



Certified General
Accountants Association
of Canada



A Transatlantic Dialogue on Small Business

... findings from a joint research undertaking
by the Certified General Accountants
Association of Canada (CGA-Canada) and
the Association of Chartered Certified
Accountants (ACCA).



The Collaboration

This brief discussion paper outlines the outcomes from a major collaborative research project undertaken by ACCA (The Association of Chartered Certified Accountants) and CGA-Canada (The Certified General Accountants Association of Canada) during 2005 and 2006.

The resulting ACCA publication is entitled *SMEs, regulation and the role of the accountant*, ACCA research report no 96. CGA-Canada's relevant publication is entitled *Tackling Compliance: Small Business Regulation in Canada*. This unique collaboration on a single theme, which produced two research reports, explores the regulatory issues facing small businesses and the critical role that accountants and other organisations play in helping these firms be aware of, and comply with regulations.

About CGA-Canada

CGA is the fastest-growing accounting designation in Canada. The CGA designation focuses on integrity, ethics and the highest education requirements. Recognized as the country's accounting business leaders, CGAs provide strategic counsel, financial leadership, and overall direction to all sectors of the Canadian economy.

CGA-Canada sets standards, develops education programs, publishes professional materials, advocates on public policy issues, and represents CGAs nationally and internationally. The Certified General Accountants Association of Canada represents 68,000 CGAs and students in Canada, Bermuda, the Caribbean, Hong Kong, and China.

About ACCA

ACCA (The Association of Chartered Certified Accountants) is the largest and fastest-growing international professional accountancy body and has 260,000 students and 110,000 members in 170 countries.

Independent research shows consistently that qualified accountants are the first choice advisors of small businesses. ACCA has over 100 years' experience of working with and providing professional advice to small and medium-sized firms. In the UK, over 56% of ACCA members (over 25,000) work in or for small firms.

ACCA is an active campaigner for fairness in regulation, recognising the issue as a significant factor in the success, productivity and growth of small businesses.

The Issue – Regulation

Regulation is ranked as one of the top concerns of businesses worldwide. It is a critical business issue. Recent estimates suggest that compliance with UK regulations costs around £100 billion a year.¹ In Canada, similar estimates have been pegged at \$33 billion for Canadian businesses alone, ignoring other factors impacting the broader Canadian economy.²

Evidence suggests that regulations have a disproportionate impact on small firms as compared with their larger counterparts.³ An OECD study of 11 countries revealed that businesses employing 1-19 people incurred costs administering their payroll and tax regulations of five times more per employee than firms of 50-500 employees.⁴ These costs arise principally because fixed costs are an element of all administrative costs.

Owners and managers in small and medium sized enterprises (SMEs) lack the time and the internal resources as well as the expertise to handle excessive red tape. They are also unable to spread the cost of regulatory compliance across large scale operations. Thus, governments need to ensure that the burden of compliance is not excessively affected by the size and sector of a business.

Regulations, and the way in which small firms deal with them, is a global issue. A UK-Canada comparison, as provided in this transatlantic collaboration, provides an important insight into how SMEs in developed economies manage the regulations that apply to them. It also provides a broadened perspective and assists in seeking internationally orientated solutions.

Given that the World Bank (2006) rated Canada fourth in the world for ease of doing business compared with ninth for the UK⁵, the research and the recommendations jointly developed within this collaboration process, will play an important role in promoting transatlantic learning, and hopefully, overall improvement in the business climate for the SME sector, marking the start of a true transatlantic dialogue which holds out the possibility of major economic benefits for both the Canadian and the UK economies.

1 Better Regulation Task Force (2005) Regulation - Less is More. Reducing Burdens, Improving Outcomes.
2 Canadian Federation of Independent Business - Prosperity Restricted by Red Tape.
3 ACCA (2005) Putting Small Businesses First. Small Business Manifesto.
4 OECD (2001) "Red Tape to Smart Tape : Administrative Simplification in OECD Countries", at www.oecd.org
5 Doing Business 2006, International Bank for Reconstruction and Development, World Bank

Policy Directions Outlined:

ACCOUNTANTS AS KEY ADVISORS

Research to date has shown that one of the main effects of regulation on SMEs has been to increase their use of external advisers. The CGA-Canada/ACCA research project has revealed that SMEs in Canada and the UK use accountants more than any other single source of expertise as their advisor of first choice when dealing with their regulatory obligations. In the UK, 75 percent of respondents received advice on regulations from an accountant compared with 30 percent who received advice from the UK Government's Business Link.

Further, a significant majority of the SMEs surveyed in Canada indicated a requirement for assistance from an external accountant to help manage various regulations — securities matters (73 percent) and taxation matters (86 percent).

CGA-Canada and ACCA recommend that governments worldwide acknowledge the experience and views of accountants and ensure that accountancy bodies are consulted as the regulatory frameworks of economies are changed, as new regulations are introduced, or established regulations are scrapped.

SPECIALIZED GOVERNMENT SERVICES

While revealing that accountants are used as the advisor of first choice to SMEs, the research also revealed that the provision of advice by government funded sources such as Business Links in the UK is not only under-used, but received the lowest satisfaction rating. In the UK 89 percent of SMEs stated that they are satisfied with the advice they received from accountants whereas Business Links scored the lowest in the satisfaction rating of all the UK advice providers surveyed.

Likewise in Canada, SMEs rated their external accountants highly in all service areas, with technical understanding rated the highest at 82 percent.

BURDENSOME REGULATION

The joint ACCA/CGA-Canada research project found that securities regulation in Canada is viewed as least reasonable while in the UK, employment regulations are viewed as the least reasonable.

Despite the difference in the type of regulation viewed as unreasonable in both jurisdictions, these findings mark a distinct similarity as both types of regulation represents the largest 'volume' of regulation and it is the volume of regulation which is the most cause for concern.

Policy Directions Outlined:

That is why CGA-Canada supports a harmonized approach to securities regulations across all provincial jurisdictions in Canada, proposing that a reduction of the overall burden to all business through harmonization will be more beneficial than an approach which emphasizes differentiation between the small and larger sectors of the business community and their securities regulation requirements.

ACCA and CGA-Canada recommend that governments set ambitious targets to reduce the regulatory burden. Some recent positive examples to emulate include The Netherlands where a target of a 25 percent net reduction in the regulatory burden from 2003 to 2006 has been set or British Columbia, Canada, where the regulatory burden has been reduced by 33 percent between 2001 and 2004.

CGA-Canada and ACCA also call for governments worldwide to accurately assess the costs of regulation, to establish reduction targets, and to make all of this information publicly available.

REGULATORY DUPLICATION

The issue of duplication (the same information required by different government departments) was also expressed as a significant if not primary concern. In the research 57 percent of SMEs in the UK and 63 percent of SMEs in Canada expressed concern about regulatory duplication.

ACCA and CGA-Canada recommend that governments focus immediate attention on the issue of duplication. Simplifying and shortening forms and establishing systems whereby regulators can share data will reduce the amount of information required from businesses, and accordingly, will reduce the amount of time SMEs must commit to completing forms.

In addition to simplification, there should also be clear guidance on which forms businesses are required to complete. Consistent with this thinking, CGA-Canada further calls for governments to align regulatory requirements across jurisdictional boundaries and to rely on technological solutions which can simplify reporting and filing.

Policy Directions Outlined:

TAXATION

Over the last two years the majority of ACCA members in practice in the UK (77 percent) experienced increases in requests for taxation advice from SME clients. Likewise, taxation was viewed as the most unfair regulation by CGA-Canada members in practice. In addition, accountants in the UK and Canada were much more likely than their SME clients to single out 'inequity' as an issue. In other words, regulations which create a competitive disadvantage for SMEs is a concern. This reflects the fact that accountants are able to assess the effect of regulations on the differing sizes of their SME clients. Previous research in the UK demonstrates that tax administration is found to impose the heaviest burden on small businesses (with smaller businesses actually incurring net costs that may be several times higher than large businesses⁶).

Overall we have concluded that a simplified and equitable tax system works best for small businesses and their advisers. Certainty and fairness in tax regulation delivers stability within the economy and the best possible climate for wealth creation and employment growth.

ACCA and CGA-Canada recommend reducing the administrative burden on business from the tax system.

Further Policy Considerations – Canada

THE NEED FOR POLITICAL LEADERSHIP

It is CGA-Canada's contention that Canada needs effective and sustainable political leadership to effect the required changes and to encourage the growth and economic contribution of the SME sector. Regulatory efficiency must be made a priority and carry with it an established means of accountability. Appointing a Minister to oversee the portfolio is considered to hold the most promise.

NON REGULATORY APPROACHES

Within a renewed framework, CGA-Canada further believes that there is increased opportunity for non-regulatory approaches to corporate behaviour. By monitoring poor performers and rewarding the stronger players which are in tune with societal expectations, it is reasonable to conclude that some external pressures may indeed be more effective than regulation.

⁶ Chittenden, F., Kauser, S. and Poutziouris, P. (2002), Regulatory Burdens of Small Businesses: A Literature Review, Small Business Service.