



Analysis of Regulatory Compliance Costs: Part I

Time/money saved, paperwork volume and methods of compliance

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Administrative tasks and excessive paperwork burden remain a long-standing distraction for business owners. Taking a broader view, the problem of excessive paperwork can lead to reduced business start-ups, trade and investment barriers and an overall decline in economic productivity by making it relatively more expensive for Canadian businesses to operate. A lack of detailed research, however, has made it difficult for governments to quantify paperwork burden in order to gain a thorough understanding of this issue. To date, most research has taken the form of broad opinion surveys in which business owners are asked to identify which aspects of running a business they consider most onerous. Along with taxes, excessive paperwork is frequently cited as a major area of concern.

This briefing will examine several aspects of paperwork burden and shed new light on elements such as cost savings, reinvestment, paperwork volume, use of information and communication technologies, and external service providers to assist with compliance. The findings should help policy-makers gain a clearer

understanding of the magnitude of the paperwork burden imposed on businesses and prove useful for developing meaningful reduction initiatives.



Highlights

Small and Medium-Sized Enterprise Perceptions of Government Paperwork Burden Reduction Initiatives

- About 26 percent of small and medium-sized enterprises (SMEs) were aware of federal, provincial and/or municipal government initiatives over the last three years to reduce paperwork burden. About 39 percent of them, or 69 459 SMEs, felt that the initiatives helped save their business time and/or money.
- “Keep as profit” and “pay off debt” were the two main uses for the money saved. In general, larger SMEs were more inclined to use their savings to invest in human and non-human capital and to increase employee compensation than smaller SMEs. Smaller SMEs, on the other hand, were more inclined to pass their savings on to consumers in the form of lower prices than larger SMEs.

Quantity of Paperwork

- Overall, SMEs made about 1.36 million fewer paperwork submissions in 2008 (16 110 772) compared with 2005 (17 471 046) for the 12 regulations covered in the *Survey of Regulatory Compliance Costs*. This corresponds to three fewer submissions per business. Most of the decline involved payroll remittances, federal/provincial sales taxes, workers’ compensation claims and Records of Employment (ROEs). Although it is impossible to attribute the reduction in submissions directly to governments’ initiatives, it is reasonable to assume that the decline is at least partially attributable to governments’ actions.

External Service Provider Assistance with Paperwork Compliance

- Other than for income tax compliance and corporate registration, the majority of SMEs do not use the assistance of outside professionals (e.g., accountants, payroll service providers, lawyers) to comply with government paperwork requirements. SMEs handle the work themselves using internal resources (i.e., either the business owners or their staff do the paperwork).
- Of these SMEs that used an external service provider to prepare their federal/provincial business income taxes, forty-nine percent said that the main reason for doing so was because they would be unable to comply with the paperwork requirements otherwise. Accountants were the type of service provider relied on most for compliance.
- Because external service providers do not need to lower their fees to consumers, it is not clear whether the cost savings resulting from successful paperwork burden reduction initiatives benefit businesses that rely on external service provider assistance as external service providers may keep their fees up and retain the savings for themselves in the form of higher profits. Additional research should be carried out to determine the extent to which cost savings from successful paperwork burden reduction initiatives can be passed along to businesses.

Electronically-Based Compliance Methods

- The majority of SMEs that do not rely on external service provider assistance still prepare their paperwork claims and forms manually (using paper and pencil records). A lack of available electronic preparation methods and the cost to switch to electronic preparation methods could explain this finding.
- Only a small percentage of SMEs submit their claims and forms electronically. This may be partially explained by the fact that some government departments have not yet updated their information technology and communication systems to allow paperwork to be submitted electronically, limiting SMEs to mainly downloading paper claims and forms online.



Background

Excessive paperwork remains a frequently cited concern of business owners when asked which aspects of running a business they dislike most. A 2005 study conducted by the Canadian Federation of Independent Business (CFIB) found that 65 percent of its members considered government regulations and the associated paperwork burden to be one of their greatest concerns, second only to the tax burden. Members felt that the paperwork burden limited their ability to compete with larger businesses and significantly reduced their productivity. Similarly, an international study conducted by the Organisation for Economic Co-operation and Development (OECD) in 2001 concluded that, in general, small and medium-sized enterprises considered excessive paperwork to be a major limitation that distracted them from doing the best possible job of running their businesses.

In 2004, the Government of Canada launched the Paperwork Burden Reduction Initiative (PBRI) to study and address the effects of paperwork burden on SME competitiveness in

Canada. A joint private–public sector committee was established — Advisory Committee on Paperwork Burden Reduction (ACPBR) — to provide advice to the government on ways to reduce the burden and improve overall regulatory efficiency. As part of the PBRI, the government mandated Statistics Canada to conduct a survey on the SME paperwork burden — *Survey of Regulatory Compliance Costs* — and Industry Canada to analyze the results. This survey was intended to serve as a tool to help the government better understand and quantify the magnitude of the burden and, subsequently, provide information for policy development.

An analysis of the first survey results, covering 2005, was published in Briefing #1: *Small Business View of Red Tape* and Briefing #2: *Measuring the Costs of Red Tape for Small Business*. The results established a quantitative benchmark with which to track changes in the paperwork burden over time. Data from the second iteration of the survey cover 2008 and provide policy-makers with a first look at whether the cost of the paperwork burden has changed over the last three years.

Purpose of this Briefing

This briefing presents some preliminary results from the second iteration of the *Survey of Regulatory Compliance Costs*. The results cover five industries — manufacturing; retail trade; professional, scientific and technical services; accommodation and food services; and other services — and five regions — Atlantic Canada, Quebec, Ontario, the Prairies and British Columbia — and are representative of about 685 000 of the 2.3 million business establishments in Canada.¹ A brief description of the survey methodology is provided in Annex 1.

This briefing focuses on the quantity of paperwork handled by Canada's SMEs and examines the relationship between types of SME paperwork and methods of compliance. Findings on business owners' knowledge and perception of federal, provincial and/or municipal governments' initiatives over the last three years to reduce the paperwork burden are also presented.

Another briefing will be released in 2010 that will focus on compliance and the costs incurred. The effects of the paperwork burden on labour productivity will also be considered, as will SMEs' opinions about how to simplify compliance requirements.

¹ Statistics Canada, *Business Register*, 2009. There are approximately 1.2 million non-employer establishments in Canada and 1.1 million employer establishments.

Key Terms

For the purposes of this briefing, the following terms and definitions apply:

Small and medium-sized enterprise (SME) — For this report, an SME is an enterprise that:

- (1) operates in the manufacturing; retail trade; professional, scientific and technical services; accommodation and food services; or other services industries;
- (2) employs fewer than 500 employees;
- (3) generates between \$30 000 and \$50 million in annual gross revenues; and
- (4) is located in Atlantic Canada, Quebec, Ontario, the Prairies or British Columbia.

Paperwork — This refers to claims, forms and submissions that businesses are required to fill out and submit, either on paper or electronically, to stay in compliance with government regulations. This includes income tax forms, sales tax submissions, payroll reports such as T4s and T4 summaries, employment-related information requests such as the Record of Employment, survey questionnaires, and workers' compensation claims and remittances. For this briefing, paperwork excludes routine ongoing record-keeping activities that SMEs perform for the day-to-day operation of their business.

Internal compliance — This refers to the act of using internal resources (i.e., either the business owners or their staff do the paperwork) to comply with government regulations.

External compliance — This refers to the act of using an outside professional, such as an accountant, tax specialist or lawyer, to comply with government regulations.

Employer business — This is a business with at least one employee (excluding the owner/operator of the business).

Findings

This part of the briefing presents an analysis of the responses as they pertain to the following themes:

- SME perceptions of government initiatives undertaken to reduce the paperwork burden over the last three years;
- The amount of paperwork and the relationship between quantity and region, business size and industry sector;
- The most burdensome types of paperwork;
- Methods used to complete paperwork (i.e., internal resources or external service provider assistance, by hand using paper and pencil records or by using computer applications); and
- External service providers used most often to assist with compliance.



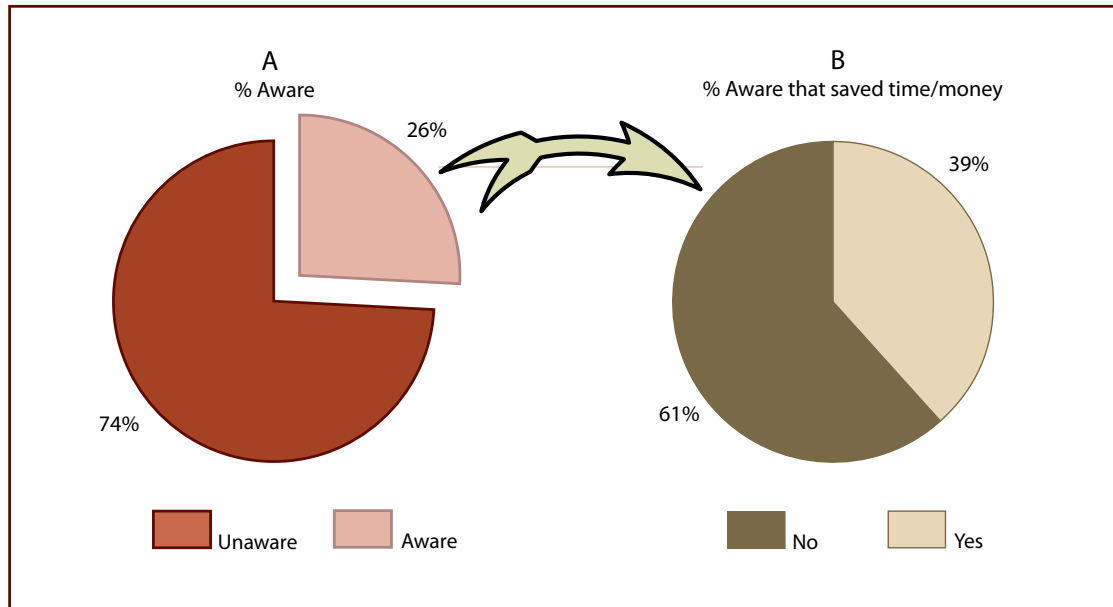
Perceptions of Government Paperwork Burden Reduction Initiatives

The federal government has implemented a number of regulatory reform/simplification initiatives over the last few years to reduce the paperwork burden. Initiatives have ranged from simplification of claims and forms to outright elimination of requirements. In other instances, electronic or online processing tools have been introduced. Others have sought harmonization of requirements between jurisdictions.

The federal government has not been alone in its efforts. Most provinces and several municipalities have launched a number of initiatives aimed at simplifying compliance and streamlining business-to-government interactions. Approaches taken are varied. Some, as in Ontario, have focused on eliminating business forms and making others available electronically. Nova Scotia's approach has been to reduce the time spent completing paperwork, while Quebec has established departmental cost measures and imposed limits on the creation of new regulatory requirements. British Columbia, arguably the Canadian jurisdiction with the most experience in this area, began with the elimination of requirements followed by a cap on the overall number of requirements contained in legislation, regulations, and administrative and compliance policies.

All of these initiatives have been primarily driven by the desire to reduce the time and cost of compliance imposed on businesses. What has remained uncertain is whether they have actually reduced the time and cost and, if so, to what degree. In an attempt to answer this question, Statistics Canada asked survey respondents to identify (1) whether they were aware of any of the federal, provincial and/or municipal government's initiatives over the last three years to reduce the paperwork burden and (2) whether the initiatives helped save their businesses any time and/or money (Figure 1 — A and B).

Figure 1: A) Percentage of SMEs Aware of Federal, Provincial and/or Municipal Government's Paperwork Burden Reduction Initiatives; B) Percentage of SMEs Aware of Governments' Initiatives and that Reported Saving Time and/or Money



Source: Statistics Canada, *Survey of Regulatory Compliance Costs*, 2008.

As shown in Figure 1 — A, about a quarter of SMEs surveyed (178 100) were aware of federal, provincial and/or municipal government's initiatives to reduce the paperwork burden, while three quarters (506 900) were unaware of the initiatives. Of those SMEs that were aware of the initiatives, about 39 percent (69 459) reported saving time and/or money (Figure 1 — B, see Table 1).

Regional Breakdown

Table 1 shows that SMEs in British Columbia were most likely to report that government initiatives — federal, provincial and/or municipal — saved their businesses time and/or money (42 percent), while SMEs in Quebec were least likely to report experiencing savings (33 percent). As survey questions did not refer to a specific level of government, it would be incorrect to attribute savings to any particular government body or paperwork burden reduction strategy.

Size Breakdown

There was no evidence to indicate that differences in time/money saved were related to business size. In general, non-employer businesses (owner operated with zero employees) were just as aware of the governments' initiatives as businesses with 100–499 employees

(22 percent and 21 percent respectively) and just as inclined to feel that they saved time and/or money (33 percent and 31 percent respectively).

Table 1: Percentage of SMEs Aware of Federal, Provincial and/or Municipal Government's Paperwork Burden Reduction Initiatives and that Reported Saving Time and/or Money, 2008

Region	Percentage of SMEs Aware of Governments' Initiatives	Percentage of SMEs Aware of Governments' Initiatives and that Reported Saving Time and/or Money
Atlantic	27	37
Quebec	23	33
Ontario	28	41
Prairies	23	36
British Columbia	26	42
Canada	26	39

Source: Statistics Canada, *Survey of Regulatory Compliance Costs*, 2008.

How Time/Money Saved was Used

The survey also asked respondents to identify what they did with the time/money saved. As shown in Table 2, the two most popular responses were “keep as profit” and “pay off debt.” Table 2 also shows that 16 percent of

SMEs used their savings to invest in human and non-human capital. Eight percent of SMEs used their savings to lower prices for consumers, while 18 percent reported using their savings for other purposes.

A more detailed examination of the results showed that SMEs' overall savings behaviour varied by size of business. Savings spent on human and non-human capital generally increase as business size increases, while savings used to lower prices for consumers decrease as business size increases. In addition, larger SMEs were more inclined to use their savings to increase employee compensation (wages, bonuses or other benefits) than smaller SMEs.

Quantity of Paperwork

Quantitative evidence-based approaches are essential to understand the size of the paperwork burden and to allow governments to develop solutions that result in tangible improvements for SME owners. The lack of such data makes it difficult for governments to target their burden reduction initiatives in those areas that could potentially provide SMEs with the greatest relief.

As part of the survey, SMEs were asked to identify, count and report the total number of submissions they made to governments pertaining to the 12 regulations covered in the survey (Table 3).² In total, 16 110 772 claims and forms were prepared and submitted in 2008 by the 685 000 SMEs included in the survey population, an average of 25 submissions per business. SMEs submitted over five million payroll remittances and over 3.6 million sales tax submissions (averaging 12 payroll remittances and six sales tax submissions per business). SMEs submitted over 1.7 million corporate tax instalments, an average of three instalments per business. Workers' compensation claims and remittances generated 1 187 956 submissions. An average of one mandatory Statistics Canada survey per business generated another 637 144 submissions. These findings indicate that since 2005, the volume of submissions has decreased by 8 percent. Closer analysis reveals

Table 2: Main Use of Time/Money Saved, 2008

Use	%
Hire additional employees	7
Invest in human capital (education and training)	7
Lower prices	8
Invest in non-human capital (purchase or develop structures, machines and/or equipment)	9
Increase employee compensation (wages, bonuses or benefits)	9
Other	18
Pay off debt	20
Keep as profit	22
Total	100

Source: Statistics Canada, *Survey of Regulatory Compliance Costs*, 2008.

that most of this decline comes from Records of Employment, payroll remittances, workers' compensation remittances and claims, and federal/provincial sales taxes.

Just as there was a decline in the total number of claims and forms prepared by businesses, there was also a decline in the average number of submissions per business. As shown in Table 3, in 2008, SMEs that complied with mandatory Statistics Canada surveys made two fewer submissions, SMEs that complied with corporate tax instalments made four fewer submissions and SMEs that complied with Records of Employment made six fewer submissions.

The findings in Table 3 can also be used to identify the major types of paperwork burden faced by Canada's SMEs. Paperwork burden is sometimes defined by the average number of claims and forms submitted by businesses.³ According to this definition, the three most burdensome regulations in 2008 were payroll remittances, federal/provincial sales taxes and Records of Employment. These findings are consistent with what was observed in 2005.

Generally speaking, disentangling the factors that influence the volume of submissions and attributing for reductions is nearly impossible owing to the simultaneous influences of many factors, including employment trends, business churn, departmental policies and overall economic activity.

² See Annex 2 for a brief description of each of the 12 regulations.

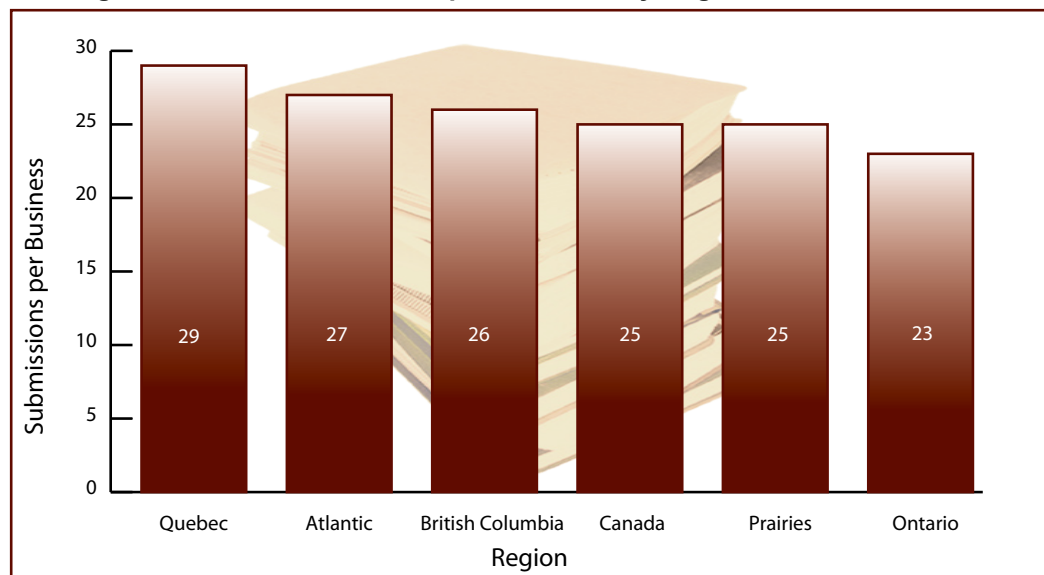
³ This definition may be imprecise, and will be addressed in detail in the next briefing.

Table 3: Total and Average Number of Claims and Forms Submitted by SMEs, 2005 and 2008

Regulation	Total Submissions			Average Submissions per Business		
	2005	2008	Change	2005	2008	Change
Payroll Remittances	5 259 837	5 041 111	-218 726	14	12	-2
Record of Employment	2 268 413	1 658 020	-610 393	10	4	-6
T4 Summary / Individual T4 (including RL forms in Quebec)	389 149	407 142	17 993	1	1	0
Workers' Compensation Remittances	1 141 345	1 035 044	-106 301	5	3	-2
Workers' Compensation Claims	262 130	152 912	-109 218	4	0.4	-3.6
Federal/Provincial Business Income Tax Filing	627 799	651 256	23 457	1	1	0
Federal/Provincial Sales Tax	3 838 855	3 647 849	-191 006	7	6	-1
Corporate Tax Instalments	1 762 877	1 737 607	-25 270	7	3	-4
Corporate Registration	428 580	483 437	54 857	1	1	0
Mandatory Statistics Canada Surveys	698 821	637 144	-61 677	3	1	-2
Municipal Operating Licences and Permits	363 436	290 089	-73 347	2	0.4	-1.6
Provincial Operating Licences and Permits	429 804	369 161	-60 643	2	1	-1
All Regulations	17 471 046	16 110 772	-1 360 274	28	25	-3

Source: Statistics Canada, *Survey of Regulatory Compliance Costs*, 2005 and 2008; and author's calculations.

Note: For the 2008 iteration of the survey, T4 summary / individual T4 was broadened to include RL1/RLZ-1 forms, which in the region of Quebec are the provincial equivalents of the T4 and T4 summary. Also, the definition of income tax filing was broadened from T1/T2 income tax filing to include provincial income tax filing as well.

Figure 2: Average Number of Submissions per Business by Region, 2008

Source: Statistics Canada, *Survey of Regulatory Compliance Costs*, 2008; and author's calculations.

Regional Breakdown

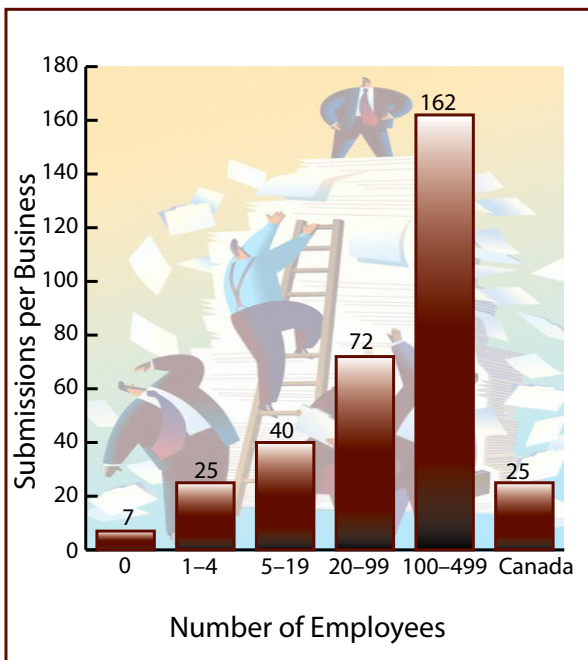
Businesses in Quebec prepare more submissions, on average, than those in other regions of Canada. For many requirements in Quebec, including income taxes, there is a provincial form that businesses must complete that businesses in other regions are not required to

complete. In addition, employer businesses are required to submit RL slips in addition to T4s. This duplication of paperwork becomes apparent in the survey results. As illustrated in Figure 2, businesses in Quebec prepare, on average, four submissions more per year (29) than the national average of 25.

Size Breakdown

There is a positive relationship between the size of the workforce and the quantity of paperwork completed by businesses. There is one key reason for this — the larger the business, the greater the quantity of employment-related information requested by governments, and the greater the quantity of paperwork prepared by businesses in response (Figure 3).

Figure 3: Average Number of Submissions per Business by Size of Business, 2008



Source: Statistics Canada, *Survey of Regulatory Compliance Costs*, 2008; and author's calculations.

Industry Breakdown

Because the quantity of paperwork is directly linked to workforce size, it is also reasonable to expect that SMEs in more labour-intensive industries will face a greater amount of paperwork than their counterparts in less labour-intensive industries. The five industry sectors included in the survey confirm this, with businesses in the manufacturing industry preparing the greatest amount of paperwork followed by those in the accommodation and food services, retail trade, other services, and professional, scientific and technical services industries (Table 4).

Table 4: Average Number of Submissions per Business by Industry, 2008

Industry	Average Submissions per Business	Average Number of Employees per Business
Manufacturing	37	13
Accommodation and Food Services	33	12
Retail Trade	30	8
Other Services (except Public Administration)	23	5
Professional, Scientific and Technical Services	19	3
All Businesses	25	6

Source: Statistics Canada, *Survey of Regulatory Compliance Costs*, 2008; and author's calculations.

Considerations

When interpreting these numbers, it is important to note that they likely underestimate SMEs' total and average paperwork responsibilities. For instance, there are about 2.3 million business establishments operating in Canada⁴ and about 685 000 included in the survey population, which means that the paperwork generated by the other 1.6 million establishments is not included in the survey nor is the paperwork related to many environmental and health and safety regulations or most of the paperwork generated at the municipal and provincial levels. Therefore, Canada's SMEs may face a greater burden than represented by the figures presented here.

⁴ Statistics Canada, *Business Register*, 2009.

How the Paperwork Gets Done

One of the primary goals of the *Survey of Regulatory Compliance Costs* is to improve governments' understanding of how SMEs comply with paperwork. Insights from SMEs regarding the methods in which they "prepare" their claims and forms, and "submit" their claims and forms, is key in achieving this goal.

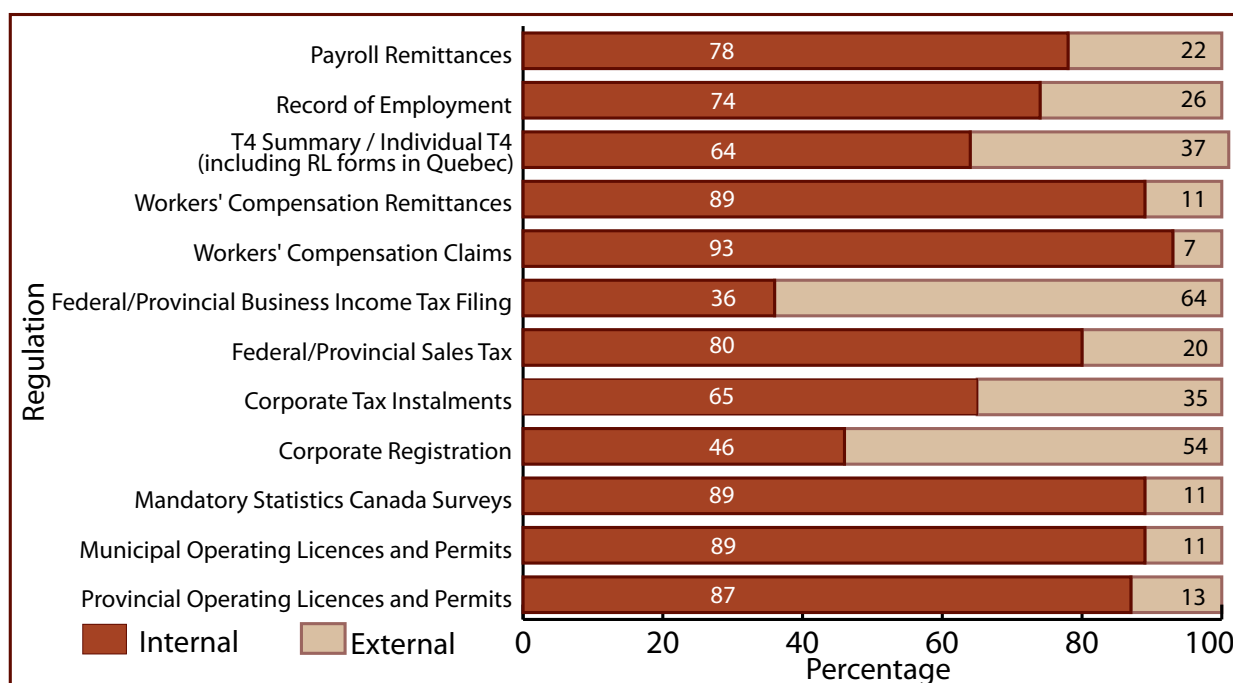
External Service Provider Assistance with Paperwork Compliance

An important issue to consider when examining the implications of paperwork compliance on businesses is the extent to which they rely on external service providers, such as accountants, tax specialists and payroll service providers. SMEs were asked to identify those regulations

for which they required external service provider assistance to prepare the majority of their claims and forms.

Consistent with the 2005 survey findings, in 2008, SMEs were most likely to require external service provider assistance to prepare federal/provincial business income taxes (Figure 4). Figure 4 also indicates that a fairly large percentage of SMEs relied on external service provider assistance to prepare their corporate registration forms (54 percent), T4 paperwork (37 percent) and corporate tax instalments (35 percent). On the other hand, a fairly small percentage of SMEs relied on external service provider assistance to comply with municipal operating licences and permits (11 percent), mandatory Statistics Canada surveys (11 percent), workers' compensation remittances (11 percent) and workers' compensation claims (7 percent).

Figure 4: Percentage of SMEs that Relied on External Service Provider Assistance to Prepare the Majority of Claims and Forms, 2008



Source: Statistics Canada, *Survey of Regulatory Compliance Costs*, 2008.

SME Dependency on External Service Provider Assistance

On the survey questionnaire, SMEs were asked to identify which of the 12 regulations they would be unable to comply with without external service provider assistance (Table 5). Almost half of SMEs that used an external service provider to prepare their federal/provincial business income taxes said that the main reason for doing so was because they would not be able to comply with the paperwork otherwise. Also, as shown in Table 5, 46 percent of SMEs would not be able to comply with their corporate tax instalments, 42 percent would not be able to comply with federal/provincial sales taxes, and 40 percent would not be able to comply with their provincial operating licences and permits requirements.

Table 5: Percentage of SMEs that Use an External Service Provider that Would not be able to Comply with the Regulations without Their Assistance

Regulation	%
Payroll Remittances	21
Record of Employment	21
T4 Summary / Individual T4 (including RL forms in Quebec)	28
Workers' Compensation Remittances	34
Workers' Compensation Claims	37
Federal/Provincial Business Income Tax Filing	49
Federal/Provincial Sales Tax	42
Corporate Tax Instalments	46
Corporate Registration	22
Mandatory Statistics Canada Surveys	39
Municipal Operating Licences and Permits	37
Provincial Operating Licences and Permits	40

Source: Statistics Canada, *Survey of Regulatory Compliance Costs* (special tabulation), 2008.

Relationship between Business Size and External Service Provider Assistance

Another area of interest is whether there is a relationship between business size and the use of external service provider assistance. Table 6 indicates that for employment-related regulations, there is a positive relationship, with the percentage of SMEs that rely on external assistance increasing as business size increases. This can be explained by the fact that for these requirements, both the quantity and the complexity of paperwork generally increase along with business size. The same is true for federal/provincial business income taxes — compliance difficulty increases as business size increases and, consequently, so does a business' reliance on external assistance.

The opposite relationship appears to be true for the other regulations (workers' compensation claims and remittances, federal/provincial sales taxes, corporate tax instalments, corporate registration, mandatory Statistics Canada surveys, and municipal and provincial operating licences and permits), with the percentage of SMEs that rely on external service provider assistance decreasing as business size increases — perhaps because of learning-by-doing.⁵

Service Providers most Frequently Relied upon for Paperwork Compliance

Respondents were also asked to identify which types of external service providers they used — accountants, payroll service providers, tax specialists, others (e.g., lawyers) (Table 7). In 2008, the majority of SMEs relied on accountants for their tax-related paperwork requirements, with 88 percent, 83 percent and 88 percent of SMEs using accountants to assist in preparing income taxes, sales taxes and corporate tax instalments respectively.

⁵ Learning-by-doing refers to the improved ability to handle paperwork as businesses grow and age, and business owners and other internal staff gain experience and know-how dealing with paperwork requirements.

Table 6: Percentage of SMEs that Relied on External Service Provider Assistance to Prepare the Majority of Claims and Forms by Size of Business, 2008

Regulation	Business Size (number of employees)					All Sizes
	0	1–4	5–19	20–99	100–499	
Payroll Remittances	...	15	24	41	56	22
Record of Employment	...	23	25	34	43	26
T4 Summary / Individual T4 (including RL forms in Quebec)	...	34	36	47	58	37
Workers' Compensation Remittances	...	12	11	7	7	11
Workers' Compensation Claims	...	12	8	5	4	7
Federal/Provincial Business Income Tax Filing	61	62	69	75	75	64
Federal/Provincial Sales Tax	22	22	16	10	9	20
Corporate Tax Instalments	38	36	35	26	24	35
Corporate Registration	58	51	54	52	51	54
Mandatory Statistics Canada Surveys	13	13	10	5	6	11
Municipal Operating Licences and Permits	12	10	14	6	4	11
Provincial Operating Licences and Permits	14	15	14	8	4	13

Source: Statistics Canada, *Survey of Regulatory Compliance Costs*, 2008.

Table 7: Type of External Service Providers Used (%) by Regulation, 2008

Regulation	Service Provider			
	Accountants	Payroll Service Provider	Tax Preparation Services	Other Service Provider
Payroll Remittances	56	33	4	10
Record of Employment	69	21	5	8
T4 Summary / Individual T4 (including RL forms in Quebec)	57	33	4	8
Workers' Compensation Remittances	75	12	3	11
Workers' Compensation Claims	75	11	4	11
Federal/Provincial Business Income Tax Filing	88	2	9	5
Federal/Provincial Sales Tax	83	2	7	10
Corporate Tax Instalments	88	2	6	7
Corporate Registration	70	1	4	26
Mandatory Statistics Canada Surveys	79	3	4	14
Municipal Operating Licences and Permits	74	3	5	19
Provincial Operating Licences and Permits	75	2	5	18

Source: Statistics Canada, *Survey of Regulatory Compliance Costs* (special tabulation), 2008.

Note: Totals may not add to 100 percent when more than one service provider was used for compliance.

Table 7 also shows that the majority of SMEs relied on accountants when complying with employment-related regulations.

Looking at the results individually for each service provider, Table 7 also indicates that payroll service providers are most frequently used to prepare payroll remittances, records of employment and T4 paperwork; tax preparation service providers are most frequently used to prepare taxes; and other service providers, such as lawyers and business consultants, are most frequently used to meet corporate registration and municipal and provincial operating licence and permit requirements.

Electronic Methods of Paperwork Compliance

Methods of Preparation

Various electronic compliance methods have been developed by both governments and private software vendors to facilitate the handling of paperwork requirements and to

simplify business-to-government interactions. In fact, electronic compliance methods are a key mechanism through which governments are implementing many of their paperwork burden reduction initiatives.

Despite the improved availability of electronic compliance methods, the *Survey of Regulatory Compliance Costs* discovered that SMEs that do not rely on external service provider assistance still prepare the majority of their claims and forms manually. As illustrated in Table 8, more than 50 percent of SMEs, in 2008, prepared their claims and forms manually for 8 of the 12 regulations covered in the survey (ROEs, workers' compensation remittances, workers' compensation claims, corporate tax instalments, corporate registration, mandatory Statistics Canada surveys, municipal operating licences and permits, and provincial operating licences and permits). Municipal operating licences and permits (92 percent), mandatory Statistics Canada surveys (91 percent) and provincial operating licences and permits (86 percent) were the three regulations most commonly prepared manually.

Table 8: Percentage of SMEs that Prepare the Majority of Claims and Forms Manually Using a Computer Application, or Both Manually and Using a Computer Application, 2008

Regulation	Method of Compliance		
	Manual Preparation	Computer Application	Manual and Computer Application
Payroll Remittances	45	27	29
Record of Employment	58	18	24
T4 Summary / Individual T4 (including RL forms in Quebec)	31	42	27
Workers' Compensation Remittances	64	15	21
Workers' Compensation Claims	80	7	13
Federal/Provincial Business Income Tax Filing	36	38	26
Federal/Provincial Sales Tax	48	22	30
Corporate Tax Instalments	61	18	21
Corporate Registration	66	26	9
Mandatory Statistics Canada Surveys	91	2	8
Municipal Operating Licences and Permits	92	4	4
Provincial Operating Licences and Permits	86	9	5

Source: Statistics Canada, *Survey of Regulatory Compliance Costs* (special tabulation), 2008.

T4 filing requirements and federal/provincial business income taxes were most commonly prepared electronically, with 69 percent and 64 percent of SMEs using some form of computer application to meet requirements. In general, the larger the business, the more likely it is to use electronic preparation methods. This relationship is most apparent as it relates to compliance with payroll remittances and T4 filing requirements. For instance, about 45 percent of SMEs with 1–4 employees used some form of computer application to prepare payroll remittances and 60 percent to prepare T4s, whereas almost all SMEs with 100–499 employees used computer applications to prepare payroll remittances and T4s (94 percent and 98 percent respectively).

It is important to note that a significant number of claims and forms cannot yet be prepared electronically, with many mandatory Statistics Canada surveys and municipal and provincial operating licence and permit requirements still requiring paper-based submissions.

Methods of Submission

Electronic methods of submission can include filing online, through an ATM, or through a financial institution's telephone or Internet banking services. Findings presented in Table 9, for the most part, corroborate the findings on electronic methods of preparation shown in Table 8 — SMEs are more likely to submit their claims and forms manually (i.e., courier or mail).

As shown in Table 9, only 40 percent of SMEs submit their federal/provincial business income taxes electronically, 36 percent submit their payroll remittances electronically and 33 percent submit their ROEs electronically. These percentages are considerably higher than the percentage of SMEs that submit mandatory Statistics Canada surveys, municipal and provincial operating licences and permits, and workers' compensation claims electronically.

Based on these findings, some government departments have a major opportunity to realize benefits by improving their information technology systems to allow businesses to prepare and submit their paperwork requirements together at one time online, rather than limiting them to simply downloading paper claims and forms online. These systems could provide businesses with substantial savings in terms of search, preparation, and processing time and costs. For those departments that already have systems in place, additional research should be conducted to determine why system uptake is so low.

Table 9: Percentage of SMEs that Submit the Majority of Claims and Forms Electronically, 2008

Regulation	Percentage	
	Electronically	Other (i.e., mail/courier)
Payroll Remittances	36	64
Record of Employment	33	67
T4 Summary / Individual T4 (including RL forms in Quebec)	21	79
Workers' Compensation Remittances	25	75
Workers' Compensation Claims	10	90
Federal/Provincial Business Income Tax Filing	40	60
Federal/Provincial Sales Tax	31	69
Corporate Tax Instalments	30	70
Corporate Registration	35	65
Mandatory Statistics Canada Surveys	5	95
Municipal Operating Licences and Permits	12	88
Provincial Operating Licences and Permits	16	84

Source: Statistics Canada, *Survey of Regulatory Compliance Costs* (special tabulation), 2008.

Next Survey Briefing

Paperwork burden reduction is an important issue for government bodies in Canada. Results from the 2005 *Survey of Regulatory Compliance Costs* provided a benchmark of the quantity of paperwork handled by SMEs covered in the survey. As illustrated in this briefing, the quantity of paperwork handled by SMEs has decreased since 2005. Opinions differ among SMEs regarding whether paperwork burden reduction initiatives implemented over the last three years (2006–2008) have helped save them time and/or money. This is to be expected given that most paperwork burden reduction initiatives do not affect all business sizes and all industries in the same way.

A key finding of this briefing is that government information and communication technology systems need to be updated to allow SMEs to prepare and submit their paperwork claims and forms electronically. Until now, many departments' information technology systems have limited SMEs to mainly downloading paper claims and forms online.

This briefing has focused on the nature of paperwork compliance. Another briefing will be released in 2010 that will focus on the cost of and time spent on compliance.

Annex 1: Survey Methodology

The Small Business and Special Surveys Division of Statistics Canada designed and administered the survey questionnaire. Over 30 000 SMEs were selected to participate in the main survey questionnaire and over 5000 professional service providers to participate in a supplementary survey questionnaire. Participants were selected from Statistics Canada's *Business Register* using a stratified random-sampling procedure that ensured that the desired regions, industries and business sizes were properly represented.

Business owners/respondents were first contacted by phone, at which time the purpose of the survey was explained and procedures for completing the survey were discussed. Survey questionnaires were then sent out to participants. Upon receiving the surveys, the next step was for respondents to fill out the questionnaires with information on their paperwork activities. To support this, the surveys were divided into separate sections. This allowed Statistics Canada to capture data on both paperwork completed within the firm and paperwork completed using an outside professional. In addition to basic questions on volume, methods of preparation and methods of submission, the survey questionnaires included questions on time and cost per submission, cost savings, reinvestment, compliance difficulty and simplification.

Table A1: Distribution of SMEs by Region and Size of Business

Number of Employees	Region (percentage)					
	Atlantic	Quebec	Ontario	Prairies	British Columbia	Canada
0	34	38	40	34	36	38
1-4	35	33	36	38	35	35
5-19	24	20	18	20	22	20
20-99	8	8	6	7	7	7
100-499	1	1	1	1	1	1
Total	100	100	100	100	100	100

Source: Statistics Canada, *Survey of Regulatory Compliance Costs*, 2008.

Questions on time and cost represented the bulk of the survey. Questions on cost savings asked respondents to explain whether the governments' efforts to reduce the paperwork burden have helped. The reinvestment questions looked at two types of investment: investment in human capital and non-human capital. Also, a general attempt was made to learn about SMEs' overall savings behaviour. Data on compliance difficulty was generated from the questions on methods of preparation. The question on simplification was asked to identify possible areas for reform.

To ensure high data quality, an attempt was made by Statistics Canada to obtain a 27-30 percent response rate, with a 29 percent response rate being achieved. Statistics Canada reviewed the data for reporting errors, oddities and inconsistencies. This was followed by telephone calls to respondents to discuss errors and validate the information.

Annex 2: Regulations Covered in the Survey of Regulatory Compliance Costs

Only 12 government regulations considered to have the greatest impact on the largest number of SMEs across Canada were included in the *Survey of Regulatory Compliance Costs*.

Each regulation is discussed below.

Payroll remittances: Employer businesses are responsible for deducting Canada Pension Plan (CPP) contributions, Employment Insurance (EI) premiums and income taxes from their employees' incomes and remitting them along with a remittance voucher to the Government of Canada.

Record of Employment (ROE): When an employee leaves a job, the employer must submit an official Government of Canada Record of Employment that describes how long the employee worked at the firm and how much income he/she earned while employed. Human Resources and Skills Development Canada (HRSDC) then uses this information to determine whether or not the employee qualifies for EI benefits, the benefit rate and the duration of his/her benefit term.

T4 and RL forms: A T4 (RL in Quebec) is an information slip that employer businesses send to their employees at the end of the tax year. It reports the employee's earnings and the total amount of income taxes, Canada (Quebec) Pension Plan contributions, Employment Insurance premiums, and union dues deducted and remitted to the government during the year.

T4 summary and RLZ-1: A T4 summary (RLZ-1 in Quebec) is an information slip that employer businesses send to the Canada Revenue Agency (Revenue Quebec) at the end of the tax year. It reports the totals of the amounts reported on all individual T4 (RL) slips.

Workers' compensation remittances: A workers' compensation remittance is a payment made by a business to one of the Canadian Workers' Compensation Boards in exchange for workplace insurance coverage. This insurance coverage provides employees who become ill or are injured while on the job with medical coverage and income replacement. It also protects businesses from being sued by employees for the workplace conditions that potentially caused the illness or injury. An employer business must file a workers' compensation remittance form each time it makes a payment to its regional workers' compensation board.

Workers' compensation claims: When an employee becomes ill or is injured while at work, the employer must complete an incident and injury report within three to five business days of becoming aware of the illness or injury and send it to the workers' compensation board within the region in which the business operates. The workers' compensation board then reviews the report, along with both an employee report and a doctor's report on the injury, to determine whether or not the illness or injury was caused while at work and whether it had something to do with the employee's job.

Federal/provincial business income tax filing: All businesses that operate in Canada or earn an income in Canada must pay income taxes and file an annual income tax return with the federal government. Unincorporated businesses must file a T1 income tax return. Incorporated businesses must file a T2 income tax return. Also, depending on the region, businesses might have to file a provincial income tax return in addition to their federal return. These returns are used by businesses to report the income that was earned during the year, from all sources, to calculate any deductions and/or tax credits received during the year, and to determine, according to federal and provincial tax laws, whether there is any tax liability owed to the government, or any tax refund owed from the government.

GST/PST/HST: Almost everything that is bought is taxed. Federal and provincial sales taxes, GST and PST are types of consumption taxes that are added to the purchase price of goods or services at the time of purchase and are usually set as a percentage of the selling price. Most goods are subject to federal/provincial sales taxes, although some are exempt. Consumers are responsible for paying the taxes; businesses are responsible for collecting the taxes and remitting them to the government. Generally, businesses must remit taxes and file sales tax returns on a regular basis.

Corporate tax instalments: Generally, corporations have to pay their federal, provincial or harmonized federal–provincial income taxes in instalments, which means that they have to make regular payments of a portion of the total amount of income taxes that would be due at the end of the tax year. Federal and provincial/territorial income tax acts require corporations to make these instalment payments so that businesses are treated in the same way as taxpayers who have tax deducted automatically from their paycheques during the year. Each time a business makes an instalment payment, it is generally required to file a remittance voucher.

Corporate registration: In Canada, the process of registering a business as a corporation is called “incorporation.” Incorporation involves the creation of a legal entity that is recognized by law as a fictitious person. The legal rights and obligations of this entity include (a) the right to sue or be sued, (b) the right to own and dispose of assets, (c) the right to hire workers, (d) the right to enter into contracts, and (e) the right to manage its own internal affairs. In Canada, businesses have three options for incorporation: incorporate provincially, federally, or provincially and federally, and thus may be subject to federal and/or provincial corporate law. The act of incorporation involves the completion and submission of articles of incorporation, and any other supporting documentation with the registering authority, and the submission of a registration fee.

Mandatory Statistics Canada surveys: Recipients of a mandatory Statistics Canada survey are legally required to answer the survey questions and return it to Statistics Canada within the allotted period of time.

Municipal operating licences and permits: Municipal operating licences and permits are legal documents and agreements awarded by municipal governments to businesses granting them the legal right to manage and/or undertake certain work in a specific region and/or industry. Applying for municipal licences always requires the completion and submission of various government forms.

Provincial operating licences and permits: One of the first steps that new and established businesses must take to fulfill their legal responsibilities to provincial governments is to determine which provincial licences and/or permits they require in order to conduct business legally within the boundaries of the region. Because each province sets its own licensing requirements, there is no uniform set of licences/permits that businesses are required to acquire. Nonetheless, completing government forms in order to obtain the licences/permits is almost always necessary.

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