยินยอมการให้สัมภาษณ์

**งานวิจัยเรื่อง คำใช้จ่ายของการดำเนินการเพื่อชำระภาษีเงินได้นิติบุคคลของ
ธุรกิจขนาดกลางและขนาดย่อมในประเทศไทย**

หนังสือยินยอมฉบับนี้ทำขึ้นเพื่อเคารพต่อสิทธิของผู้ประกอบการขนาดกลางและขนาดย่อมในการ สัมภาษณ์

ข้าพเจ้าได้อ่านเอกสารชี้แจงขอ สัมภาษณ์เพื่อเก็บข้อมูล และเข้าใจวัตถุประสงค์ของงานวิจัย ข้าพเจ้าสมัครใจที่จะให้ผู้วิจัยสัมภาษณ์ โดยข้าพเจ้ามีสิทธิ์ที่จะยกเลิกการสัมภาษณ์เมื่อใดก็ได้ตามความประสงค์

ข้าพเจ้ารับทราบรายละเอียดและขั้นตอนการสัมภาษณ์ครั้งนี้ได้ผ่านการรับรองด้านจริยธรรม (Ethic Form C – The Approval No: E&F/005/2010) จากทางมหาวิทยาลัยเคอทีน (Curtin University) เพื่อป้องกันมิให้เกิดการละเมิดทางด้านสิทธิ และการรับรองในเรื่องการเก็บรักษาข้อมูลในระดับชั้นความลับและเพื่อนำมาใช้ในงานวิจัยนี้เท่านั้น การเผยแพร่ข้อมูลใดๆในงานวิจัยจะไม่ปรากฏชื่อและข้อมูลใดๆ ของข้าพเจ้า ข้าพเจ้ายินดีให้มีการบันทึกเทปหรือวิดีโอตามวัตถุประสงค์ของงานวิจัย โดยเทปและวิดีโอจะถูกเก็บรักษาในระดับชั้นความลับ และจะถูกทำลายเมื่อเสร็จสิ้นงานวิจัย สำหรับเอกสารจากการบันทึกการสัมภาษณ์จะถูกเก็บรักษาในระดับชั้นความลับเป็นเวลา 5 ปีในผู้ที่ถือเอกสาร มหาวิทยาลัยเคอทีน (Curtin University)

จากที่กล่าวข้างต้น ข้าพเจ้ายินดีเข้าร่วมงานวิจัยครั้งนี้

ชื่อ :

ลายเซ็น :

วันที่ :

Appendix H: Dummy Variables Input

Table of Dummy Variable Input (1)

Dependent Variable	Tax Compliance Costs	Y		
Independent Variable (X)	Legal structure	L ₁	= 1 if the respondents are partnership.	= 0 if the respondents are company.
	Geographic	G ₁	= 1 if the respondents are in the North.	= 0 if the respondents are in other locations.
		G ₂	= 1 if the respondents are in Bangkok and its surrounding areas.	= 0 if the respondents are in other locations.
		G ₃	= 1 if the respondents are in the Central region.	= 0 if the respondents are in other locations.
		G ₄	= 1 if the respondents are in the South region.	= 0 if the respondents are in other locations.
		G ₅	= 1 if the respondents are in the East region.	= 0 if the respondents are in the locations.
	Trading Period	T ₁	= 1 if the respondents had trading period of less than two years.	= 0 if the respondents had trading period in other categories.
		T ₂	= 1 if the respondents had trading period of between two to five years.	= 0 if the respondents had trading period in other categories.

Table of Dummy Variable Input (2)

Dependent Variable	Tax Compliance Costs	Y		
Independent Variable (X)	Business Type	B ₁	= 1 if the respondents are in production.	= 0 if the respondents are in other business types.
		B ₂	= 1 if the respondents are in service.	= 0 if the respondents are in other business types.
		B ₃	= 1 if the respondents are in wholesale.	= 0 if the respondents are in other business types.
	Sizes	S ₁	= 1 if the respondents are in small enterprises.	= 0 if the respondents are in medium enterprises.
	Employee	E ₁	= 1 if the respondents have 0-50 employees.	= 0 if the respondents have 51-200 employees
	Net Profit	N ₁	= 1 if the respondents had net profit 0-150,000 baht.	= 0 if the respondents had net profit in other categories.
		N ₂	= 1 if the respondents had net profit 150,001-1,000,000 baht.	= 0 if the respondents had net profit in other categories.
		N ₃	= 1 if the respondents had net profit 1,000,001-3,000,000 baht.	= 0 if the respondents had net profit in other categories.

**Appendix I: Conversion of Survey Mean
Compliance Costs into (Aggregate or Overall)
Weighted Compliance Costs**

**Conversion of Survey Mean Compliance Costs into (Aggregate or Overall)
Weighted Compliance Costs**

The following explanation illustrates the method of grossing –up used in this thesis weighted were computed as follows:

Unweighted Compliance Costs = Sum of (Number of Respondents*Tax Compliance Costs) divided by Total Number of Respondents.

The method of grossing-up to arrive at the estimated compliance cost was used in the study. The results found that a slight difference between the unweighted mean tax compliance costs and weighted mean tax compliance costs. The unweighted mean tax compliance costs were 257,680 baht and the weighted mean tax compliance costs were 262,760 baht.

Unweighted mean compliance costs = 257,680 Baht ((71*197,658) + (62*243,976) + (22*430,341) + (44*287,514)) divided by 199.

Weighted mean compliance costs = 262,760 Baht (49,459,874,125 Baht divided by number of taxpayers 188,236).

The unweighted mean tax compliance costs were less than the weighted mean tax compliance costs at 5,080 baht. The results of these weighted compliance costs confirmed that the results of the unweighted and weighted mean tax compliance costs were in line as shown in below table.

**Conversion of Survey Mean Compliance Costs into (Aggregate or Overall)
Weighted Compliance Costs**

Net Profit	Number of Respondents	Tax Compliance Costs	Number of Taxpayers	Weighted Compliance Costs
	(1)	(2) (Baht)	(3)	(2) * (3) (Baht)
0-150,000	71	197,658	54,765	10,824,740,370
150,001-1,000,000	62	243,976	93,026	22,696,111,376
1,000,001-3,000,000	22	430,341	30,187	12,990,703,767
Over 3,000,000	44	287,514	10,258	2,949,318,612
Overall	199	257,680	188,236	49,459,874,125